THE WALL STREET JOURNAL.
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Investors Shift to Emerging Markets

By Jessica Menton
354 words
15 November 2018
The Wall Street Journal
J
B11
English

Investors looking to escape the recent tumult in the technology sector are snatching up stocks in another beaten-up corner: emerging markets.

The latest monthly survey from Bank of America Merrill Lynch shows investors' allocation to emerging-market equities jumped to 13% in November from 5% in October.

At the same time, their allocation to the global tech sector slid to the lowest level since February 2009, with 18% of investors saying they were overweight in the sector, compared with 25% last month, BAML's survey found.

That marks a change in sentiment from earlier in the year when investors shunned emerging-market assets as the dollar rallied amid global trade tensions. When the dollar climbs, everything that gets priced in other currencies becomes cheaper, including foreign stocks such as those in emerging markets.

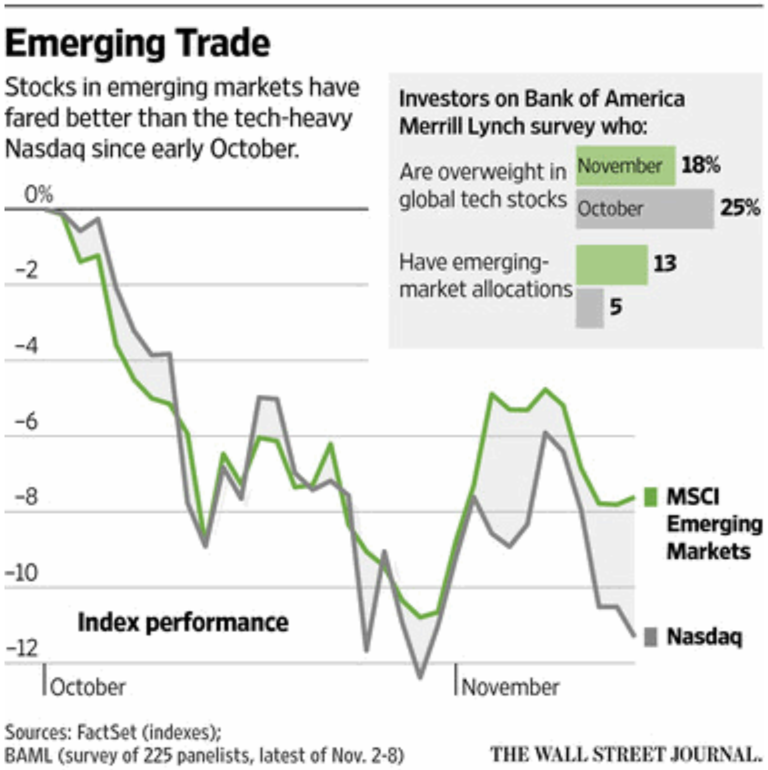
The BAML survey suggests investors took advantage of the recent **stock-market** turbulence to look for bargains: cash allocations among fund managers fell to 4.7% in November from 5.1% in October. Fund managers typically increase cash positions during times of **volatility** if they are concerned about risk.

"We're in the midst of a major reset of investor sentiment and positioning," said Michael Hartnett, Bank of America Merrill Lynch's chief investment strategist. "But the pain threshold hasn't been breached yet," he said, adding the current **stock-market volatility** has yet to significantly affect credit and housing markets.

Since Oct. 1, the MSCI Emerging Markets Index has fallen 8% compared with the technology-heavy **Nasdaq Composite**'s loss of 11%. The MSCI EAFE Index, which measures developed countries outside the U.S. and Canada, has lost 8% in the period.

As investors rotate out of highflying technology names, Brian Sterz, portfolio manager at Miracle Mile Advisors in Los Angeles, said his firm has recently been moving more into emerging markets and developed international stocks.

Within emerging markets, Mr. Sterz said he likes Brazil, adding its economy took the brunt of the pain earlier this year and is in a recovery phase.



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THE WALL STREET JOURNAL.
U.S. EDITION

Global Economic Slowdown Deepens

By William Boston in Berlin, Josh Zumbrun in Washington and Nina Adam in Frankfurt
796 words
15 November 2018
The Wall Street Journal
J
A1
English

The global economy has hit a soft patch, putting the U.S.'s robust growth at risk should the slowdown persist.

Economic output in Japan and Germany contracted in the third quarter, while in October consumer spending in China hit its slowest pace in five months and bank lending fell, according to data released Wednesday about the world's biggest economies after the U.S.

"You've seen a bit of a slowdown -- not a terrible slowdown," Federal Reserve Chairman Jerome Powell said Wednesday evening. "It is concerning."

One-time events played a role in some of these bumps, including a typhoon and earthquake that hit Japan and bottlenecks at German auto plants associated with new emissions standards.

But across the globe, economists and business executives warned about a common denominator that is hurting growth: trade battles among the U.S., China and others. Tariffs are hitting some businesses, and worries about the impact of worsening trade discord are also weighing on sentiment.

One company recently caught in the crosscurrent was German engineering firm Heidelberger Druckmaschinen AG. A ship bound for the U.S. carrying two large pressing machines it built at a Chinese plant was waylaid at a dock in Canada as the company haggled with its customer over how to divide the costs of new U.S. tariffs. The customer balked at a higher bill.

"Ultimately, we sold the machines to someone else," a Heidelberger Druck spokesman said.

The global scenario stands in contrast to a U.S. economy that expanded at an annualized rate of 3.5% in the third quarter.

Germany, Europe's anchor economy, reported its gross domestic product contracted at a 0.8% annualized rate in the third quarter, the first quarterly drop in 3 1/2 years and the lowest rate since early 2013. The eurozone economy grew at an annualized rate of 0.7% in the third quarter, its weakest performance since early 2013.

"One month of no growth shouldn't unleash panic, but at the same time we see that growth rates are weakening and there are a lot of unknowns," said Ralph Wiechers, chief economist at the German Mechanical Engineering Industry Association.

Japan's economy contracted at an annualized pace of 1.2% in the third quarter after expanding at a 3% annual pace the previous quarter.

Tokyo-based trading company Marubeni Corp. said the trade war hit its U.S. grain unit, Gavilon, after U.S. soy prices fell on a tumble in soy shipments to China. Beijing put a 25% tariff on U.S. soy imports in July. Marubeni said net profit for its food-products segment for the six months through Sept. 30 fell 46% from the previous year.

President Trump's administration has imposed tariffs on $250 billion worth of goods imported from China. It has also placed tariffs in sectors including steel and solar panels. U.S. trading partners have retaliated.

While the U.S. economy has continued to outperform, there are signs the global slowdown is taking some toll on the U.S. as well, said David Joy, the chief market strategist for Ameriprise Financial Inc. He said the global growth slowdown has been one factor behind declines in U.S. stock markets and the plunge in **oil prices**.

Few economists predict a global recession, particularly given the strong momentum of the U.S. economy.

After climbing for most of the past two years, U.S. exports have trended down since May.

But the U.S. economy is still being boosted by strong consumer spending, associated with low unemployment and individual income tax cuts enacted last year. Rising government spending, particularly on the military, has also boosted U.S. demand.

The U.S. is somewhat insulated from an international slowdown because its exports are only about 12% of gross domestic product, compared with a global average of about 29%, meaning the U.S. is less exposed than most countries when the global economy weakens.

On Tuesday, the Organization of the Petroleum Exporting Countries cut its forecast for global economic growth to 3.5% for 2019 from 3.6% previously, saying that "the slowdown in the global economic growth trend has become more accentuated lately." It pointed to trade tensions and tightening monetary conditions, notably U.S. interest rate increases.

A monthslong slowdown in China's economy, driven in part by a crackdown on risky financing and jitters over the trade dispute between Beijing and Washington, is hurting spending there.

China's slowdown has been most felt in factories around the world, according to a global measure of manufacturing activity compiled by J.P. Morgan.

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THE WALL STREET JOURNAL.

Markets

Tencent Stock Rallies on Strong Earnings; Shares finish 5.8% higher after company reported a better-than-expected 30% rise in profit

By Mike Bird
525 words
15 November 2018
04:37 AM
The Wall Street Journal Online
WSJO
English

Tencent's stock jumped Thursday, after the Chinese tech giant reported better-than-expected quarterly earnings.

What's Happening

Tencent stock closed 5.8% higher after it reported a 30% rise in profit, more than analysts expected. The boost still leaves the company's Hong Kong-listed shares down nearly 30% in 2018.

Net income of 23.3 billion yuan ($3.39 billion) was lifted by 8.8 billion yuan from investments, turbocharged by the Hong Kong listing of Meituan Dianping. Meituan, whose app offers services similar to Grubhub, Yelp, and Groupon, has tumbled nearly 17% since its initial public offering.

Tencent is the country's largest videogames firm and runs WeChat, the instant messaging and payments app that is close to ubiquitous in China. The company has found itself at the mercy of both increased regulatory pressure from Beijing and souring investor sentiment across the broader market. The broad Hang Seng Index is down about 14% for the year.

With a market cap of about 2.723 trillion Hong Kong dollars (US$347.74 billion), the company is still so large that a particularly good or bad day can move entire stock indexes.

Tencent is the largest component of the MSCI Emerging Markets Index, with a 4.5% weighting, and third-largest in Hong Kong's Hang Seng, at 8.8%. On Thursday, it accounted for 29% of the Hang Seng's 448.91 point increase, Refinitiv data showed.

Tencent's selloff this year has knocked more than 1 percentage point off the MSCI EM's annual performance, and more than 2 percentage points off the Hang Seng's.

What It Means

Analysts were broadly pleased with the results, with Nomura, Credit Suisse, CLSA and Jefferies reiterating buy ratings on the stock immediately after.

Nomura analyst Jialong Shi hailed commentary from Tencent that it had finally made inroads in selling WeChat ads to smaller businesses and local advertisers—a critical move if it is to realize WeChat's potential as a venue for advertising.

This week, BlackRock strategists voiced their increasingly **bullish** view of Chinese tech stocks, whose valuations have moderated. While trade tensions with the U.S. are bad news for Chinese exporters, the country's online giants are largely inwardly focused.

"The U.S. tech sector has a global bent versus China's domestic one," said Richard Turnill, global chief investment strategist at BlackRock. He said the trade dispute would actually limit direct international competition with Chinese tech firms, and provide a relative advantage to companies less dependent on international business. "We see China's focus on domestic demand and self-reliance as positives amid trade disputes," he added.

Write to Mike Bird at Mike.Bird@wsj.com

Asia Markets Snapshot

* Hong Kong's Hang Seng led **stock market** gains in Asia, rising 1.7%.

* The U.S. dollar slipped slightly against the Chinese yuan, falling 0.2% to 6.9292.

* Brent crude oil recovered from an earlier fall, rising 0.6% to $66.50.

Document WSJO000020181115eebf000xd

WSJ PRO CENTRAL BANKING

Markets

Bank Indonesia Raises Benchmark Rate, Surprising Forecasters; The central bank raised the benchmark seven-day reverse repo rate to 6.0%; economists had expected the bank to hold.

By I Made Sentana
179 words
15 November 2018
03:20 AM
WSJ Pro Central Banking
RSTPROCB
English

JAKARTA—Bank Indonesia raised interest rates by a quarter percentage point, a surprise action ahead of expected further policy tightening by the U.S. Federal Reserve in December.

The Indonesian central bank Thursday raised the benchmark seven-day reverse repo rate to 6.0%. All 10 economists polled by The Wall Street Journal had forecast a hold. Some of them had expected the central bank would wait until next month to raise borrowing costs.

Bank Indonesia has increased rates by a total 1.75 percentage points since May in an effort to defend the rupiah, one of Southeast Asia's worst-performing currencies this year.

However, the rupiah recently clawed back some lost ground against the dollar as **oil prices** fell and signs emerged of a possible easing in U.S.-China trade tensions.

Write to I Made Sentana at i-made.sentana@wsj.com

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The New York Times

Business/Financial Desk; SECTB
Sudden Decline in German Economy Adds to Europe's Risk

By JACK EWING; Milan Schreuer contributed reporting from Brussels, and Jason Horowitz and Gaia Pianigiani from Rome.
783 words
15 November 2018
The New York Times
NYTF
Late Edition - Final
3
English

BRUSSELS -- Germany's once unstoppable economy has gone into reverse, adding another threat to European stability just as Italy escalated its dispute with fiscal overseers in Brussels.

The European Union's bedrock economy unexpectedly shrank 0.2 percent in July through September compared with the previous quarter, according to data published Wednesday by Germany's official statistics agency. It was the first quarterly contraction since 2015, with a drop in exports suggesting the stall was a manifestation of President Trump's trade war with China.

If the quarterly decline in Germany signaled a trend -- which some economists doubted -- the implications for the rest of Europe would be ominous at a time when Italy is rattling **financial markets**. Italy's populist government, which faced a deadline Tuesday to resubmit a national budget earlier rejected by the European Commission, made only minor concessions. The commission, the European Union's executive arm, is expected to respond next week.

As Europe faces a confluence of economic and political turbulence, Germany and its powerful auto and machinery exporters have provided crucial stability.

Without Germany as a locomotive, Europe would have much more trouble withstanding shocks that, in addition to Italy, include Britain's messy separation from the European Union and trade tensions with the United States.

Economists expressed hope that Germany could bounce back quickly from the surprise decline in output, which was caused in part by temporary production backlogs at automakers. All of the major carmakers have struggled to adjust to new, more rigorous European emissions testing procedures.

Germany's Federal Statistical Office blamed the setback on reduced exports. China is an important customer for Mercedes-Benzes, Volkswagens and BMWs as well as German-made factory machinery. But China has been buying fewer German goods because its economy has suffered from tariffs imposed by the United States.

''I don't think this is the start of a trend,'' said Carsten Brzeski, chief economist at ING Bank in Germany. ''But assuming it is, it clearly means bad news for the rest of the eurozone.''

Italy's continued confrontation with the European Commission could have economic consequences for the eurozone if not the entire world. The country is seen as a threat to financial stability because of its enormous government debt, which equals more than 130 percent of gross domestic product.

The Italian government, a coalition between the anti-establishment Five Star Movement and right wing Lega, is trying to finance welfare programs as a solution to economic stagnation. But its spending would produce a deficit considered dangerously high for a country with so much debt.

In letters to the European Commission late Tuesday, Giovanni Tria, the Italian finance minister, promised to speed up the sale of state assets to help reduce government debt. Otherwise, he made only minor changes to a budget that the commission had rejected.

The spending is limited to what "is strictly necessary to counteract the slowing of the economic cycle," Mr. Tria wrote. And he said some of the outlays were justified by emergencies, including flood damage and investment in roads and other infrastructure after a deadly bridge collapse in Genoa.

The European Commission will issue an opinion by next Wednesday, a spokesman said. What happens after that is uncertain.

Officials in Brussels will try to walk a fine line, enforcing European Union rules while avoiding a war of words with Rome that would play into the hands of populists. The commission could penalize Italy by imposing fines or withholding European Union funds for economic development. But the commission rarely moves quickly.

The big risk is that investors will lose confidence in Italy and no longer buy government bonds at interest rates the government can afford, a development that would ripple through the economy. The risk premium on Italian bonds spiked early Wednesday, though it later retreated.

The International Monetary Fund said the stimulus would be futile unless paired with measures to improve the functioning of the economy such as dismantling rules that make it costly for businesses to fire workers.

Without such changes, the I.M.F. said in a report on Monday, the spending plan could backfire.

"Italy could be forced into a large fiscal consolidation when the economy is weakening," I.M.F. economists wrote. "This could transform a slowdown into a recession."

Follow Jack Ewing on Twitter: @JackEwingNYT

A Mercedes-Benz assembly line in Sindelfingen, Germany. The nation's decline in output last quarter was caused in part by automobile production backlogs. (PHOTOGRAPH BY THOMAS NIEDERMUELLER/GETTY IMAGES)

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The New York Times

Business/Financial Desk; SECTB
Chairman Gives Credit to Fed For Role in Economy's Growth

By BINYAMIN APPELBAUM
969 words
15 November 2018
The New York Times
NYTF
Late Edition - Final
3
English

DALLAS -- Jerome H. Powell, the chairman of the Federal Reserve, on Wednesday countered President Trump's loud and repeated attacks on the Fed without mentioning Mr. Trump by name.

Mr. Powell hammered on two simple themes during an hourlong question-and-answer session in front of several hundred people at the Federal Reserve Bank of Dallas.

The Fed is doing its job, he said, and the economy is doing really well.

''I'm very happy about the state of the economy now,'' Mr. Powell said. ''There's pretty good reason to think we're going to continue in a positive vein like that.''

He added that the Fed deserved credit for its role in the long and steady expansion.

''Our policy is part of the reason the economy is in such a good place now,'' he said.

Mr. Trump has repeatedly attacked the Fed for raising interest rates too quickly, describing the central bank as ''crazy,'' ''loco,'' ''going wild'' and ''out of control.''

Asked about those attacks, Mr. Powell did not respond directly. Instead, he made a point of saying twice that Congress is the Fed's overseer.

''Our accountability is really to Congress,'' he said, driving home the Fed's independence from the executive branch. Independence from presidential criticism has long been a hallmark of the Fed's existence, and a contributor to its ability to maintain monetary policy that aims to keep inflation stable and the economy running at maximum employment.

He returned to the same theme later in the evening.

''We have a very important job that Congress has assigned us and we have the tools to do it,'' he said. ''We're just trying to do our jobs and we're doing fine.''

Mr. Powell answered questions posed by the Dallas Fed president, Robert S. Kaplan, and from members of the audience. Most of those who asked questions said they worked in financial services and asked about the economic outlook, the Fed's plans and regulatory policy.

Mr. Powell acknowledged signs that global growth might be slowing, but played down concerns about **volatility** in equity markets, describing stock prices as ''one of many factors'' the Fed evaluates in making policy decisions.

He said the Fed was hearing a ''rising chorus of concern'' from businesses about the impact of the Trump administration's trade restrictions. Mr. Trump has imposed tariffs on steel and aluminum and on a wide range of Chinese imports, and those actions have prompted retaliation by America's trading partners on goods like metals, peanut butter and whiskey.

Mr. Powell cautioned that the Fed still sees little evidence of a broad impact from the trade war in the economic data, but he said the concerns about protectionism made sense in theory.

"If it winds up, perhaps inadvertently, in a place where we have more widespread protection, that would be bad for our economy," he said. "To the extent that more and more products are subject to tariffs you could see a little bit higher inflation and a little bit slower growth."

He also said the Fed was well aware that the benefits of the economic recovery have not been distributed evenly and that there are pockets of America that have yet to rebound from the recession.

"We know there are a lot of people around the edges who have not benefited yet from the recovery," Mr. Powell said. "The best thing we can do is to try to sustain this expansion for as long as possible."

But he said there was a broad consensus among Fed officials that the central bank should keep raising its benchmark interest rate in the near term.

The Fed raised the rate in September to a range between 2 and 2.25 percent.

Investors expect an increase of one-quarter of a percentage point at the Fed's next meeting, in December, although the recent **volatility** of **financial markets** has created a little uncertainty. Asset prices on Wednesday implied about a 73 percent chance of a December rate increase, according to the CME Group.

The Fed also is expected to continue raising rates during the first half of 2019.

"It wouldn't be surprising to me that we would need to go up again in December and at least a couple of times next year," Mary Daly, the new president of the Federal Reserve Bank of San Francisco, said in an interview with Bloomberg News on Monday.

Mr. Powell did not comment on the timing of future rate increases, but his upbeat economic outlook is consistent with expectations that the Fed will continue to raise rates.

Mr. Powell has announced that he will hold news conferences after each of the Fed's eight policymaking meetings next year, replacing the current pattern of quarterly news conferences. In recent years, the Fed has fallen into a pattern of announcing policy changes at meetings with a news conference. Mr. Powell said Wednesday that the Fed was reclaiming its ability to act at every meeting.

"The market is going to have to get used to that," he said. "Certainly all meetings are live now. There's no question about it now. I think over time folks will get used to the idea that we can and will move at any meeting."

Asked for closing thoughts, Mr. Powell returned to his two themes.

"I want to leave on a note of optimism about our economy," he said. "We've been through a difficult time and we've faced difficult times before. We're in a good place now. I do believe our economy can grow and grow faster."

And, he added, the Fed is doing a good job.

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

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The New York Times

U.S.; Politics
On Politics: Trump Supports a Rewrite of Mandatory Sentencing Laws

506 words
15 November 2018
02:42 AM
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NYTFEED
English

Good Thursday morning. Here are some of the stories making news in Washington and politics today.

• President Trump threw his support behind a substantial rewrite of the nation's prison and sentencing laws on Wednesday, opening a potential path to enacting the most significant criminal justice overhaul in a generation. Read the story and six takeaways on what the rewrite would do.

• From immigration to tax cuts, there is very little that Republicans and Democrats seem to agree on these days. But there may be one thing: the need to repair the criminal justice system.

• Thousands of ballots have been rejected in Florida because voters' signatures don't match what's on file, and Democrats are calling it disenfranchisement. Here's more on the status of the ballots.

• Marc Elias, an election lawyer representing Senator Bill Nelson of Florida, the Democratic incumbent, has been criticized from both the left and the right. Now he's entwined in the Florida recount.

• House Republicans elected Kevin McCarthy of California as their leader, embracing continuity despite steep losses in the midterm elections. Read more about his selection.

• Matthew Whitaker's appointment as acting attorney general did not take the usual path, in which temporary posts are filled by Senate-confirmed officials. Still, the Justice Department is defending his appointment.

• As the Federalist Society gathers for the conservative legal group's annual convention, prominent lawyers on the right have urged others to speak out against what they call the Trump administration's betrayal of legal norms. Here's more on their critique.

• Andy Kim, a New Jersey Democrat, won a House seat after a drawn-out vote count. The victory leaves New Jersey with just one Republican in Congress.

• A day after Melania Trump issued an extraordinary statement condemning Mira Ricardel, the deputy national security adviser, the White House said Ms. Ricardel was leaving her post but would still work in the administration.

• Defense Secretary Jim Mattis on Wednesday defended Mr. Trump's order to deploy up to 15,000 troops to the southwest border to confront an incoming migrant caravan. But the long-term goals for the mission remain unclear.

• Europe's top trade diplomat said the European Union was preparing to strike back against American industries should Mr. Trump follow through on his threat to impose auto tariffs. Here's more on the trade fallout.

• Trade disputes have been the focus of souring relations between the United States and China. But efforts on both sides to dominate the Pacific have also become a **volatile** source of conflict — and tensions are rising.

Today's On Politics briefing was compiled by Margaret Kramer in New York.

Check back later for On Politics With Lisa Lerer, a nightly newsletter exploring the people, issues and ideas reshaping the political world.

Is there anything you think we’re missing? Anything you want to see more of? We’d love to hear from you. Email us at onpolitics@nytimes.com.

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THE WALL STREET JOURNAL.

Page One

What's News: Business & Finance

189 words
15 November 2018
The Wall Street Journal Online
WSJO
English

The global economy has hit a soft patch, new data from Japan, Germany and China show, leaving the U.S. at risk should the slowdown persist.

Inflation flared in the U.S. in October, with the CPI rising 0.3%, but the increase could prove fleeting.

General Electric's pummeling by investors is sending ripples throughout **financial markets**.

PG&E shares fell nearly 22% as concerns grew about potential liability costs from California wildfires.

Massive price swings are rattling energy markets amid questions about the health of the global economy.

U.S. stocks fell in a **volatile** session. The Dow and **S&P 500** both lost 0.8%, while the **Nasdaq** shed 0.9%.

Macy's delivered healthy sales growth in its latest quarter and raised its guidance for the year.

Berkshire took a $4 billion stake in JPMorgan in the third quarter, boosting its bet on the banking industry.

Dell plans to sweeten a $22 billion deal to buy out an affiliate and return to the public markets.

Uber is seeing slower sales growth ahead of its planned IPO next year.

Document WSJO000020181115eebf000ul

The New York Times

Business
In an Uncertain Real Estate Market, Try Before You Buy

By Paul Sullivan
1,640 words
15 November 2018
02:30 AM
NYTimes.com Feed
NYTFEED
English

Not too long after Tom Porth sold his business this year, he went to Colorado for a ski vacation. He had worked in different capacities for the Village Inn restaurant chain for four decades, ultimately owning nine restaurants, and he was eager for retirement.

After a trip to Steamboat Springs, Colo., Mr. Porth returned to his home in Waterloo, Iowa, intent on buying a mountainside condominium. So he did what anyone would do: He found a realtor in Steamboat who arranged for him to rent a condo in the place he thought he'd like.

"The price was more than what my Iowa blood was used to seeing, but it seemed to be what you'd pay for something of that caliber," said Mr. Porth, 62.

But on that visit, his agent suggested a newer, amenity-filled development up the hill — One Steamboat Place. It offered select people the opportunity to stay in a condo before buying it. Those condos cost even more, so he picked the least expensive unit. Still, it was double what the other one cost.

In a real estate market that has been strong, fueled by **stock market** gains and low interest rates, such programs would seem unnecessary. If one person doesn't want the condo another will. But a combination of changes to the tax code, which limit the deductions for mortgage interest and property taxes, rising interest rates and a general feeling that increases in home prices are set to cool are making some people anxious about the luxury real estate market.

"We're a long way into the cycle," said Christopher Mayer, co-director of the Paul Milstein Center for Real Estate at Columbia Business School. "It's not surprising to see things slow down relative to where they were." This sense of uncertainty is causing some buyers, particularly at the high end, to be more discerning. Expensive real estate is staying on the market longer.

"In markets where there is plenty of inventory, buyers are not afraid to take their time, do their research and ensure they feel they are making a good decision," said Stephanie Anton, president of the Luxury Portfolio International, a luxury real estate firm. "People are not going to overpay or make an emotional decision."

Sensing this, some high-end developers have begun building their marketing plans around a concept meant to get people past that uncertainty: test live in a house or condo before you buy it. And this concept is spreading not just in the second home market but to urban condominium developers.

"If you look at the real estate markets, it's unbelievable that people tour homes five, six times and make a $10-million investment, but they've never stayed there," said Greg Spencer, the chief executive officer for Timbers Resorts, which developed One Steamboat Place, where Mr. Porth stayed for his tryout. "We say, if we have available inventory, why not give people the opportunity to try it out?"

Dan Scott, president and general manager of The Whitetail Club, a development in McCall, Idaho, said the movement toward "try before you buy" is an outgrowth of the housing crash and recession 10 years ago, which left many buyers skittish about making a big investment too quickly.

"In the old days you did a real estate tour and drove people around for a few hours, but it didn't give people a sense of what it was like to be there," Mr. Scott said. "Coming out of the recession, what the buyer wanted has changed."

Mr. Porth said the tryout got him hooked — and more comfortable with spending a lot more money than he'd planned. “I don't think I'd do it any other way now,” he said. “I need to spend time in that resort but also that unit. By staying, you can learn to love something; you can also learn something you may not like.”

After staying in the lowest priced condo, which was about $2 million, he realized he didn't want to buy that one — it overlooked the parking lot, not the slopes. But by that point he'd been taken in by the amenities and location so he asked to try one on the fifth floor — which cost 20 percent more than the already pricey base unit.

In April, he closed. Mr. Porth would not disclose the exact price of his home, but the average cost of a condominium in the development is $3 million to $3.5 million.

In some ways the hook would seem to be the home, but the real selling point is the experience.

Developers can sometimes get away with less than a full home. Clear Creek Tahoe is a mountain community on the Nevada side of Lake Tahoe with golf, water sports, skiing and hiking. It is also right next to California.

The marketing of the development started before the real estate crash and essentially went into hibernation until a new group took over in 2015. With the majority of the infrastructure built — but none of the homes — they needed a way to start selling half-acre to five-acre plots that were priced from $300,000 to $1.7 million.

So they built cottages with the same high-end finishes the eventual homes would have, but designed each one to evoke why people should buy there. One reflected the style of the designers of the golf course, another the boating on Lake Tahoe.

Lori Brooks and her husband, David, who live in San Diego, had been looking for a home around the lake because it ticked many of the boxes they wanted in what would eventually be a retirement home: near a college town and airport, good health care, plenty of outdoor activities.

In the spring, on their second visit to the Tahoe area, they stayed in one of the Clear Creek cottages — no charge — and ended up buying a lot. They're planning on constructing a 4,500-square-foot home with both mountain and golf course views.

“We walked to our lot every night,” she said. “We envisioned what we were going to do.”

Others at the highest end are selling the escape from an uncertain world. Las Ventanas al Paraiso has been a successful resort in San Jose del Cabo, Mexico, for 20 years. It is now marketing the final 30 homes in the property, which range from $2.7 million to over $7 million.

“The question in the beginning was how do we sell them?” said Frederic Vidal, the managing director of the property who joined four years ago to run the property.

Unlike other program managers, he knew he couldn't offer a free stay to look at a home. A lot of people knew the resort and he was concerned there would be guests simply looking for a free luxury stay for a few days.

So while he decided to charge for the stay, there was a caveat: the money would be refundable if the guest bought a house. The costs per night are $3,000 to $11,000 depending on the size of the home, and only those who are deemed serious buyers are eligible to stay.

The try before you buy system works with resorts because people are buying experiences as much or more than a place to sleep and eat. But buying your permanent residence is a bit different: it's a practical purchase.

Letting your children try out bedrooms and play in the yard, while you test out the morning commute and figure out where you'd put the television would yield a lot of valuable information. Chances are, however, there is a family living in the house who would object — or other buyers who would be traipsing through at dinnertime.

A few apartment buildings are trying out a service that allows them to turn units they're waiting to lease — without flooding the market with too much inventory — into temporary hotel rooms, and it has yielded people interested in living there full time.

Jason Fudin, co-founder and chief executive of WhyHotel, which creates these pop-up hotels, said the setup provides interim cash flow for the developers but also made a new building more attractive for people looking to move in.

“In a 300-unit building everything is designed for full occupancy,” Mr. Fudin said. “When you’re all alone in a big building something is off. It’s not like being in “Home Alone” — you’re in a zombie building.”

At their first project last year, The Bartlett in Arlington, Va., Mr. Fudin found that every 1,000 room stays yielded a tenant for the building, although there are limitations. He said the tryout concept worked better for rental apartments. “A condo is like a car — it has a never-lived-in premium,” he said.

Some experts say the try before you buy concept is perfect for a risky time — it allows potential homeowners the chance to be sure that they’re making the right choice.

While buying a house may be about your personality, Ms. Anton of Luxury Portfolio International said, “It’s also a financial decision.” In uncertain times, it may be best to wade carefully into that kind of big choice.

Maureen and Tom Porth purchased their condo in Steamboat Springs, Colo., after selling several restaurant franchises. Mr. Porth decided to buy it after having the opportunity to stay there before deciding whether to buy. | Kirsten Leah Bitzer for The New York Times | Mr. and Mrs. Porth entertained friends in their condominium in Steamboat Springs. | Kirsten Leah Bitzer for The New York Times | One Steamboat Place is a luxury development in Steamboat Springs. | Kirsten Leah Bitzer for The New York Times

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THE WALL STREET JOURNAL.
U.S. EDITION

Business & Finance
What's News
Business & Finance

196 words
15 November 2018
The Wall Street Journal
J
A1
English

The global economy has hit a soft patch, new data from Japan, Germany and China show, leaving the U.S. at risk should the slowdown persist.

Inflation flared in the U.S. in October, with the CPI rising 0.3%, but the increase could prove fleeting.

General Electric's pummeling by investors is sending ripples throughout **financial markets**.

PG&E shares fell nearly 22% as concerns grew about potential liability costs from California wildfires.

Massive price swings are rattling energy markets amid questions about the health of the world's economy.

U.S. stocks fell in a **volatile** session. The Dow and **S&P 500** both lost 0.8%, while the **Nasdaq** shed 0.9%.

Macy's delivered healthy sales growth in its latest quarter and raised its guidance for the year.

Berkshire took a $4 billion stake in JPMorgan in the third quarter, boosting its bet on the banking industry.

Dell plans to sweeten a $22 billion deal to buy out an affiliate and return to the public markets.

Uber is seeing slower sales growth ahead of its planned IPO next year.

Document J000000020181115eebf0002k

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Inflation Ticks Higher, But Pullback Expected

By Sharon Nunn
326 words
15 November 2018
The Wall Street Journal
J
A2
English

WASHINGTON -- Inflation flared in October, primarily because of increasing gasoline prices, but the increase could prove fleeting if other recent trends continue.

The consumer-price index, which measures what Americans pay for everything from hamburgers to haircuts, increased 0.3% in October from the prior month, the Labor Department said Wednesday. This was the largest monthly gain since the beginning of the year, driven by a jump in the gasoline index and a rebound in prices for used cars and trucks that had dropped sharply in September.

From a year earlier, overall consumer prices climbed 2.5% in October, compared with 2.3% in the 12 months that ended in September. Excluding the **volatile** categories of food and energy, the core CPI rose 0.2% last month, largely in line with recent trends, and 2.1% from a year earlier.

The new figures likely leave the Fed on track to continue gradually raising interest rates in coming months, including in December, to prevent the rapidly expanding economy from overheating.

"The Fed is still highly likely to raise rates next month and to continue doing so at quarterly intervals next year," said Eric Winograd, senior economist at AB.

Despite the October rise, inflation appears set to pull back in the months ahead, analysts said, citing a steep decline in crude **oil prices** this month and a continuing slowdown in price growth for health care and rents.

Oil prices have fallen sharply in recent weeks on concerns about slowing global economic growth.

Two major **oil price** benchmarks, WTI and Brent, have slid roughly 25% since reaching four-year highs at the start of October. Unless reversed, this alone would likely cause U.S. inflation to decline in November.

The strengthening dollar could also push down inflation by weighing on the prices of imports and competing goods, analysts said.

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THE WALL STREET JOURNAL.

Economy
Fed Tracking World Growth Worries, Chairman Powell Says; Central banker finds slowdown 'concerning,' but U.S. economy still strong

By Nick Timiraos
1,051 words
14 November 2018
08:06 PM
The Wall Street Journal Online
WSJO
English

DALLAS—Federal Reserve Chairman Jerome Powell said the central bank was closely monitoring a modest deceleration in global growth, whose strength last year had provided an important tailwind for the U.S. economy.

"This year has seen a gradual chipping away at that picture. You've seen a bit of a slowdown—not a terrible slowdown," Mr. Powell said Wednesday evening. "You still see solid growth, but you see growing signs of a bit of a slowdown. And it is concerning."

The global growth outlook was one of a number of challenges Mr. Powell flagged. He didn't say that any of them were strong or surprising enough right now to change the Fed's current policy path of gradually lifting rates, and he said he remains optimistic about the U.S. economy.

"I'm very happy about the state of the economy now," he said. "Our policy is part of the reason why our economy is in such a good place right now."

One risk is that U.S. economic growth could slow in coming years as recent fiscal stimulus from tax cuts and spending increases wears off, Mr. Powell said during a moderated discussion at the Dallas Fed with the reserve bank's president, Robert Kaplan.

A separate challenge is that U.S. growth continues to outpace the rest of the world, putting strains on some emerging-market economies that face headwinds from a stronger dollar.

"The U.S. economy is just really strong, and it is stronger than many other major economies right now," he said.

While Mr. Powell acknowledged the recent **stock-market** selloff could have an effect on financial conditions that slows growth, he did not suggest it had been enough for the Fed to change its policy plans.

Market conditions are "one of many factors" the Fed considers when deciding where to set interest rates, he said.

Officials voted unanimously in September to raise their benchmark rate to a range between 2% and 2.25%, and they held rates steady at their meeting last week. After the meeting, officials offered a mostly upbeat assessment of the U.S. economy, suggesting another rate increase is likely at their meeting next month.

In September, Fed officials penciled in plans to raise their benchmark short-term rate once more this year. Officials were split over whether to raise it two, three or four times next year. That would push the rate closer to 3%, which is where most officials expect it to settle over the long term—a so-called neutral rate that neither spurs nor slows growth.

Mr. Powell said Wednesday the main challenge facing the Fed now is to consider how much further and at what pace to raise rates. He said the central bank would evaluate "really carefully…how the markets and the economy and business contacts are reacting to our policy."

Investors were watching Mr. Powell's remarks carefully Wednesday after comments he made at his last public appearance, on Oct. 3, led some investors to believe the Fed might raise rates for longer than they had expected. This fueled worries, in turn, that the Fed might raise rates too much, causing a recession.

Last month, Mr. Powell played down the debate over whether the Fed would raise rates above neutral, saying the concern was premature. Rates are "a long way from neutral at this point, probably," he said during a moderated discussion in Washington. "We need interest rates to be gradually, very gradually, moving back toward normal."

Those comments came amid a raft of strong U.S. economic data. Together, they raised investors' expectations that the Fed favored more rate increases next year. Yields on the benchmark **10**-**year Treasury** note briefly touched a seven-year high in early October. Bond yields rise when prices fall.

Even though the substance of Mr. Powell's October comment largely reflected many Fed officials' public projections, some commentators said his tone reflected greater conviction to raise rates, contributing to the bond-market selloff. Rising bond yields, in turn, sent the **stock market** on a wild ride last month.

Meanwhile, the unemployment rate held at 3.7% in October, a nearly half-century low, and average hourly wages rose 3.1% from a year earlier, the biggest year-to-year increase since 2009.

Most Fed officials subscribe to some version of a framework that posits wages and prices should rise as the unemployment rate falls below a so-called natural level consistent with stable inflation. Officials, including Mr. Powell, have been careful to note this relationship is weaker than it used to be and that their estimates of the natural rate of unemployment could be wrong.

Inflation will be central to determining how the Fed's policy path evolves. Inflation has been holding near the Fed's 2% target for most of this year after undershooting it for many years. The Fed views inflation around 2% as a sign of balanced supply and demand.

Mr. Powell said Wednesday he was optimistic the U.S. economy could sustain a higher growth rate, which could potentially allow for faster growth without a large increase in inflation. "You always want to be on the optimistic side of this economy," he said.

When asked about President Trump's recent criticism of Fed rate increases, Mr. Powell avoided any escalation. In an interview with The Wall Street Journal last month, Mr. Trump cited the Fed as the top risk facing the economy. He earlier described the Fed as crazy and out of control due to its plans to gradually lift rates despite few obvious signs of inflation.

"We have protections from political involvement," said Mr. Powell, citing legal safeguards that prevent the Fed's decisions from being reversed by the executive branch. Mr. Powell didn't mention Mr. Trump by name.

Mr. Powell also defended the principle of monetary-policy independence for central banks, citing the importance of credibly guarding against inflation by remaining free of politics.

"It enables us to serve the public better," he said. "Central banks, when they get too close to the government, incentives change."

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THE WALL STREET JOURNAL.

Markets

Libya's Oil Production Has More Than Doubled Since June, Oil Chief Says; Country is pumping 1.28 million barrels a day, up from 500,000 in June, according to National Oil Corp. chairman

By Benoit Faucon
190 words
14 November 2018
07:35 PM
The Wall Street Journal Online
WSJO
English

ABU DHABI—Libya is pumping 1.28 million barrels a day, the head of the country's National Oil Corp. said Wednesday, more than double its June level.

The production boost in the North African nation comes as **oil prices** have plummeted in recent days after Saudi Arabia opened up the spigots to make up for sanctioned Iranian oil.

Speaking to The Wall Street Journal on the sidelines of an energy conference here, NOC Chairman Mustafa Sanallah said the current level was up from 500,000 barrels a day in June. At the time, the country's eastern ports had been shut by a rogue general.

Libya has been rocked by sabotage and strikes since a civil war toppled strongman Moammar Ghadafi in 2011. Production has risen sharply in recent weeks after Mr. Sanalla negotiated the reopening of facilities blockaded by militias.

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International New York Times

business
Trump's Tax Cut Was Supposed to Change Corporate Behavior. Here's What Happened.

By JIM TANKERSLEY and MATT PHILLIPS
1,708 words
14 November 2018
International New York Times
INHT
English

The $1.5 trillion tax overhaul that President Trump signed into law late last year has already given the American economy a jolt, at least temporarily. It has fattened the paychecks of most American workers, padded the profits of large corporations and sped economic growth.

Those results weren't a surprise. Economists across the ideological spectrum predicted the new law would fuel consumer spending, in classic fashion: When the government borrows money and dumps it into the economy, growth tends to accelerate. But Republicans did not sell the law as a sugar-high stimulus. They sold it as a refashioning of the incentives in the American economy — one that would unleash more investment, better efficiency and higher wages, along with enough growth to offset any revenue lost to the government from lower tax rates.

Ten months after the law took effect, that promised "supply-side" bump is harder to find than the sugar-high stimulus. It's still early, but here's what the numbers tell us so far:

The Investment Bump

Proponents of the tax overhaul said it would supercharge the recent lackluster pace of business spending on long-term investments like buildings, factories, equipment and technology.

Such spending is crucial to keeping economic growth strong. And strong growth is central to Republican claims that the tax cuts would ultimately pay for themselves.

Capital spending did pick up steam earlier this year. For companies in the **S&P 500**, capital expenditures rose roughly 20 percent in the first half of 2018. Much of that was concentrated: The spending of just five companies — Google's parent, Alphabet, and Facebook, Intel, Exxon Mobil and Goldman Sachs — accounted for roughly a third of the entire rise. Much of that spending went toward technology, including increased investment in data centers and computing, server and networking capacity.

For the full year, Goldman Sachs analysts expect that capital expenditures for companies in the **S&P 500** will be up about 14 percent, to $715 billion. Research and development spending, another component of business investment, was expected to be up 12 percent, to $340 billion.

For the economy as a whole, the surge in business investment was a bit less impressive. It's true that business spending on fixed investment — such as machinery, buildings and equipment — rose, jumping 11.5 percent and 8.7 percent during the first and second quarters. The first-quarter jump was the fastest for investment since 2011.

But that pace fizzled during the third quarter. Recently data showed third-quarter business investment rose at an annual pace of 0.8 percent. The last quarter of the year — traditionally a big one for capital spending — will fill out the picture, but that data won't be released until early 2019.

It will likely take years to get a better sense of whether the law fundamentally reshaped American corporate investment. But there's little clear evidence that it is drastically reshaping the way in which most companies invest and spend.

The results of a survey published in late October by the National Association for Business Economics showed that 81 percent of the 116 companies surveyed said they had not changed plans for investment or hiring because of the tax bill.

The Buyback Binge

Cheerleaders for the tax cut argued that the heart of the law — cutting and restructuring taxes for corporations — would give the economy a positive bump, giving companies incentives to invest more, hire more workers and pay higher wages.

Skeptics said that the money companies saved through tax cuts would merely increase corporate profits, rather than trickling down to workers.

JPMorgan Chase analysts estimate that in the first half of 2018, about $270 billion in corporate profits previously held overseas were repatriated to the United States and spent as a result of changes to the tax code. Some 46 percent of that, JPMorgan Chase analysts said, was spent on $124 billion in stock buybacks.

The flow of repatriated corporate cash is just one tributary in what has become a flood of payouts to shareholders, both as buybacks and dividends. Such payouts are expected to hit almost $1.3 trillion this year, up 28 percent from 2017, according to estimates from Goldman Sachs analysts.

Debts and Deficits

Supporters of the tax cuts repeatedly claimed the bill would increase economic growth enough to offset the decline in tax receipts. "I'm totally convinced this is a revenue-neutral bill," said Senator Mitch McConnell of Kentucky, the Republican leader, when a preliminary version of the bill was approved in the Senate in December 2017.

Despite a remarkably strong economy, the fiscal health of the United States is deteriorating fast, as revenues have declined sharply. The federal budget deficit — the gap between what the government collects in revenues and what it spends — rose to $779 billion in the 2018 fiscal year, which ended Sept. 30. That was a 17 percent increase from the prior year.

It's highly unusual for deficits and borrowing needs to grow this much during periods of prosperity. A broad variety of analysts attribute the widening deficit to the tax cuts (along with increased military and other domestic spending ushered in through a bill Mr. Trump signed earlier this year).

Corporate tax revenues are down one-third from a year ago. Federal revenues as a whole ran $200 billion behind the Congressional Budget Office's forecast for the 2018 fiscal year — even though economic growth was faster than the C.B.O. expected. The nonpartisan Committee for a Responsible Federal Budget reports that nominal federal revenues are down by at least 3.6 percent since the tax cuts took effect.

The growing budget gap means the Treasury must borrow more to keep the government running. The Treasury expects to borrow a total of $1.338 trillion from global investors this calendar year. That would be 145 percent higher than the $546 billion the federal government borrowed last year. That would be the highest level of borrowing since 2010, when the American economy was struggling to recover from the great recession.

Bonus Announcements

Shortly after the tax law passed, hundreds of companies — from large multinationals to small manufacturers — announced that they would be using some of their windfall from the law to give one-time bonuses to employees. Others said they would raise minimum wages across the company, or expand worker benefits.

Mr. Trump and Republicans hailed those announcements as evidence that the law's benefits were flowing substantially to workers. Americans for Tax Reformcompiled a list of 750 companies, and growing, that said they would pass tax savings on to workers in some form.

Data from large public companies, however, suggest that most workers received relatively small shares of their employers' corporate tax savings.

The nonprofit research group Just Capital, which is tracking 1,000 large public companies' reports of how they are spending their tax cuts, calculates that the typical worker at one of those large companies has received about $225 this year in increased salary, a one-time bonus, or both, attributable to the new law.

Workers for those companies were more likely to see their wages rise if they lived in states where the minimum wage was relatively low — and where companies do not have to pay workers more to compensate for high housing costs. California workers at those companies saw an average benefit of about $160 each, which is less than half the average benefit for workers in Kentucky.

Many companies also said they would use tax savings to create jobs. But the Just Capital research finds that, since the tax cuts were passed, the 1,000 largest public companies have actually reduced employment, on balance. They have announced the elimination of nearly 140,000 jobs — which is almost double the 73,000 jobs they say they have created in that time. About half of those net losses came from companies in the restaurant and leisure industries, the analysis found.

The Wage Story

Nearly a year after the cuts were signed into law, wage growth has yet to pick up when accounting for inflation. In September, the Labor Department reported that inflation-adjusted wages had risen 0.5 percent from the year before. That's a slower rate of growth than the economy itself experienced in September 2017, when it was 0.6 percent.

Growth has accelerated in nominal terms. Median wage growth was 3.5 percent in September, according to calculations by the Federal Reserve Bank of Atlanta, up from 3 percent in January, but still below its recent highs in 2016. Growth in the Employment Cost Index rose from 2.9 percent at the end of 2017 to 3 percent in the third quarter.

By Republicans' own economic theories, it should take a while for corporate tax cuts to translate into higher worker pay. First, the cuts need to stimulate increased capital investments, which in turn raise worker productivity. More productive workers would then see their wages rise accordingly.

Productivity grew 3 percent in the second quarter of this year and 2.2 percent in the third — healthy numbers, which will need to continue apace to deliver the sort of long-term economic jolt Republicans promised.

PHOTOS: THE JOLT: When President Trump signed the $1.5 trillion tax reform bill last December, economists predicted it would fuel consumer spending. (PHOTOGRAPH BY DOUG MILLS/THE NEW YORK TIMES); CAPITAL SPENDING: Companies like Google's parent invested more in areas like data centers and server and networking capacity. (PHOTOGRAPH BY DREW ANGERER/GETTY IMAGES); UP AND DOWN: Spending on fixed equipment jumped 11.5 percent and 8.7 percent in the first and second quarters and then fizzled. (PHOTOGRAPH BY EDUARDO MUNOZ/REUTERS); WAGE DOLDRUMS: After an initial rush of bonuses, growth in pay is not keeping up with inflation. (PHOTOGRAPH BY STEPHEN M. DOWELL/ORLANDO SENTINEL, VIA ASSOCIATED PRESS) (B6) MAPS (Source: JUST Capital) (B1); CHART: In Search of an Investment Boom: U.S. quarterly business fixed investment (annualized rate) (Source: U.S. Bureau of Economic Analysis) (B6)

* No, Trump's Tax Cut Isn't Paying for Itself (at Least Not Yet)

Document INHT000020181113eebe0000m

THE WALL STREET JOURNAL.

Credit Markets
Markets

GE Credit Crunch Ripples Across Wall Street; A steep fall in GE's bonds to junk levels is roiling credit markets, spreading pain and gain among investors and banks

By Matt Wirz
1,170 words
14 November 2018
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

General Electric Co. held a double-A credit rating until 2015. An article published Nov. 14 incorrectly stated that the company had a triple-A credit rating until 2015. (Nov. 29, 2018) Also, GE disclosed $22 billion in unexpected charges tied to its power unit in October after reporting a $6 billion shortfall in insurance reserves in the first quarter. An earlier version of this article incorrectly stated the company reported $28 billion in unexpected charges in October. (Nov. 14, 2018)

GE was recently one of the safest bets in the bond market. Now, it is hurtling toward junk.

General Electric Co. amassed $115 billion of debt on a reputation as one of the U.S.'s safest borrowers. But revelations of losses and questions about its accounting have brought **financial markets** to a pivotal moment.

GE held a double-A credit rating until 2015. This month, investors have pummeled its **bond prices** into junk territory. Once a giant issuer of ultrasafe commercial paper, it now relies on $41 billion in revolving credit lines from more than 30 banks—the corporate finance equivalent of a wallet stuffed with credit cards.

GE stock has lost about half its value in 2018, and ratings firms cut its credit rating in recent weeks to BBB-plus, three notches above junk. GE's various bonds have tumbled about 5% to 18% since late October, according to MarketAxess, showing that some investors expect further downgrades. Trade in derivatives protecting against a GE default also surged on buying from banks and bond funds.

Newly installed Chief Executive Larry Culp is selling parts of the company to raise cash and slash debt, including Tuesday's announcement that GE would sell a $3.7 billion stake in Baker Hughes, a GE Co., which sent GE's shares up 7.8%.

A slide below investment grade by GE—a name many people associate with safe and boring investing—could reshape the junk-bond market. GE has so much debt that it would become about one-tenth of the $1.2 trillion market, according to data from Fitch Ratings. The shift also would force fund managers to question how well they understand the risk in their investments and potentially hurt prices for other high-yield debt.

"It's a relatively systemic company," said David Meneret, founder of hedge fund Mill Hill Capital, which has been betting against GE by using credit-default swaps, or CDS, since July. "It would be extremely concerning to have that much paper moving from investment grade to high yield."

Bond investors said they are selling in part because GE's complex financial reporting makes it hard to analyze if more unexpected losses will be revealed, triggering another sudden downgrade. The company is considering breaking out financial performance of individual subsidiaries to provide greater transparency to investors, a person familiar with the matter said

GE management aims to recapture a single-A credit rating through divestitures and by refocusing on its power and aviation manufacturing businesses. The company's share price still implies $72 billion of market capitalization, according to FactSet.

GE became a bond-market titan in the late 1990s when its triple-A credit rating helped it borrow cheaply to fund manufacturing and to raise money for its financing arm GE Capital to lend. The company has cut debt from a peak of $336 billion in 2009, but ratings firms have steadily downgraded the company since then.

Its bonds remain widely held by insurers, pensions and mutual funds, many of which have ratings requirements that force them to sell bonds rated below investment grade. A short-term bond fund operated by Vanguard Group owned $1.4 billion in GE bonds as of October, representing 2.4% of its assets, according to data from Morningstar Inc. The fund can invest no more than 5% in junk debt, a spokesman said. MetLife Inc. owned about $300 million in June but has since reduced its holdings, which now make up a fraction of 1% of its investments, a company spokesman said.

Bond prices began their recent fall in late October when the company disclosed $22 billion in unexpected charges tied to its power unit after reporting a $6 billion shortfall in insurance reserves in the first quarter. GE's bonds have been the most actively traded in the U.S. corporate-debt market over the past two weeks with more than $10 billion changing hands, according to MarketAxess.

Some bondholders are purchasing credit-default swaps, which pay out if GE defaults, to protect themselves, while hedge funds are buying the swaps in a bet that they will rise in value as the company's fortunes worsen. Prices of GE CDS roughly doubled in November and the dollar amount of swaps outstanding quadrupled to $836 million, the highest amount of any corporate borrower in the world, according to IHS Markit and DTCC Data.

Wall Street banks with lending commitments to GE also are buying CDS to protect loans to the company, according to people familiar with the trades. Banks account for about 10% of the recent GE CDS transactions, one of the people said.

The recent downgrades made borrowing through commercial paper more difficult for GE and the company is increasingly drawing on $41 billion of credit lines provided by more than 30 banks to fund itself, according to its quarterly earnings report. GE's lenders include Citigroup Inc., Goldman Sachs Group Inc. and Morgan Stanley, according to its 2017 annual report.

"We currently are using $2 billion of these facilities as well as the commercial paper market for general intraquarter working capital needs," said GE's Treasurer Jennifer VanBelle.

The more GE borrows from the banks, the more CDS they will buy, pushing the cost of the swaps higher and increasing the perceived risk of default, Mr. Meneret said. Current CDS prices imply a default risk over the next five years of about 16%, almost twice the approximately 9% risk implied at the end of October.

The sharp moves in GE debt and derivative prices reflect concerns that further losses or cash shortages may be revealed, investors said.

"There is significant potential for negative credit surprises as GE proceeds with its 'comprehensive review of assets,'" said David Sherman, founder of Cohanzick Management LLC, which is selling short GE bonds in a mutual fund and a hedge fund it manages. Short sellers borrow securities and sell them with plans to repurchase the instruments at lower prices in the future to close out the trade, pocketing the difference.

Another popular **bearish** trade is to sell short GE's $5.5 billion in preferred shares, a debtlike instrument that pays a 5% annual dividend. GE can halt that payment as long as it pays no dividend on its common stock. The company slashed its common-stock quarterly dividend to one penny in November.

Warlander Asset Management LP, a hedge fund seeded by Appaloosa Management LP's David Tepper, is one of the funds shorting the preferred shares, people familiar with the trade said. A spokesman for Warlander declined to comment.

Bonds continued their slide Wednesday. Asset sales might boost GE's stock in the short term but "we believe a downgrade happens anyway," said Mill Hill's Mr. Meneret.

Write to Matt Wirz at matthieu.wirz@wsj.com

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WSJ PRO CENTRAL BANKING

Economy
Global Economy Shows Strain as U.S. Steams Ahead; China, Japan and Germany show signs of stress, posing a risk to the U.S. should the trends persist

By William Boston in Berlin, Josh Zumbrun in Washington and Nina Adam in Frankfurt
1,207 words
14 November 2018
06:58 PM
WSJ Pro Central Banking
RSTPROCB
English

The global economy has hit a soft patch, putting the U.S.'s robust growth at risk should the slowdown persist.

Economic output in Japan and Germany contracted in the third quarter, while in October consumer spending in China hit its slowest pace in five months and bank lending fell, according to data released Wednesday about the world's biggest economies after the U.S.

"You've seen a bit of a slowdown—not a terrible slowdown," Federal Reserve Chairman Jerome Powell said Wednesday evening. "It is concerning."

One-time events played a role in some of these bumps, including a typhoon and earthquake that hit Japan and bottlenecks at German auto plants associated with new emissions standards.

But across the globe, economists and business executives warned about a common denominator that is hurting growth: trade battles among the U.S., China and others. Tariffs are hitting some businesses, and worries about the impact of worsening trade discord are also weighing on sentiment.

One company recently caught in the crosscurrent was German engineering firm Heidelberger Druckmaschinen AG. A ship bound for the U.S. carrying two large pressing machines it built at a Chinese plant was waylaid at a dock in Canada as the company haggled with its customer over how to divide the costs of new U.S. tariffs. The customer balked at a higher bill.

"Ultimately, we sold the machines to someone else," a Heidelberger Druck spokesman said.

The global scenario stands in contrast to a U.S. economy that expanded at an annualized rate of 3.5% in the third quarter.

Germany, Europe's anchor economy, reported its gross domestic product contracted at a 0.8% annualized rate in the third quarter, the first quarterly drop in 3½ years and the lowest rate since early 2013. The eurozone economy grew at an annualized rate of 0.7% in the third quarter, its weakest performance since early 2013.

"One month of no growth shouldn't unleash panic, but at the same time we see that growth rates are weakening and there are a lot of unknowns," said Ralph Wiechers, chief economist at the German Mechanical Engineering Industry Association.

Japan's economy contracted at an annualized pace of 1.2% in the third quarter after expanding at a 3% annual pace the previous quarter.

Tokyo-based trading company Marubeni Corp. said the trade war hit its U.S. grain unit, Gavilon, after U.S. soy prices fell on a tumble in soy shipments to China. Beijing put a 25% tariff on U.S. soy imports in July. Marubeni said net profit for its food-products segment for the six months through Sept. 30 fell 46% from the previous year.

President Trump's administration has imposed tariffs on $250 billion worth of goods imported from China. It has also placed tariffs in sectors including steel and solar panels. U.S. trading partners have retaliated.

While the U.S. economy has continued to outperform, there are signs the global slowdown is taking some toll on the U.S. as well, said David Joy, the chief market strategist for Ameriprise Financial Inc. He said the global growth slowdown has been one factor behind declines in U.S. stock markets and the plunge in **oil prices** that are likely to hurt U.S. oil producers.

"A deceleration in global activity will probably take a little wind out of our sails, but I don't think it will have a huge impact yet," said Mr. Joy.

Few economists predict a global recession, particularly given the strong momentum of the U.S. economy.

After climbing for most of the past two years, U.S. exports have trended down since May. But the U.S. economy is still being boosted by strong consumer spending, associated with low unemployment and individual income tax cuts enacted last year. Rising government spending, particularly on the military, has also boosted U.S. demand.

The U.S. is somewhat insulated from an international slowdown because its exports are only about 12% of gross domestic product, compared with a global average of about 29% and even higher in Germany, meaning the U.S. is less exposed than most countries when the global economy weakens.

On Tuesday, the Organization of the Petroleum Exporting Countriescut its forecast for global economic growth to 3.5% for 2019 from 3.6% previously, saying that "the slowdown in the global economic growth trend has become more accentuated lately." It pointed to trade tensions and tightening monetary conditions, notably U.S. interest rate increases. With global growth slowing, it sees demand for petroleum also slowing, which is weighing on **oil prices**.

A monthslong slowdown in China's economy, driven in part by a crackdown on risky financing and jitters over the trade dispute between Beijing and Washington, is hurting spending there. Retail sales rose 8.6% in October from a year earlier, slowing from a 9.2% one-year gain in September. While automobiles have been slowing in recent months, a broader range of consumer products—such as stationary and jewelry—also slowed sharply.

China's slowdown has been most felt in factories around the world. According to a global measure of manufacturing activity compiled by J.P. Morgan, output rose at the slowest pace in 28 months during October, while export orders fell for the second straight month.

In Germany, a rise in trade barriers threatens what has been a major source of strength for Europe's powerhouse economy. German companies are major exporters, having stretched their supply chains around the world and invested heavily in selling to Chinese consumers and companies.

German exports of goods fell 1.2% in September from that month a year earlier, led by a 2.2% decline in shipments to countries outside the EU, according to the German statistics body.

German industry is so uncertain about how U.S. trade policy could impact its business that when luxury car maker BMW AG revised its core profit figures down last week, the company warned that even that forecast may not hold to the end of the year.

"The trade conflict between the U.S. and China is a burden on the global economy," said Nicolas Peter, BMW's finance chief. "Should conditions deteriorate considerably we can't rule out that it would have an impact on our forecast."

For now, economists and corporate executives say a German recession doesn't appear imminent. But as core indicators begin to buckle, they warn fresh shocks could emerge and tip the German economy off kilter.

"The uncertainty is palpable," Mr. Wiechers said.

Paul Hannon and Megumi Fujikawa contributed to this article.

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THE WALL STREET JOURNAL.

Economy

Inflation Jumps, but Is Likely to Slow; The consumer-price index increased 0.3%, the largest monthly gain since January

By Sharon Nunn
691 words
14 November 2018
01:26 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON—Inflation flared in October primarily because of increasing gasoline prices, but the rise could prove fleeting if other recent trends continue.

The consumer-price index, which measures what Americans pay for everything from hamburgers to haircuts, increased 0.3% in October from the prior month, the Labor Department said Wednesday. This was the largest monthly gain since the beginning of the year, driven by a jump in the gasoline index and a rebound in prices for used cars and trucks that had dropped sharply in September.

From a year earlier, overall consumer prices climbed 2.5% in October, compared with 2.3% in the 12 months that ended in September.

Excluding the **volatile** categories of food and energy, the core CPI rose 0.2% last month, largely in line with recent trends, and 2.1% from a year earlier.

The new figures likely leave the Fed on track to continue gradually raising interest rates in coming months, including in December, to prevent the rapidly expanding economy from overheating.

"The Fed is still highly likely to raise rates next month and to continue doing so at quarterly intervals next year," said Eric Winograd, senior economist at AB. "There are no particular policy implications from today's [inflation] number, and I would not expect a strong market reaction."

Despite the October rise, inflation appears set to pull back in the months ahead, analysts said, citing a steep decline in crude **oil prices** this month and a continuing slowdown in price growth for health care and rents.

Oil prices have fallen sharply in recent weeks on concerns about slowing global economic growth. Two major **oil price** benchmarks, WTI and Brent, have slid roughly 25% since reaching four-year highs at the start of October. Unless reversed, this alone would likely cause U.S. inflation to decline in November.

Meanwhile, medical-care services price increases have been slowing for years. They rose 1.9% in October from a year earlier, down from 5.1% on a year-on-year basis in the middle of 2016.

Shelter costs, which include rent, have moderated in recent months as an apartment building boom oversaturated some markets, leading some property owners to adjust prices to fill rooms. Shelter costs rose 3.2% in October from a year earlier, down from a 3.6% increase at the end of 2016.

The strengthening dollar could also push down inflation by weighing on the prices of imports and competing goods, analysts said.

Such trends should comfort Fed officials, who are raising short-term rates to prevent strong U.S. economic growth from driving inflation too high or fueling dangerous asset bubbles.

In September, Fed policy makers' individual projections indicated they could lift rates anywhere from two to four times next year, and some have pointed to inflation as a key factor in their decision on how far to go.

They tend to focus on continuing inflation trends, discounting short-term fluctuations due to transitory factors.

The CPI is one of several measures they consider, including their preferred gauge, the personal-consumption expenditures price index. The CPI tends to run a little bit higher than the PCE index, reflecting different methods for calculating inflation. But both gauges tend to follow the same pattern over time.

The PCE rose just 0.1% in September, the latest month for which data are available, from August. That was the fourth straight month in which the measure fell short of the 0.165% monthly pace needed to meet the Fed's 2% annual target. The central bank seeks 2% inflation because it sees that as a level consistent with healthy demand.

A separate Labor Department report showed average weekly earnings for private-sector workers, adjusted for inflation, grew 0.1% in October from the prior month. From a year earlier, inflation-adjusted weekly earnings were up 0.9%. Other recent employment data has showed wages picking up as the labor market tightens.

Write to Sharon Nunn at sharon.nunn@wsj.com

Document WSJO000020181114eebe00461

THE WALL STREET JOURNAL.

Markets
Treasurys Rise as Stocks Lose Steam; The yield on the benchmark 10-year U.S. Treasury slips to 3.12%

By Akane Otani
307 words
14 November 2018
03:55 PM
The Wall Street Journal Online
WSJO
English

U.S. government**bond prices** rose Wednesday as stocks came under fresh selling pressure, driving up demand for the relative safety of sovereign debt.

The yield on the benchmark 10-year U.S. Treasury note settled at 3.120%, down from 3.145% Tuesday as it fell for the third consecutive session.

Yields, which rise as **bond prices** fall, advanced early in the trading day as **oil prices** rallied, coming out of their 12th straight loss Tuesday—crude's longest-such losing streak ever. Rising **oil prices** can help drive up investors' expectations for short-term inflation, which chips away at the purchasing power of bonds' fixed payouts.

Bond yields then nudged even higher after a fresh report on consumer prices showed the fastest rise since the beginning of this year. The Labor Department said the consumer-price index, which measures what Americans pay for everything from coffee to cars, rose 0.3% in October from the prior month.

"The latent concern in the market is that, given above-trend growth and low unemployment, we're going to start to see an upside spike in inflation," said Jon Hill, vice president of U.S. fixed-income strategy at BMO Capital Markets.

But as stocks lost some ground, bond yields reversed course—with the yield on the **10**-**year Treasury** note breaking below the flatline for the day. Analysts attributed some of the pickup in bond buying to growing nervousness around the U.K.'s Brexit plan, which had spurred selling in currency markets earlier Wednesday.

Volatility across **financial markets** can lift demand for assets like Treasurys, the Japanese yen and gold, which are typically considered havens.

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THE WALL STREET JOURNAL.

Markets
Startups Backed by Alibaba, Tencent Slash Planned IPOs

By Joanne Chiu
453 words
14 November 2018
12:40 AM
The Wall Street Journal Online
WSJO
English

Two Chinese internet companies have sharply scaled down their ambitions for Hong Kong share sales, after a global selloff in technology stocks.

What's Happening

Hong Kong is one of the world's busiest venues for initial public offerings. But many stocks that listed this year have performed poorly, and the wider market has also sold off. In tough conditions like this, seeking less money and a more modest valuation is one solution.

BabyTree Group, an operator of Chinese maternity and parenting portals, began taking orders Wednesday for an IPO worth up to 2.20 billion Hong Kong dollars (US$281 million). It had previously aimed to raise about $800 million, according to people familiar with the situation.

At the top of the price range, BabyTree would have a market capitalization of US$1.88 billion. It was valued at US$2.2 billion in May, when a unit of Alibaba Group Holding Ltd. bought a 9.9% stake.

Also launching a smaller-than-expected IPO this week is Tongcheng-Elong Holdings Ltd. The company, China's third-largest online travel agent, is backed by internet giant Tencent Holdings Ltd. and larger rival Ctrip.com International Ltd.

The company plans to raise up to HK$1.82 billion (US$232 million). In March, The Wall Street Journal, citing a person familiar with the matter, reported it could raise US$1 billion to US$1.5 billion. However, Ctrip's stock has tumbled 26% in three sessions after the **Nasdaq**-listed online travel agent gave unexpectedly weak results guidance.

In both cases, the deals could increase in size given the banks underwriting them are able to sell some more stock using a so-called overallotment option.

What It Means

Nicholas Yeo, head of China equities at Aberdeen Standard Investments, said the selloff in publicly traded tech stocks put pressure on newcomers to list at more reasonable prices. Tencent's and Alibaba's shares have fallen roughly 33% and 15% respectively this year.

Growing competition and limited track records also made it hard to value tech unicorns, or private companies worth more than $1 billion, he added. Prudent investors might prefer to see if companies can generate sufficient earnings to justify high valuations before investing, he said. "Sometimes it's better to wait," said Mr. Yeo.

Write to Joanne Chiu at joanne.chiu@wsj.com

ASIA MARKETS SNAPSHOT

* Australia's ASX 200 fell 1.7% as miners BHP and Rio dropped more than 2%

* Benchmarks in Hong Kong and Shanghai fell less than 1%; Tokyo's rose 0.2%

* Brent oil futures were up 0.1% at $65.52 after tumbling overnight

Document WSJO000020181114eebe00231

THE WALL STREET JOURNAL.

Markets
Berkshire Now Has a $4 Billion Stake in Largest U.S. Bank; Omaha conglomerate invested in JPMorgan Chase in latest quarter, adding to a list of other large holdings in American financial institutions

By Nicole Friedman
561 words
14 November 2018
06:39 PM
The Wall Street Journal Online
WSJO
English

Warren Buffett's Berkshire Hathaway Inc. is boosting its bet on the U.S. banking industry.

The Omaha, Neb., conglomerate took a $4 billion stake in JPMorgan Chase & Co. in the third quarter, giving it sizable stakes in three of the four largest American banks. JPMorgan is the largest U.S. bank by assets.

Berkshire holds roughly 9% stakes in Bank of America Corp. and Wells Fargo & Co., the second and fourth largest by assets, and is the top shareholder of both banks. The new investment in JPMorgan gives Berkshire about a 1% stake and doesn't place the company among JPMorgan's top five shareholders, according to Factset.

Berkshire also took a new stake during the quarter in Pittsburgh bank PNC Financial Services Group Inc. and increased its holdings of Goldman Sachs Group Inc., Bank of America, Bank of New York Mellon Corp. and U.S. Bancorp. Other banking investments include Wells Fargo and M&T Bank Corp.

Berkshire disclosed the new positions as of Sept. 30 in a securities filing Wednesday.

Berkshire has made several high-profile investments in banking and payment companies over the years. In the wake of the 2008 financial crisis, Berkshire provided much-needed capital to Bank of America and Goldman as both struggled to keep the confidence of investors.

Berkshire also owns stakes in American Express Co., Mastercard Inc. and Visa Inc. and recently invested about $600 million in two financial-technology companies.

Mr. Buffett has said he holds a small personal stake in JPMorgan, and he told Yahoo Finance earlier this year that Berkshire should have invested in the bank, calling it a "terrifically run operation." The new Berkshire investment in JPMorgan follows a number of existing ties between the two companies.

Berkshire portfolio manager Todd Combs is on the JPMorgan board, and JPMorgan Chief Executive James Dimon is a longtime friend of Mr. Buffett, Berkshire's chairman and CEO.In June, they wrote an op-ed piece together that urged companies to consider ending the practice of providing quarterly earnings guidance.

JPMorgan declined to comment.

Mr. Buffett and Mr. Dimon have also teamed up with Jeff Bezos, CEO of Amazon.com Inc., to form a health-care venture aimed at lowering costs for employees of the three companies.

JPMorgan is on track to report a record year: It notched a profit of $8.38 billion in the third quarter, with strength across its businesses. The bank's stock has tripled in the past 10 years, easily outpacing the KBW**Nasdaq** bank index.

Berkshire is sitting on more than $100 billion in cash, as Mr. Buffett has struggled to find large acquisitions. Berkshire owns operating businesses including a railroad and manufacturers and invests in public equities.

In a sign of the pressure for Mr. Buffett to spend more of his company's cash, Berkshire repurchased more than $900 million of its shares in the third quarter.

Berkshire also bought new stakes in Oracle Corp. and Travelers Cos. in the third quarter. It sold off its holdings of Walmart Inc. and Sanofi SA.

Emily Glazer contributed to this article.

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Document WSJO000020181114eebe00ac9

THE WALL STREET JOURNAL.

World

'White-Collar Recession' Ripples Through Dubai's Economy; Middle East's most cosmopolitan city is losing some of the high-paying jobs that powered its rise as a global financial hub from a desert outpost

By Nicolas Parasie and Michael Amon
1,064 words
14 November 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

DUBAI—This emirate is struggling with what economists are calling a white-collar recession, undermining the city's taste for luxury and testing an economic model other Middle East countries want to replicate.

Dubai posted its biggest loss in jobs this year since the global financial crisis a decade ago, especially among the high-paying positions that have helped turn a desert outpost into a city of gleaming skyscrapers and three million people in just a few decades. That downturn reflects stress in pillars of Dubai's economy—real estate, financial services, tourism and its massive port.

The shift threatens the viability of a city long seen as the Persian Gulf region's most accommodating for a global jet set of bankers, lawyers and entrepreneurs to live and do business.

Economists blame a host of factors for Dubai's setback. First, the city faces increasing competition from Riyadh, Saudi Arabia, which is gradually allowing more Western-style freedom, and Doha, Qatar, which has made fresh attempts to attract foreign investors since its neighbors imposed a blockade. And U.S. sanctions on Iran and heightened tensions between Saudi Arabia and neighbors including Iran and Qatar have put those key Dubai trade partners off limits.

"Dubai's business model is based on tolerance and political neutrality," said Jim Krane, a fellow at Rice University's Baker Institute who studies Middle East business and has written a book about Dubai. "Unfortunately, those two things are in short supply right now."

Dubai's government didn't respond to interview requests. But it has recently rolled out measures to bring back high-wage foreigners to Dubai, including easing visa rules, allowing people to retire here, loosening restrictions on foreign ownership of businesses and relaxing rules on drinking alcohol during the Muslim holy month of Ramadan.

Most of the city's new residents and workers are relatively low-wage construction workers from South Asia, drawn by a government-spending-driven construction boom ahead of Expo 2020, a scheduled six-month-long global exhibition of trade, innovation and products.

In the past year, the United Arab Emirates gained over 63,000 construction jobs as it lost over 20,000 jobs in white-collar categories like services and communications, according to the U.A.E Central Bank. Most of those white collar jobs were in Dubai.

Among those that laid off employees in the past 12 months in Dubai: state-owned Emirates Airline, troubled private-equity group Abraaj Group, Deutsche Bank AG, pay-TV company OSN, public relations firm Edelman and domestic banks. Other companies and government entities are replacing international employees with Emiratis as part of the so-called Emiratization program, which aims to boost employment among citizens.

"It's a white-collar recession," said Jean-Paul Pigat, head of research at Lighthouse Research, a U.A.E. economics firm specializing in the Middle East. "The overall economy is still expanding, but a lot of people in the more professional-service-oriented fields feel the economic environment has been weak."

Some business owners here say Dubai is suffering the ill effects of one of its signature products: Excess. Dubai has built high-end real estate, malls and restaurants far beyond demand.

"Everything here has to be the tallest, the blingest, the flashiest, but we can't always want the bling," said Naim Maadad, founding chief executive of Gates Hospitality, which owns and operates restaurants and hospitality venues in the U.A.E. and London. "This society is changing."

Few believe Dubai is headed for another crisis like the recession of 2009, when Abu Dhabi bailed it out with a $20 billion rescue package. Dubai's economy, after all, is projected to grow a relatively healthy 3.3% this year.

Saudi Arabia, the largest Gulf Arab economy, says it is still looking to Dubai as a model for its own post-oil future. The kingdom's crown prince, Mohammed bin Salman, praised Dubai's ruler, Sheikh Mohammed bin Rashid al Maktoum at a financial conference in October.

"He presented a model in Dubai and he convinced us all in the Middle East that we can offer not just Dubai but a lot more than that," the crown prince said.

But signs point to long-term problems for the non-oil economic model that created the Middle East's most cosmopolitan city. Dubai's **stock market** is the worst performer in the Middle East. A lifeblood industry, tourism, is slowing. A raft of high-end restaurants have closed.

Dubai's ports operator, DP World, said first-half volumes for its domestic operations were flat. More recently, it reported a drop in third-quarter volumes.

Dubai's film festival was canceled this year and will now become a biennial event. Its main cycle race has merged with its Abu Dhabi counterpart. Mobile subscriptions at Dubai's main telecommunications company Du are at the lowest point in three years.

In a city of iconic, ultraluxury properties, including the world's tallest building, the Burj Khalifa, real-estate prices have fallen over 15% since 2015, according to the Central Bank. In the first nine months of this year, property sales volumes were down by a fifth compared with last year.

"It will take years to recover," said Hussain Sajwani, founder and chairman of Damac Properties, the luxury property developer, of the real-estate market.

During Dubai's boom years, Mr. Krane said a real-estate executive told him the city was building so rapidly because there was demand and no need to wait.

"Dubai's elites seemed to know that the city's moment in the sun would be fleeting," Mr. Krane said, adding: "In hindsight, they were right."

Write to Nicolas Parasie at nicolas.parasie@wsj.com and Michael Amon at michael.amon@wsj.com

Related

* Once Billed as a Financial Haven in the Middle East, Dubai Turns Investors Wary (Aug. 2)

* Beers at Ramadan: Dubai Relaxes Rules as Gulf Countries Adapt to Draw Business (June 11)

* Dubai Aims to Be a City Built on Blockchain (April 24, 2017)

* How Dubai Went From Desert Village to Global Player (April 24, 2016)

Document WSJO000020181114eebe002ut

THE WALL STREET JOURNAL.

Heard on the Street
Markets
China, the U.S. and the Oil Blame Game

By Nathaniel Taplin
463 words
14 November 2018
05:32 AM
The Wall Street Journal Online
WSJO
English

Investors in the black stuff found themselves with a big black eye Tuesday. U.S. **oil prices** dropped by more than 7%, the worst one-day fall since 2015 following a **bearish** report from the Organization of the Petroleum Exporting Countries (OPEC) and more Twitter bluster on oil supply from President Trump.

The market's main focus has been on what the report had to say about oil supply, particularly figures that showed rising production in Russia and from other OPEC members more than offsetting cuts from sanction-hit Iran. More worrying is what the report didn't say. In particular, its estimates for demand growth next year from China, the world's second-biggest consumer, are starting to look a little too rosy.

Chinese oil consumption has held up well given the country's softening growth. Data for October released Wednesday hint at choppier waters ahead: investment in real estate, the main bright spot in the economy this year along with exports, was up just 7.7% from the same time last year, its slowest rate since December. Retail sales also weakened again, after a late summer bounce.

OPEC has penciled in slower growth in oil demand from both China and the U.S. next year. But it is still forecasting Chinese demand to rise by 340,000 barrels a day in 2019, not much below its estimate of a 390,000 gain this year. For the U.S. it predicts a much sharper slowdown in demand growth: a 240,000 barrels a day gain in 2019 against an estimated 410,000 rise this year.

China has managed to defy doom-mongers so far, and its economic data paint a mixed picture: industrial output accelerated in October, for instance. But oil demand growth there is already running well above its long-term average, leaving plenty of downside potential. Chinese apparent demand—refinery runs plus net oil-product imports—rose nearly 8% on the year in the third quarter. Over the five years to October, that growth rate was less than 3% a month on average.

For now, demand growth in both the U.S. and China still looks decent. But the U.S. economy is still roaring along, and consumer confidence is at its highest since 2000. In China, retail sales are growing at their slowest since the early 2000s, private businesses are struggling to get loans and tariff rates on Chinese goods entering the U.S. are about to jump sharply again.

If there is a big hit to oil demand globally next year, it looks likely to come from across the Pacific rather than the U.S.

Write to Nathaniel Taplin at nathaniel.taplin@wsj.com

Document WSJO000020181114eebe002xl

THE WALL STREET JOURNAL.

Markets
Apple Doesn't Fall Far From Bear-Market Tree; As bellwether enters bear market, it has plenty of company

By Spencer Jakab
168 words
14 November 2018
04:33 PM
The Wall Street Journal Online
WSJO
English

Perhaps financial news networks should have advised listeners to sit down before relaying the news that (gasp!) Apple Inc. has entered a **bear market**.

Defined as a drop of 20% or more from a prior peak, bear markets for the entire U.S. **stock market** are rare—just three in the past 30 years.

But there is almost always a **bear market** somewhere or in something. At the recent October low, for example, over 40% of stocks in the **S&P 500** were in their own **bear market**. Those included Ford Motor Co., Harley-Davidson Inc. and Caterpillar Inc.—blue chips just as blue as Apple, though with less spectacular returns in recent years. It also includes, as of Wednesday, half of the stock markets in the G-20 when measured in dollars.

As that other apple taught us, what goes up must come down.

Document WSJO000020181114eebe009st

THE WALL STREET JOURNAL.
U.S. EDITION

Portfolio Shows Why Japan Is Different

By Mike Bird
525 words
14 November 2018
The Wall Street Journal
J
B13
English

Japan's central bank now owns bonds and shares equivalent to a full year of national economic output -- underlining the growing gulf between policy makers in Tokyo and their main Western counterparts.

Bank of Japan figures released Tuesday showed the central bank holds 553.592 trillion yen ($4.861 trillion) in net assets, mostly government bonds. The country's gross domestic product for the 12 months to June came in at 552.821 trillion yen.

That milestone alone doesn't change anything about the Japanese economy. Still, it shows the mammoth role the central bank has assumed in both debt and equity markets.

It has undertaken aggressive monetary stimulus to break with Japan's decades of deflation. After Gov. Haruhiko Kuroda was appointed by Prime Minister Shinzo Abe in 2013, a 2% inflation target was introduced, which the central bank has failed to hit.

The central bank owns slightly less than half of the country's government bonds, the second-largest such market in the world. That has depressed turnover in the market and sent **volatility** to record lows.

In comparison, the Federal Reserve's postcrisis asset purchases, often referred to as quantitative easing, never reached 30% of U.S. GDP, and the American central bank has begun to shrink its balance sheet. The European Central Bank is preparing to do the same, even though Europe's economic recovery has been weaker.

Though it has a far smaller presence in the **equity market**, the Bank of Japan also has bought exchange-traded equity funds since 2010. That is yet more unconventional because it can give policy makers influence over issues such as corporate governance, which are typically left to private shareholders. The Federal Reserve, ECB and Bank of England all bought bonds but avoided stocks.

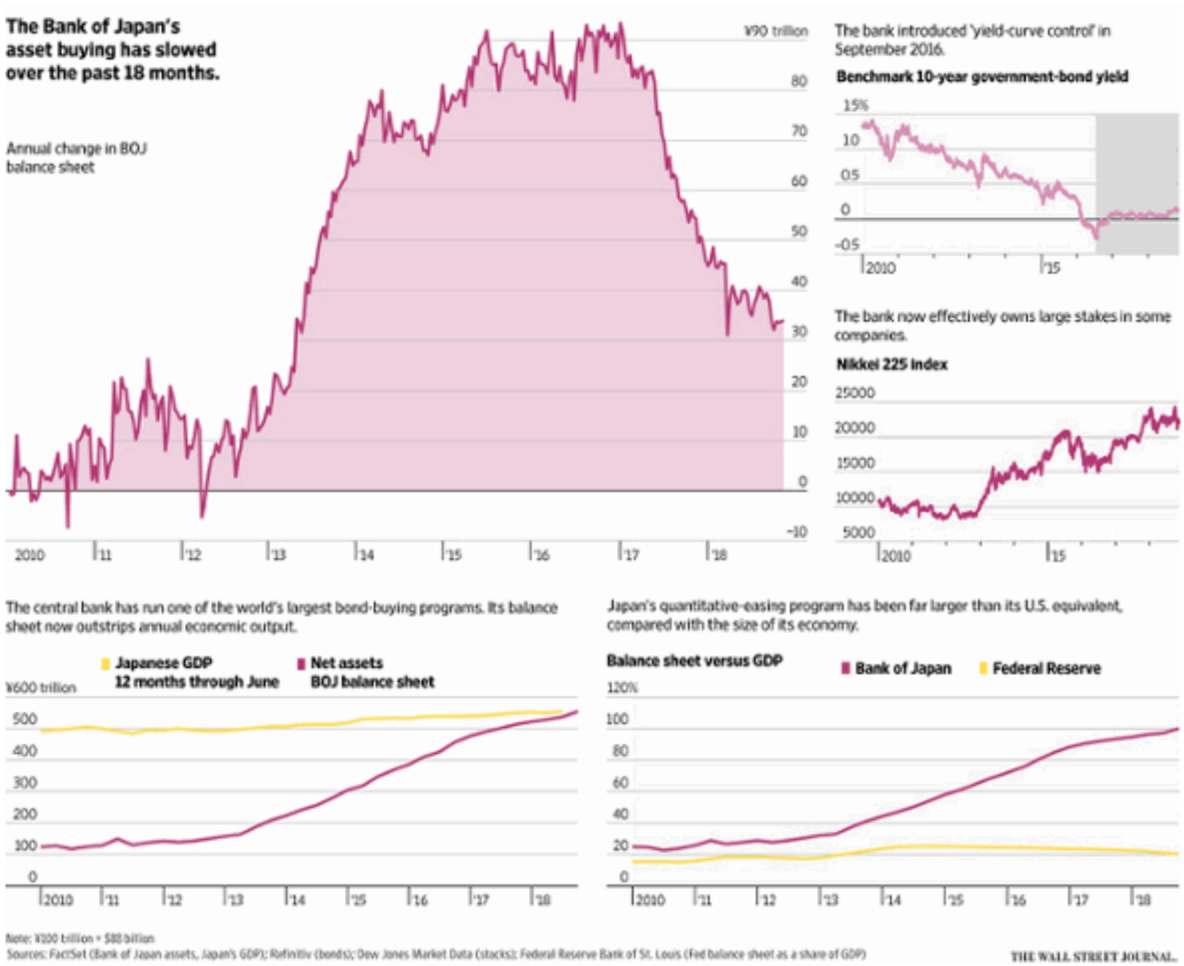
That means Japan's central bank effectively owns large stakes in some companies -- especially Nikkei 225 index heavyweights such as Fast Retailing Co., the owner of clothing retailer Uniqlo.

Though the Bank of Japan's assets are still growing, the pace of expansion has slowed considerably since it introduced "yield-curve control" in September 2016, a system under which it tightly controls the yield on benchmark 10-year bonds.

Between 2014 and 2016, the central bank's balance sheet grew between about 70 trillion yen and 90 trillion yen a year, in line with stated policy. In the 12 months to Nov. 9, net purchases ran to about 34 trillion yen, even though it is still formally committed to buying about 80 trillion yen of assets annually.

The program has critics, including the Bank of Japan's own bond-market group, a committee of brokers, banks and asset managers that monitors the health of the debt markets. Those participants have fretted about limited liquidity and argued that the market is detached from its economic fundamentals.

Not everyone disagrees with the policy. "It doesn't really matter how big the balance sheet is, if you're not generating core inflation you need to expand it," said Robert Horrocks, chief investment officer at Matthews Asia.



Document J000000020181114eebe00015

THE WALL STREET JOURNAL.
U.S. EDITION

Fast Pace of Capex Growth Slows

By Corrie Driebusch
391 words
14 November 2018
The Wall Street Journal
J
B12
English

The capex spending boom appears to be slowing.

After two consecutive quarters of record spending by companies in the **S&P 500** on equipment, factories and other capital goods, the pace of investment growth is stalling, according to an analysis by Credit Suisse.

Capital-expenditure spending in the third quarter is on track to reach $172 billion, Credit Suisse estimates, with results in from more than 90% of the companies in the index. That's up about 13% from the previous year when looking at the same 500 companies.

The increase, though, marks a slide from the around 20% growth posted in the first and second quarters of the year when spending climbed to nearly $166 billion and $178 billion, respectively.

The boost can be credited to both a strong U.S. economy and the U.S. tax-code overhaul, which has left some U.S. companies flush with cash.

"Frankly, the economy has been going gangbusters," said Patrick Palfrey, equity strategist at Credit Suisse. "Companies are investing to make sure they can meet the demand they're seeing on top-line sales."

Some of the biggest spenders this year have been consumer and tech giants like Amazon.com Inc., Facebook Inc. and Apple Inc., all of which have spent more than $9 billion, according to S&P Global data.

However, the energy sector is on pace to contribute the most to the spending increase in the third quarter. Energy companies spent 27% more on business investment than in the same period in 2017, according to Credit Suisse.

Exxon, for instance, spent $5.2 billion, up from $4.9 billion in the third quarter of last year.

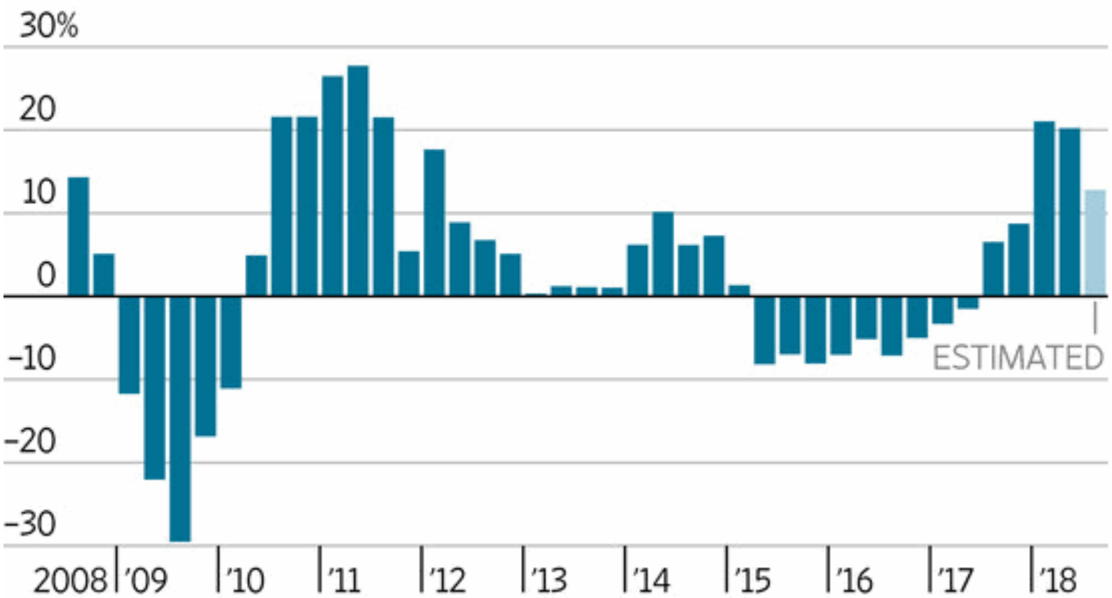
There are reasons to worry that capex spending may continue to slow in the final three months of the year. While analysts are quick to note spending can be slow to implement, uncertainty around tariffs and trade could stymie investment plans, they say.

Furthermore, lower **oil prices** may force energy companies to close their wallets. U.S. crude oil is in the midst of its longest losing streak on record, falling for 12 consecutive sessions amid signs of a coming oil glut.

"As the economy moderates, companies may not need to spend as much," said Mr. Palfrey.

Investment Boom

Change from previous year in capital expenditures among S&P 500 companies.



Note: Comparison assumes same companies were in index during year-ago period.
Source: Credit Suisse

THE WALL STREET JOURNAL.

Document J000000020181114eebe0000h

THE WALL STREET JOURNAL.

Markets

GE Selling Spreads to Bond Markets; Bonds due 2035 trade at 81 cents on the dollar as the cost of credit-default protection triples

By Matt Wirz
368 words
13 November 2018
05:56 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

IHS Markit provided data showing that the cost of credit default swaps on General Electric Co. bonds roughly tripled in October and November. An earlier version of this article incorrectly attributed the information to MarketAxess. (Nov. 16, 2018)

General Electric Co. bonds fell sharply Tuesday, even as the company said it would raise around $4 billion in cash by selling up to 20% of its stake in oil-field-services company Baker Hughes, a GE Co.

The price of GE's widely traded 4.4% bond due 2035 fell about 2.5% to 82 cents on the dollar, with more than $433 million face amount of the debt changing hands, according to data from MarketAxess. The company accounted for three of the four most actively traded corporate bonds in U.S. debt markets, the data showed.

The decline in GE debt contrasted with a rebound in the company's shares triggered by the announced sale of the Baker Hughes stake. The shares had fallen as much as 10% Monday, when bond markets were closed for Veterans Day, and **bond prices** are still catching up to the cumulative loss of over 30% in the stock since early October.

As the price of GE's bonds fall, their yields rise, pushing up the cost the company must pay when trying to borrow new funds. Bonds issued by the company's finance arm GE Capital that come due in January 2020 now yield about 4.6%, up from 3.3% in August.

The higher implied borrowing cost reflects bond investors' fears about GE's dwindling cash as its core energy business struggles and charges pile up from GE Capital's insurance liabilities. The annual cost of protecting against a default of $10 million GE debt through credit default swaps has roughly tripled in the past two months to about $199,000, according to data from IHS Markit.

GE does not plan to raise new debt until 2020 so the recent increase in its bond yields will not increase current interest expenses, a person familiar with the company said. The company plans to pay down debt through asset sales before returning to bond markets, the person said.

Sam Goldfarb contributed to this article.

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Document WSJO000020181113eebd005v5

THE WALL STREET JOURNAL.

Markets
Big Oil Is Now Thrifty—but That Comes at a Cost; Oil giants still aren't boosting spending significantly, which could threaten their output

By Sarah Kent and Bradley Olson
588 words
13 November 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

Oil prices may have weakened recently, but they're up strongly from lows just a few years back. Few executives, however, at the world's integrated oil giants have been talking about ramping up spending.

That raises a big question: Can companies keep a lid on spending and keep the crude flowing?

The oil business works like a treadmill. To maintain production levels, companies have to keep approving new projects and finding, or buying new, untapped deposits. In the industry, this is called replacing reserves. To guarantee output growth, firms have historically tried to at least replace every barrel they take out of the ground and sell.

As companies throttle back spending, though, that becomes harder to do. Last year was the first time since 2013 that the five biggest Western energy companies—Exxon Mobil Corp. Chevron Corp., Royal Dutch Shell PLC, BP PLC and Total SA—managed to do that as a group.

What happened? A sharp **oil price** decline in 2014 forced companies to cut back on costly exploration, push back big new projects, and sell off unwanted assets.

The trade-off: a decline in the industry's reserves of untapped oil. While new discoveries are only part of the mix in replacing reserves, the industry has long struggled to find enough new oil, as output increases.

Last year, the big five companies' average "proven reserves life" fell to its lowest level in a decade. What does this mean? Shell, for instance, can only keep up its current production for about another nine years, based on its current tally of reserves in the ground. In the past, investors watched reserve replacement closely as a measure of growth potential, and regulators maintain strict accounting rules about what constitutes proven reserves. Shell has emphasized that it expects growth to continue in the coming years, and that Securities and Exchange Commission rules governing what can be included in reserves don't necessarily fully reflect the opportunities available to the company.

But these days, investors have been less concerned about dwindling reserves, and much more focused on spending discipline. In some cases, investors have rewarded companies that are shrinking in terms of reserves. They have punished those seen as spending too much to sustain growth. Take Exxon, which has ramped up spending recently to bulk up, and ConocoPhillips, which has been selling off assets to focus on the most profitable projects, dramatically shrinking its reserves in the process.

Investors have made clear which they prefer. Exxon's shares are roughly unchanged in the past 12 months, including reinvested dividends, while ConocoPhillips's is up about 25%. Exxon has said it plans to focus on "value over volume" in the coming years.

That has forced big oil companies to re-evaluate their business models.

"Pre-**oil-price**-crash, finding reserves was considered…the most important strategic activity," said Andy Brogan, global oil-and-gas transactions leader at consultancy EY. "Postcrash, developing known reserves in an economic way is considered the most important strategic activity of an oil company."

The industry's new Holy Grail is low-cost production. That churns out the cash flow investors have come to covet. For now, protecting that is more important than double-digit reserves life.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Buy Baker Hughes on This Breakup; The beginning of Baker Hughes's split with GE is a buying opportunity as the oil-field-services company buys back shares cheaply and removes some of the overhang

By Spencer Jakab
466 words
13 November 2018
12:18 PM
The Wall Street Journal Online
WSJO
English

Getting rid of the ridiculous name won't be the only prize for owners of Baker Hughes, a GE Co.

Shareholders are getting out of their second bad relationship in a little over two years and probably feeling sorry for themselves, but they have done surprisingly well throughout the process.

The Baker Hughes ownership saga goes back to the autumn of 2014 at the start of oil's **bear market**. As bad as the downturn was for producers, it was even more devastating for oil-field-services firms that would soon go cash-flow negative as equipment world-wide was idled. That prompted an audacious and ill-considered $35 billion bid by larger rival Halliburton for Baker Hughes to create what would have been the industry leader. When those plans finally unraveled in the spring of 2016, Baker Hughes was left at the altar with a $3.5 billion cash consolation prize.

It didn't take long for General Electric to come knocking with an offer that at least promised much likelier regulatory approval: a merger of its own struggling oil-field-equipment business with the more service-oriented Baker Hughes that gave existing shareholders a payout of $17.50 a share in cash.

While it is too early to say definitively whether the tie-up made much sense, today it is GE's woes spurring a split. Chief Executive Larry Culp needs cash and needs it fast. Accelerating the planned disposal of GE's 62.5% stake in Baker Hughes is the fastest way to do it. GE will sell 92 million shares on the market through underwriters and Baker Hughes will repurchase another 65 million from GE, along with a corresponding number of units in the limited liability company that determines ownership.

The upshot is that GE will get around $3.7 billion in cash, some $1.5 billion of it from Baker Hughes, and will be left owning just over half of the company. For Baker Hughes shareholders, this is actually good news. GE's woes and the perceived overhang had been pressuring its shares. Since October, they had trailed a basket of oil-field-services firms by about 11 percentage points. That low price isn't permanent, but it does allow Baker Hughes to buy back stock at a discount of $160 million or so.

Baker Hughes has mostly good businesses and is entering a favorable part of the cycle on solid financial footing. Despite the huge sale, Baker Hughes shares rose on the news. This wealthy, relatively attractive divorcée is on the market again.

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THE WALL STREET JOURNAL.

Markets

U.S. Government Bonds Gain as Oil Falls; Yields, which decline when bond prices rise, have biggest two-day decline in three months

By Daniel Kruger
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13 November 2018
04:54 PM
The Wall Street Journal Online
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English

U.S. government**bond prices** rose Tuesday as **oil prices** continued to decline, increasing appetite for the relative safety of sovereign debt.

The yield on the benchmark **10**-**year Treasury** note fell to 3.145% from 3.189% Friday. After reaching a fresh seven-year high Thursday, the yield has had its biggest two-day decline in three months.

Yields, which decline when **bond prices** rise, fell Tuesday as U.S. **oil prices** declined for a 12th consecutive day, dropping by the largest dollar amount in more than three years to less than $56 a barrel. Oil has declined by almost 15% this month, and is 27% off its 2018 peak.

Oil's fall has led investors to scale back their near-term expectations for inflation. Stable consumer prices support the purchasing power of bonds' fixed interest payments and principal payments.

"It certainly means we're going to see headline inflation heading toward zero over the next couple of months," said Donald Ellenberger, head of multiasset strategies at Federated Investors Inc.

The broader economic effect of lower **oil prices** is difficult for investors to assess because the commodity has an important role that affects consumption, disposable income, employment and inflation, Mr. Ellenberger said.

Because the Federal Reserve uses less **volatile** measures of consumer prices to gauge the effect of inflation, it is unlikely that recent declines in oil will affect monetary policy in the near term. Policy makers are widely seen as planning to raise interest rates at their next meeting in December.

Yields started the day lower as U.S. investors returned from the Veterans Day holiday to confront a **stock market** that has struggled to rebound following a weak performance in October.

Warnings from suppliers about demand for Apple's iPhones, along with uncertainty about the prospects for General Electric, bolstered demand for bonds by increasing concerns about demand in the global economy. Goldman Sachs shares, meanwhile, suffered their worst loss since November 2011 on Monday, pushing some investors toward safer assets.

"Some of the bellwether stocks that people end up watching—Apple, Goldman and GE—certainly have put undue pressure on stocks," said Thomas di Galoma, a managing director and head of Treasury trading at Seaport Global Holdings. "Conversely, what you're getting is a flight to quality in bonds because of it."

Geopolitical concerns in Europe have also boosted demand for bonds, analysts said. Those concerns include the slow pace of Brexit talks between the U.K. and the European Union, along with the sparring between Italian officials and the EU over Italy's desire to run larger budget deficits than allowed by the group.

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THE WALL STREET JOURNAL.

Markets

U.S. Expected to Produce Half of Global Oil and Gas Growth by 2025; IEA says growth in American production will be primarily driven by fracking

By Christopher Alessi
628 words
12 November 2018
07:01 PM
The Wall Street Journal Online
WSJO
English

ABU DHABI—Relentless American shale development is set to allow the U.S. to leapfrog the world's other major oil and gas producers, with the potential for the country to account for roughly half of global crude and natural growth by 2025, the International Energy Agency said Tuesday.

In its annual World Energy Outlook report, the IEA said its main projection scenario through to 2040 foresees the U.S. accounting for nearly 75% and 40% of global oil and gas growth, respectively, over the next six years. Growth is expected to be driven primarily by shale fracking, which should lead U.S. shale oil supply to more than double, reaching 9.2 million barrels a day by the mid-2020s, the agency said.

"The shale revolution continues to shake up oil and gas supply, enabling the U.S. to pull away from the rest of the field as the world's largest oil and gas producer," said the Paris-based organization that advises governments and corporations on energy trends. "By 2025, nearly every fifth barrel of oil and every fourth cubic meter of gas in the world come from the United States."

The use of hydraulic fracturing to drill for oil in shale rock—known as fracking—has dramatically reshaped the global oil industry over the past decade, and it has allowed the U.S. to rival the Organization of the Petroleum Exporting Countries for market share. Shale was largely behind a glut of American oil that flooded the market over four years ago, leading **oil prices** to fall to $30 a barrel from more than a $100 a barrel in late 2014.

U.S. shale oil production is expected to plateau in the mid-2020s, the IEA said in its central outlook scenario, ultimately falling by 1.5 million barrels a day in the 2030s as a result of resource constraints. After 2025, the report noted, the "baton gradually passes to OPEC to meet continued—albeit slowing—growth in global oil demand."

The U.S. Energy Information Administration said earlier this month that U.S. crude production had climbed to 11.3 million barrels a day. That would put the U.S. on a par with Russia, which surpassed Saudi Arabia to become the world's largest producer of crude last year.

OPEC's own long-term forecast on the global oil landscape that was released in September said the cartel expects U.S. shale oil production to peak by the late 2020s, triggering renewed demand for the cartel's crude after an expected decline and stagnation.

The IEA said its central scenario foresees the world's appetite for oil to grow by around one million barrels a day on average to 2025, before slowing to around 250,000 barrels a day. But the agency said it doesn't expect global demand to peak before 2040. Demand growth through 2025 should be driven by China, and from the late 2020s to 2040 by India and the Middle East, the agency said.

At the same time, the IEA said oil use for car fuel should peak in the mid-2020s—due to stronger fuel efficiency standards and the rise of electric vehicles—with demand then driven by petrochemicals, and fuel for trucks, planes and ships.

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THE WALL STREET JOURNAL.
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U.S. News: Senators Urge Trump to Stop Criticizing the Fed

By Nick Timiraos
307 words
13 November 2018
The Wall Street Journal
J
A2
English

WASHINGTON -- Two senators called on President Trump to stop publicly criticizing the Federal Reserve and warned his comments could jeopardize the central bank's credibility and hurt the economy.

In a letter to Mr. Trump on Monday, Sens. Chris Coons (D., Del.) and Jeff Flake (R., Ariz.) also said Mr. Trump's disagreement with the central bank over interest-rate policies wouldn't be a sufficient reason to remove any Fed leaders, including Chairman Jerome Powell.

Mr. Trump escalated his criticism of the Fed's short-term rate increases in recent weeks. In an interview with The Wall Street Journal last month, he said the Fed was the biggest risk facing the U.S. economy. In earlier comments, he blamed the central bank for the early October **stock-market** selloff, calling the Fed "crazy" and "out of control."

While presidents have publicly and privately challenged the Fed for much of its 105-year history, presidents before Mr. Trump hadn't publicly criticized the central bank's policy decisions for 25 years.

"Your ill-advised commentary goes beyond holding the Fed accountable," said Sens. Coons and Flake in the letter. "You appear to be telling the Fed what to do with interest rates, which we believe is unconstructive and dangerous."

The senators warned against a precedent in which verbal attacks on the Fed could weaken the institution's standing among the public.

"We have confidence in Chairman Jerome Powell and believe, under his leadership, the Fed will not bow to political pressure of any kind," they wrote.

A White House representative didn't respond to a request to comment. A Fed spokeswoman declined to comment. Mr. Trump has said he isn't considering replacing Mr. Powell.

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The New York Times

Breakingviews
Business; DealBook
G.E.'s New C.E.O. Risks Repeating History

By Tom Buerkle
484 words
13 November 2018
08:29 AM
NYTimes.com Feed
NYTFEED
English

Larry Culp is only six weeks into his job as the head of General Electric, but he has already fallen into a familiar pattern.

The chief executive of the $70 billion conglomerate said on Monday that he was looking to accelerate asset sales to reduce the company's debt. But other problems, like G.E.'s troubled power business, still aren't close to being solved. Mr. Culp may have been trying to stop G.E.'s share price slide; instead he exacerbated it.

Mr. Culp's sudden appointment last month as the first outsider to lead the conglomerate in its 126-year history looked a lot like what G.E. needed. His record building up the conglomerate Danaher between 2000 and 2014 suggested that he could provide fresh thinking. G.E.'s woes go back decades, though, including determined expansion into financial services and former boss Jeff Immelt's $11 billion purchase of France's Alstom in 2015, just as demand for gas-fired electricity-generating turbines peaked. Unwinding those problems will take time.

Mr. Culp could use some early wins, but there might not be any.

Selling G.E.'s 62.5 percent stake in the oil-services company Baker Hughes sounds fairly straightforward. But the recent weakness in **oil prices** and disappointing third-quarter earnings have knocked a quarter off its market value since June, including a small decline after Mr. Culp's comments on Monday. G.E.'s health care business, which is also on the chopping block, continues to grow revenue at a single-digit percent rate, but arranging an initial public offering, which Mr. Culp hinted at Monday, could take the better part of a year.

All of which suggests that it will take time to whittle down the $46.3 billion of debt attached to G.E.'s industrial businesses. The company's operations consumed more cash than they generated in the first nine months of this year, and executives acknowledge that they are likely to miss net debt reduction targets set by Mr. Culp's immediate predecessor John Flannery.

Under its previous bosses, G.E. demolished its credibility with investors by repeatedly missing targets and failing to draw a clear line under its problems. Mr. Culp, who has already overseen a $22 billion write-down of G.E.'s accounting good will, should be wary of doing the same. After his remarks on Monday knocked over 6 percent off its shares, G.E. now has a slightly smaller market capitalization than Danaher — a company with revenue just one-sixth the size.

General Electric is pursuing asset sales with "urgency" in a bid to reduce the group's debt. | Aly Song/Reuters

Document NYTFEED020181113eebd002xl

THE WALL STREET JOURNAL.
U.S. EDITION

Finance & Markets: Foreign Buying of Chinese Bonds Slows As the Yuan Falls

By Shen Hong
472 words
13 November 2018
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J
B10
English

A weaker currency and a narrowing premium over U.S. interest rates have dented global investors' enthusiasm for China's roughly $12 trillion bond market.

Foreign holdings of yuan-denominated, domestically traded bonds in China rose by just 250 million yuan ($35.9 million), or 0.02%, to 1.44 trillion yuan in October, according to data provider Wind. The rate of growth has been decelerating since June, when it peaked at 8.9% month on month, the fastest in 21 months.

With U.S.-China trade tensions escalating, the yuan has fallen 8.8% against the dollar since mid-June. It is now close to the symbolically important level of 7 per dollar.

Meanwhile, a weakening economy has led Chinese **bond prices** to rally, pushing yields down, even as rising interest rates send U.S. bonds in the other direction.

That means Chinese sovereign debt now offers a much thinner premium over U.S. Treasurys. Yields on benchmark 10-year Chinese securities fell to 0.24 percentage point above Treasurys late last week, the narrowest gap in more than eight years.

Foreign institutions, such as central banks and pension funds, own just 1.7% of China's overall bond market, which is the world's third largest behind the U.S. and Japan.

Still, they have already become influential players in the narrower field for central government debt, where they own 8.1% of what is a roughly $2 trillion market.

In the medium term, the addition of Chinese debt to influential international indexes is likely to draw in significantly more money.

Foreign investors slowed their purchases of Chinese bonds mostly because of the yuan's fast depreciation, said Peter Ru, Shanghai-based chief investment officer of China fixed income at Neuberger Berman.

"Given the uncertainties over the trade war, nobody can be sure how much more the yuan may weaken," Mr. Ru said.

Investors prefer sitting on the sidelines as they await potential initiatives from Beijing, such as further monetary easing, said Jason Pang, Hong Kong-based China government bond portfolio manager at J.P. Morgan Asset Management.

However, Mr. Pang said he sees Chinese government bonds as a "trade war hedge." Their prices have rallied as Beijing has taken measures such as loosening lending conditions to offset the impact of worsening trade frictions, he said. "If you believe that the trade war will escalate, there's all the more reason that you should own some Chinese government bonds," Mr. Pang added.

In Asian markets on Monday, China's Shanghai Composite rose 1.2%, while Japan's Nikkei 225 edged up 0.1%. The Chinese yuan fell 0.22% to 6.9644 per dollar in offshore trading.

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The New York Times

Business/Financial Desk; SECTB
Trump's Tax Cut, 10 Months Later

By JIM TANKERSLEY and MATT PHILLIPS
1,689 words
13 November 2018
The New York Times
NYTF
Late Edition - Final
1
English

The $1.5 trillion tax overhaul that President Trump signed into law late last year has already given the American economy a jolt, at least temporarily. It has fattened the paychecks of most American workers, padded the profits of large corporations and sped economic growth.

Those results weren't a surprise. Economists across the ideological spectrum predicted the new law would fuel consumer spending, in classic fashion: When the government borrows money and dumps it into the economy, growth tends to accelerate. But Republicans did not sell the law as a sugar-high stimulus. They sold it as a refashioning of the incentives in the American economy -- one that would unleash more investment, better efficiency and higher wages, along with enough growth to offset any revenue lost to the government from lower tax rates.

Ten months after the law took effect, that promised ''supply-side'' bump is harder to find than the sugar-high stimulus. It's still early, but here's what the numbers tell us so far:

The Investment Bump

Proponents of the tax overhaul said it would supercharge the recent lackluster pace of business spending on long-term investments like buildings, factories, equipment and technology.

Such spending is crucial to keeping economic growth strong. And strong growth is central to Republican claims that the tax cuts would ultimately pay for themselves.

Capital spending did pick up steam earlier this year. For companies in the **S&P 500**, capital expenditures rose roughly 20 percent in the first half of 2018. Much of that was concentrated: The spending of just five companies -- Google's parent, Alphabet, and Facebook, Intel, Exxon Mobil and Goldman Sachs -- accounted for roughly a third of the entire rise. Much of that spending went toward technology, including increased investment in data centers and computing, server and networking capacity.

For the full year, Goldman Sachs analysts expect that capital expenditures for companies in the **S&P 500** will be up about 14 percent, to $715 billion. Research and development spending, another component of business investment, was expected to be up 12 percent, to $340 billion.

For the economy as a whole, the surge in business investment was a bit less impressive. It's true that business spending on fixed investment -- such as machinery, buildings and equipment -- rose, jumping 11.5 percent and 8.7 percent during the first and second quarters. The first-quarter jump was the fastest for investment since 2011.

But that pace fizzled during the third quarter. Recently data showed third-quarter business investment rose at an annual pace of 0.8 percent. The last quarter of the year -- traditionally a big one for capital spending -- will fill out the picture, but that data won't be released until early 2019.

It will likely take years to get a better sense of whether the law fundamentally reshaped American corporate investment. But there's little clear evidence that it is drastically reshaping the way in which most companies invest and spend.

The results of a survey published in late October by the National Association for Business Economics showed that 81 percent of the 116 companies surveyed said they had not changed plans for investment or hiring because of the tax bill.

The Buyback Binge

Cheerleaders for the tax cut argued that the heart of the law -- cutting and restructuring taxes for corporations -- would give the economy a positive bump, giving companies incentives to invest more, hire more workers and pay higher wages.

Skeptics said that the money companies saved through tax cuts would merely increase corporate profits, rather than trickling down to workers.

JPMorgan Chase analysts estimate that in the first half of 2018, about $270 billion in corporate profits previously held overseas were repatriated to the United States and spent as a result of changes to the tax code. Some 46 percent of that, JPMorgan Chase analysts said, was spent on $124 billion in stock buybacks.

The flow of repatriated corporate cash is just one tributary in what has become a flood of payouts to shareholders, both as buybacks and dividends. Such payouts are expected to hit almost $1.3 trillion this year, up 28 percent from 2017, according to estimates from Goldman Sachs analysts.

Debts and Deficits

Supporters of the tax cuts repeatedly claimed the bill would increase economic growth enough to offset the decline in tax receipts. ''I'm totally convinced this is a revenue-neutral bill,'' said Senator Mitch McConnell of Kentucky, the Republican leader, when a preliminary version of the bill was approved in the Senate in December 2017.

Despite a remarkably strong economy, the fiscal health of the United States is deteriorating fast, as revenues have declined sharply. The federal budget deficit -- the gap between what the government collects in revenues and what it spends -- rose to $779 billion in the 2018 fiscal year, which ended Sept. 30. That was a 17 percent increase from the prior year.

It's highly unusual for deficits and borrowing needs to grow this much during periods of prosperity. A broad variety of analysts attribute the widening deficit to the tax cuts (along with increased military and other domestic spending ushered in through a bill Mr. Trump signed earlier this year).

Corporate tax revenues are down one-third from a year ago. Federal revenues as a whole ran $200 billion behind the Congressional Budget Office's forecast for the 2018 fiscal year -- even though economic growth was faster than the C.B.O. expected. The nonpartisan Committee for a Responsible Federal Budget reports that nominal federal revenues are down by at least 3.6 percent since the tax cuts took effect.

The growing budget gap means the Treasury must borrow more to keep the government running. The Treasury expects to borrow a total of $1.338 trillion from global investors this calendar year. That would be 145 percent higher than the $546 billion the federal government borrowed last year. That would be the highest level of borrowing since 2010, when the American economy was struggling to recover from the great recession.

Bonus Announcements

Shortly after the tax law passed, hundreds of companies -- from large multinationals to small manufacturers -- announced that they would be using some of their windfall from the law to give one-time bonuses to employees. Others said they would raise minimum wages across the company, or expand worker benefits.

Mr. Trump and Republicans hailed those announcements as evidence that the law's benefits were flowing substantially to workers. Americans for Tax Reform compiled a list of 750 companies, and growing, that said they would pass tax savings on to workers in some form.

Data from large public companies, however, suggest that most workers received relatively small shares of their employers' corporate tax savings.

The nonprofit research group Just Capital, which is tracking 1,000 large public companies' reports of how they are spending their tax cuts, calculates that the typical worker at one of those large companies has received about $225 this year in increased salary, a one-time bonus, or both, attributable to the new law.

Workers for those companies were more likely to see their wages rise if they lived in states where the minimum wage was relatively low -- and where companies do not have to pay workers more to compensate for high housing costs. California workers at those companies saw an average benefit of about $160 each, which is less than half the average benefit for workers in Kentucky.

Many companies also said they would use tax savings to create jobs. But the Just Capital research finds that, since the tax cuts were passed, the 1,000 largest public companies have actually reduced employment, on balance. They have announced the elimination of nearly 140,000 jobs -- which is almost double the 73,000 jobs they say they have created in that time. About half of those net losses came from companies in the restaurant and leisure industries, the analysis found.

The Wage Story

Nearly a year after the cuts were signed into law, wage growth has yet to pick up when accounting for inflation. In September, the Labor Department reported that inflation-adjusted wages had risen 0.5 percent from the year before. That's a slower rate of growth than the economy itself experienced in September 2017, when it was 0.6 percent.

Growth has accelerated in nominal terms. Median wage growth was 3.5 percent in September, according to calculations by the Federal Reserve Bank of Atlanta, up from 3 percent in January, but still below its recent highs in 2016. Growth in the Employment Cost Index rose from 2.9 percent at the end of 2017 to 3 percent in the third quarter.

By Republicans' own economic theories, it should take a while for corporate tax cuts to translate into higher worker pay. First, the cuts need to stimulate increased capital investments, which in turn raise worker productivity. More productive workers would then see their wages rise accordingly.

Productivity grew 3 percent in the second quarter of this year and 2.2 percent in the third -- healthy numbers, which will need to continue apace to deliver the sort of long-term economic jolt Republicans promised.

THE JOLT: When President Trump signed the $1.5 trillion tax reform bill last December, economists predicted it would fuel consumer spending. (PHOTOGRAPH BY DOUG MILLS/THE NEW YORK TIMES); CAPITAL SPENDING: Companies like Google's parent invested more in areas like data centers and server and networking capacity. (PHOTOGRAPH BY DREW ANGERER/GETTY IMAGES); UP AND DOWN: Spending on fixed equipment jumped 11.5 percent and 8.7 percent in the first and second quarters and then fizzled. (PHOTOGRAPH BY EDUARDO MUNOZ/REUTERS); WAGE DOLDRUMS: After an initial rush of bonuses, growth in pay is not keeping up with inflation. (PHOTOGRAPH BY STEPHEN M. DOWELL/ORLANDO SENTINEL, VIA ASSOCIATED PRESS) (B6) MAPS (Source: JUST Capital) (B1); CHART: In Search of an Investment Boom: U.S. quarterly business fixed investment (annualized rate) (Source: U.S. Bureau of Economic Analysis) (B6)

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THE WALL STREET JOURNAL.
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Charitable Donations Rise on Tax Shift

By Veronica Dagher
430 words
13 November 2018
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B11
English

Tax changes and **stock-market** gains have spurred investors to pour money into charitable accounts that let holders receive deductions for donations immediately while spreading payments over the next several years.

Contributions to so-called donor-advised funds rose 16.5% in 2017 to $29.23 billion, according to an annual report released Monday by National Philanthropic Trust, a sponsor of the funds that manages $6.7 billion in charitable assets for individuals and corporations.

Total charitable assets in the accounts jumped 27.3% to $110.01 billion at year-end, as the tax overhaul prompted many to accelerate their philanthropy in 2017 when the value of their tax deduction would be higher, the donor-advised fund sponsor said. A rising **stock market** also helped fuel the growth, as the **S&P 500** gained 19% in 2017.

Grants from the funds to qualified charities totaled $19.08 billion, up 19.9% from the year before.

The 2017 tax law nearly doubled the threshold for itemizing deductions to $24,000 for married couples filing jointly and $12,000 for singles, making it harder for many individuals who currently itemize to do so this year.

As a result, some accelerated several years of charitable contributions into their donor-advised funds at the end of 2017, said Eileen Heisman, chief executive of National Philanthropic Trust.

The varieties of noncash contributions to donor-advised funds also increased in 2017, Ms. Heisman said. While the majority of noncash assets are publicly traded securities, more givers also donated assets such as real estate and art.

Financial adviser Megan Gorman has seen this trend among her high-net-worth clients. The managing partner at San Francisco-based Chequers Financial Management said clients donated oil and gas interests, shares of their privately held companies and cryptocurrencies last year.

"I've been surprised at how popular bitcoin donations are getting," Ms. Gorman says.

Ms. Heisman says it is unclear how the tax overhaul will affect donor-advised fund contributions in the long term. Continued strength in the **stock market** is likely to fuel growth, she says, even if the tax changes reduce the benefits of giving to a donor-advised fund and philanthropy in general.

Ms. Heisman also expects more donors to allocate their donor-advised fund assets into impact investments, or companies that seek to invest for both competitive returns and social good. "Donors are looking to do more good while their money is waiting to be granted out," she says.

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WSJ PRO PRIVATE EQUITY

WSJ Pro

Crypto Investor Pantera Alters a Fund Amid Downturn; After making its name with early wins, the firm shifts algorithmic fund to a more hands-on investor approach

By Tomio Geron
892 words
12 November 2018
12:14 AM
WSJ Pro Private Equity
RSTPROPE
English

Pantera Capital made a name for itself as one of the earliest cryptocurrency investment firms.

It racked up wins from investments in bitcoin and later parlayed them into a crypto portfolio with hot startups.

But Pantera's algorithmic Digital Asset Fund, one its newest funds, recently shifted its approach to rely on a more hands-on selection from its team after poor performance this year amid a collapse in the crypto market. Despite Pantera's early gains in its venture and bitcoin funds, the change presents a challenge for the firm, coming as Pantera works on raising multiple new crypto and venture funds.

Menlo Park, Calif.-based Pantera's shift highlights some of the challenges that crypto funds are facing as they seek to keep up in a volatile market with many new competitors.

The firm's Digital Asset Fund, which launched a year ago and manages $38 million in assets, was down 76.9% year-to-date as of Oct. 31, according to a Pantera investor letter. That is worse than the performance of popular cryptocurrencies such as bitcoin or Ethereum, which have dropped 52.6% and 74.1% respectively.

Paul Veradittakit, a partner at Pantera, said the decision to reduce its reliance on algorithms for the Digital Asset Fund wasn't based on performance but was meant to capitalize on the firm's strengths.

"We thought we have a competitive edge and knowledge of the ecosystem and history, therefore we should add that and make it part of our strategy," Mr. Veradittakit said.

Pantera funds performance	(as of Oct. 31)	
	Year to date	Life of fund
Digital Asset Fund	-76.90%	-43.20%
ICO Fund	-74.80%	12.80%
Long Term ICO Fund	-4.50%	1.30%
Bitcoin Fund	-58.70%	90x capital
Bitcoin (by comparison)	-52.60%	
Ethereum	-74.10%	
VC fund I	N/A	7.7 times capital
VC fund II	N/A	3.2 times capital

Sources: WSJ Pro reporting, Pantera Capital investor documents

The Digital Asset Fund, which was managing $38 million in assets as of July 31, has invested in publicly traded tokens such as Dash, OmiseGo, bitcoin, Ethereum and XRP, according to an investor letter. Since inception the fund is down 43% as of Oct 31.

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Pantera has five active funds that are raising capital: a third venture fund, two different pre-ICO funds, a bitcoin fund and a Digital Asset Fund, according to a pitch deck reviewed by WSJ Pro.

The firm's ICO fund is also down more than bitcoin or Ethereum this year, off 74.8% year-to-date, according to an investor letter. One investor in the fund is withdrawing their capital from the fund, citing the poor performance compared with bitcoin, this person said, saying they couldn't justify the fees Pantera charged.

For its third venture fund, Pantera is targeting $175 million, a significant jump for a firm that raised $26 million and $12 million for its first two funds. The firm boasts large gains in its first and second venture funds of 7.7x and 3.2x respectively, according to marketing proposals reviewed by WSJ Pro. It also lists paper gains of 83x on Ripple Labs and 8.4x on Bitstamp and a 10.9x return on the acquisition of Korbit.

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—Yuliya Chernova contributed to this article.

Correction: The chart in an earlier version of this article incorrectly cited Pantera Capital's Bitcoin Fund as returning 180 times the fund's capital. Its return actually is 90 times the fund's capital, as correctly cited elsewhere in the article. (Nov. 12, 2018)

Write to Tomio Geron at tomio.geron@wsj.com

Document RSTPROPE20181204eebc001b9

WSJ PRO VENTURE CAPITAL

WSJ Pro
Crypto Investor Pantera Alters a Fund Amid Downturn; After making its name with early wins, the firm shifts algorithmic fund to a more hands-on investor approach

By Tomio Geron
892 words
12 November 2018
12:14 AM
WSJ Pro Venture Capital
RSTPROVC
English

Pantera Capital made a name for itself as one of the earliest cryptocurrency investment firms.

It racked up wins from investments in bitcoin and later parlayed them into a crypto portfolio with hot startups.

But Pantera's algorithmic Digital Asset Fund, one its newest funds, recently shifted its approach to rely on a more hands-on selection from its team after poor performance this year amid a collapse in the crypto market. Despite Pantera's early gains in its venture and bitcoin funds, the change presents a challenge for the firm, coming as Pantera works on raising multiple new crypto and venture funds.

Menlo Park, Calif.-based Pantera's shift highlights some of the challenges that crypto funds are facing as they seek to keep up in a volatile market with many new competitors.

The firm's Digital Asset Fund, which launched a year ago and manages $38 million in assets, was down 76.9% year-to-date as of Oct. 31, according to a Pantera investor letter. That is worse than the performance of popular cryptocurrencies such as bitcoin or Ethereum, which have dropped 52.6% and 74.1% respectively.

Paul Veradittakit, a partner at Pantera, said the decision to reduce its reliance on algorithms for the Digital Asset Fund wasn't based on performance but was meant to capitalize on the firm's strengths.

"We thought we have a competitive edge and knowledge of the ecosystem and history, therefore we should add that and make it part of our strategy," Mr. Veradittakit said.

Pantera funds performance	(as of Oct. 31)	
	Year to date	Life of fund
Digital Asset Fund	-76.90%	-43.20%
ICO Fund	-74.80%	12.80%
Long Term ICO Fund	-4.50%	1.30%
Bitcoin Fund	-58.70%	90x capital
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Write to Tomio Geron at tomio.geron@wsj.com

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THE WALL STREET JOURNAL.

Pro VC Commentary Analysis
WSJ Pro
Crypto Investor Pantera Alters a Fund Amid Downturn; After making its name with early wins, the firm shifts algorithmic fund to a more hands-on investor approach

By Tomio Geron
892 words
12 November 2018
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English

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THE WALL STREET JOURNAL.

Markets

OPEC Defends Itself After Saudi Study Questions Its Future; State-funded research looks at possible world without the oil cartel

By Benoit Faucon and Christopher Alessi
553 words
12 November 2018
05:26 PM
The Wall Street Journal Online
WSJO
English

ABU DHABI—Two of OPEC's most powerful voices defended the oil cartel's record Monday, saying it wasn't at risk of disbanding. The statements came in response to revelations late last week that a Saudi-funded research effort is exploring how a possible OPEC breakup might impact oil markets.

The research effort, first reported by The Wall Street Journal, follows a number of recent accusations by President Trump that the 15-nation Organization of the Petroleum Exporting Countries is driving **oil prices** higher.

On Monday, a day after OPEC delegates debated whether to cut back on output to head off a projected oil oversupply in 2019, Mr. Trump tweeted: "Hopefully, Saudi Arabia and OPEC will not be cutting oil production. **Oil prices** should be much lower based on supply!"

At an energy-industry conference that began on Monday, Suhail al-Mazroui, the Emirati energy minister who also holds OPEC's rotating presidency, said that without OPEC "there will be chaos." "Some people think things will be better if OPEC doesn't exist. Things will be way worse," he said, because oil markets would be unstable.

Mr. Mazroui cited two recent examples that he said illustrate the cartel's usefulness: the group's move to reduce oil production in 2016, which he said reignited investment by boosting **oil prices**; and OPEC's crude output increase this summer in anticipation of returning U.S. sanctions on Iran, which Mr. Mazroui said helped ensure the stability of global supply.

The Emirati minister also said the organization has forged an important alliance with Russia, the world's top oil producer, and is enlisting new members. The cartel has added three new members in the last two years—Gabon, Equatorial Guinea and the Republic of Congo—an effort led by Nigerian Mohammed Barkindo, OPEC's new secretary-general.

The study coincides with rising international pressure on the Saudi government after Turkey reported the brutal killing of U.S.-based Saudi journalist Jamal Khashoggi at the Saudi consulate in Istanbul in October.

Saudi officials have sought to reassure their oil-market allies that the Kingdom isn't considering an immediate break with the organization it has effectively led for nearly 60 years.

"Within policy circles, there is no consideration whatsoever to eliminate OPEC," said Saudi energy minister Khalid Falih, speaking at an energy conference in the United Arab Emirates capital on Monday.

The King Abdullah Petroleum Studies and Research Center, Saudi Arabia's top government-funded think tank, is also studying how an OPEC breakup would effect the Saudi economy. This was a remarkable research effort for a country that has dominated the oil cartel for nearly 60 years.

Reports of the research prompted Persian Gulf countries to ask Mr. Falih about it at a summit of oil-producing nations that took place here Sunday, according to delegates from these countries. The Saudi oil minister told them he had not been aware of the KAPSARC effort and that it was just an academic study, they said.

Summer Said contributed to this article.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

Dow Falls 600 Points as Tech Rout Hits Stocks; Decline erases a rally in energy shares, which had bounced higher with oil prices; Dow industrials fall 600 points

By Akane Otani
873 words
12 November 2018
04:49 PM
The Wall Street Journal Online
WSJO
English

The Dow Jones Industrial Average tumbled more than 600 points Monday as anxiety over the health of technology behemoths sparked a broad retreat from the stock market.

Monday's selling began in the technology sector, then morphed into a rout that dragged lower everything from oil conglomerates to manufacturers to entertainment firms. It was the latest setback for the stock market, which has struggled to break out to new highs since the S&P 500 capped off its worst month in more than seven years.

Apple's 5% decline sparked the selloff in the tech sector after one of its suppliers cut its outlook—triggering fresh worries about demand for the company's iPhone line. Goldman Sachs, meanwhile, took more than 100 points off the Dow industrials as concerns grew over the bank's interaction with a financier charged with stealing billions of dollars from the 1Malaysia Development Bhd. investment fund.

And General Electric suffered its fourth consecutive decline after comments from the firm's chief executive failed to assuage investors' worries about the future of the industrial conglomerate.

To some, the pullback reinforced beliefs that stocks aren't yet past the hurdles they tripped over in October. Many of the worries that cropped up that month remain in play: questions about global growth, eurozone tensions and nervousness around chip makers and consumer-device companies that had driven much of the bull market's gains earlier in the year.

Adding to the sense of unease, the volatility gripping the stock market spilled over into other assets, sending U.S. crude to its longest losing streak on record and the dollar soaring as investors sought safety.

The Dow industrials fell 602.12 points, or 2.3%, to 25387.18. The S&P 500 lost 2% and the Nasdaq Composite dropped 2.8%.

"Ever since we got into October, people have tried to claim all these reasons for the market's weakness," said Robert Pavlik, senior portfolio manager and chief investment strategist at SlateStone Wealth. The ups and downs across financial markets throughout the fall reflects in part the recognition that, as the bull market stretches on, "it's going to get harder and harder to see the type of gains we saw in previous years."

Technology stocks, which had led stocks to records earlier this year, were among the biggest decliners in the S&P 500 on Monday.

The fall of companies like Apple has often preceded broader pullbacks this year as investors have questioned what sectors can ride higher as the global economy shows more signs of slowing.

"People tend to ask what's Amazon doing today? What's Apple doing today?" Mr. Pavlik said.

As stocks slumped, investors sought the shelter of dividend-paying sectors that tend to perform well during periods of heightened volatility. The real-estate sector rose 0.2%, the only group in the S&P 500 to post gains for the day.

The drops across the **stock market** erased a brief rally in energy shares, which had bounced higher with **oil prices** earlier after Saudi Arabia said it would slash exports and the Organization of the Petroleum Exporting Countries considered a collective production cut.

U.S. crude oil for December delivery fell 0.4% to $59.93 a barrel, wiping out its gains for the day and notching its 11th consecutive daily decline—its longest such streak on record, according to Dow Jones Market Data analysis going back to 1983. Signs of a coming oil glut and falling crude prices have pushed suppliers nearer to a pact to reduce output.

"The size of any production cuts will likely depend on how much oil demand growth will slow down into 2019, how much Iranian supply falls due to U.S. sanctions and how strongly U.S. supply increases over the coming months," said Giovanni Staunovo, a commodities analyst at UBS Wealth Management, noting that OPEC only makes decisions at certain meetings, the next of which is scheduled for the beginning of December.

Elsewhere, the Stoxx Europe 600 fell 1%, while the U.K.'s FTSE 100 lost 0.7%.

The euro and pound both fell against the dollar, dragged by heightened uncertainty in the U.K.'s negotiations over Brexit. Party infighting among U.K. Prime Minister Theresa May's Conservatives and unsolved questions on Northern Ireland were among the factors weighing down sterling on Monday, analysts said.

In Asia, Japan's Nikkei Stock Average closed 0.1% higher, while Hong Kong's Hang Seng gained 0.1%.

Fears about slowing growth in China and trade tensions weighing on consumption were assuaged by Alibaba Group Holding's Singles Day on Sunday, when Chinese consumers bought $30.8 billion worth of goods in 24 hours, surpassing last year's $25.3 billion.

-- Donato Paolo Mancini contributed to this article.

Write to Akane Otani at akane.otani@wsj.com

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THE WALL STREET JOURNAL.

Politics

Two Senators Urge Trump to Stop Criticizing Fed; Sens. Coons and Flake say they have confidence in central bank's chairman

By Nick Timiraos
901 words
12 November 2018
05:00 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON—Two U.S. senators called on President Trump Monday to stop publicly criticizing the Federal Reserve and warned his comments could jeopardize the central bank's credibility and hurt the economy.

In a letter to Mr. Trump, Sens. Chris Coons (D., Del.) and Jeff Flake (R., Ariz.) also said Mr. Trump's disagreement with the central bank over interest-rate policies wouldn't be a sufficient reason to remove any Fed leaders, including Chairman Jerome Powell.

Mr. Trump escalated his criticism of the Fed's short-term rate increases in recent weeks. In an interview with The Wall Street Journal last month, he said the Fed was the biggest risk facing the U.S. economy. In earlier comments, he blamed the central bank for the early October **stock-market** selloff, calling the Fed "crazy" and "out of control."

While presidents have publicly and privately challenged the Fed for much of its 105-year history, presidents before Mr. Trump hadn't publicly criticized the central bank's policy decisions for 25 years. A growing body of economic literature suggests that politicizing a central bank's monetary-policy decisions makes investors less confident that inflation would remain low and stable, causing interest rates set by markets to rise.

"Your ill-advised commentary goes beyond holding the Fed accountable," said Sens. Coons and Flake in the letter to Mr. Trump. "You appear to be telling the Fed what to do with interest rates, which we believe is unconstructive and dangerous."

The senators warned against a precedent in which continued verbal attacks on the Fed could weaken the institution's standing among the public.

"We have confidence in Chairman Jerome Powell and believe, under his leadership, the Fed will not bow to political pressure of any kind," they wrote.

A White House representative didn't immediately respond to a request for comment. A Fed spokeswoman declined to comment.

Three of the four members of the Fed's Washington-based board of governors were named to their current positions by Mr. Trump, including Mr. Powell. Three other board seats are vacant.

Fed officials have played down any presidential criticism and have said they are gradually raising interest rates to prevent the economy from experiencing a sudden burst of inflation or a buildup of financial bubbles. The Fed's rate-setting committee unanimously voted to raise its benchmark short-term rate in September to a range between 2% and 2.25%, and it voted last week to keep the rate in that range.

Mr. Flake, a frequent critic of Mr. Trump, will retire at the end of his term in January.

Mr. Coons said in an interview he was inspired to write the letter after meeting with Mr. Powell last month. He said the chairman hadn't suggested or requested the letter and, in fact, appeared uninterested in any conversation about Mr. Trump's comments.

After discussing with Mr. Flake the positive impression Mr. Powell had made, they agreed a letter would be one way "to make clear that we are watching," said Mr. Coons. Mr. Trump's sustained public criticism of the Fed "is one more norm that shouldn't be allowed to pass without comment."

Mr. Coons said Mr. Trump was well within his rights to express any number of views about monetary policy and why higher rates might be not be needed. "That's not what we're seeing," said Mr. Coons. "This is not an expression of any opinion as much as it is personally and directly pressuring the Fed."

The letter illustrates one way in which Mr. Powell's efforts to build relationships on Capitol Hill could help bolster support for the Fed if it ends up on a collision course with the White House. Since becoming chairman in February, Mr. Powell met with 56 lawmakers—32 Republicans and 24 Democrats, according to public calendars through September released by the Fed. During her first eight months as Fed chairwoman, his predecessor, Janet Yellen, met with 13 lawmakers.

Mr. Trump has said he isn't considering replacing Mr. Powell as Fed chairman, and his advisers have said they don't believe he has the authority to do so.

Few Republican lawmakers have been willing to echo Mr. Trump's critique that monetary policy is growing too tight. For most of this decade, Republicans have argued the opposite—that the Fed was providing too much support to the economy.

"This experiment in unprecedented monetary easing and expansion and accommodation was unbelievable and lasted way too long," said Sen. Pat Toomey (R., Pa.) of the Fed's stimulus policies undertaken to support the economy after the financial crisis. Mr. Powell's policy to gradually return rates to a more normal footing "is exactly what we need," he said in an interview.

Write to Nick Timiraos at nick.timiraos@wsj.com

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* Fed Raises Interest Rates, Signals One More Increase This Year (Sept. 26)

Document WSJO000020181112eebc006mx

THE WALL STREET JOURNAL.

Heard on the Street
Markets

Norwegian Air May Survive After All; But its stock is still pricing in hopes of a takeover that may not happen

By Jon Sindreu
512 words
12 November 2018
07:32 AM
The Wall Street Journal Online
WSJO
English

Norwegian Air's chances of making it through the winter as an independent company have risen. For the moment, though, its stock remains an expensive gamble on a takeover that may not happen.

Norwegian's breakneck expansion, designed to bring the short-haul low-cost model pioneered by Southwest and Ryanair to trans-Atlantic flights, has left it with a massive burden of debt and airplane leases. The company's bond covenants require a minimum 1.5 billion kroner ($177 million) of balance-sheet equity. Many analysts thought the airline would crash through this level during the winter low season, setting it on a path towards bankruptcy.

The shares have surged in recent weeks on hopes of a deal to offload some of these liabilities to a leasing company. This deal could even reignite the interest of International Airlines Group, which owns 4.6% of Norwegian and made two bids in the spring.

Yet there's another scenario that investors increasingly need to consider: Norwegian survives on its own.

One reason why this is now looking more likely is that third-quarter balance-sheet equity came in at 5.3 billion Norwegian kroner—a significant buffer. Another is **oil prices**, which have come back down to around $70 a barrel. The company previously said it would use any reprieve to hedge costs.

Finally, Norwegian's cash flows should soon look healthier as the company starts to receive some compensation from British jet-engine manufacturer Rolls-Royce Holdings for delayed deliveries of new Boeing 787s. The airline has booked the compensation in accounts receivable but hasn't yet got the cash. This quarter the payments and discounts will start flowing.

Norwegian's survival would be good for trans-Atlantic flyers, but won't necessarily make its stock a great investment.

A firm deal with a plane lessor before year end could halt speculation of a bankruptcy or dilutive share sale in 2019. The prospect of sharing the burden of Norwegian's huge plane orders could also bring IAG or another bidder—Lufthansa has admitted to running the math—back to the negotiating table.

At this point, however, such hopes seem a speculative leap too far. The outlook for airlines is more uncertain than it was when IAG made its first bid back in May, and IAG and Lufthansa may prefer to keep investing in their own low-cost long-haul brands, Level and Eurowings respectively. Unlike in the low-cost short-haul boom of the 1990s, legacy carriers aren't resting on their laurels while Norwegian tries to disrupt the trans-Atlantic market.

Without more solid indications of takeover interest, Norwegian's market value is simply too high for a company that, on its own, is probably destined to be a niche European player. Investors should keep an eye on the stock, but the time to buy isn't now.

Write to Jon Sindreu at jon.sindreu@wsj.com

Document WSJO000020181112eebc001jl

THE WALL STREET JOURNAL.

Heard on the Street
Markets

Saudi Oil Diplomacy Just Took a Big Hit; Saudi Arabia has a big problem—it can no longer bend the oil market to its will.

By Spencer Jakab
524 words
12 November 2018
12:56 PM
The Wall Street Journal Online
WSJO
English

The oil market's latest message should seriously worry Saudi Arabia.

While no single crude producer in the 100 million barrel a day industry is big enough to dictate prices, it has long been an article of faith that the kingdom could tip the scales. There is a reason why the phrase, "the Saudi Arabia of (fill-in-the blank)," exists, though it usually exaggerates the power of the quoted producer.

Brent crude futures lost an uninspiring 6 cents to $70.12 a barrel Monday, a surprisingly weak reaction to a statement by Saudi Energy Minister Khalid Al-Falih that the market needed to cut output by a million barrels a day and that the country would unilaterally cut production by half as much next month. The question of the day may be whether Saudi Arabia is the Saudi Arabia of oil any more.

In barely a month, the international benchmark price had dropped by $16 a barrel, dipping below $70, at a time when some were predicting that sanctions on Iran would push them above triple digits.

Part of the reason is that Saudi Arabia is, for now at least, on its own. Russia, by far the largest exporter outside the Organization of the Petroleum Exporting Countries, quickly undercut the initiative. Until next month's OPEC ministerial meeting in Vienna, the cartel's official stance will remain unchanged.

Saudi Arabia often acted successfully on its own in the past. The reason it could is that it alone maintained enough excess capacity to affect prices at the margin, and usually enough to bring around fellow exporters to its way of thinking. Maintaining that buffer is something no commercial concern would ever do. The opportunity cost has been huge.

A big reason that **oil prices** rallied so much between early April and early October, tacking on the $16 a barrel that they just lost in five weeks, is that the market was skeptical that Saudi Arabia could bring on enough supply to counteract Iran's lost output, even when it coordinated a supply increase in June with Russia.

Cutting is simpler but much harder. Prices are barely reacting because, on its own, Saudi Arabia will have to absorb a big financial hit with uncertain effect. All things being equal, prices need to rise by about $4 a barrel to make its planned output cut revenue-neutral. As it is, prices are $14 to $16 a barrel below the level the kingdom needs to balance its budget according to the International Monetary Fund.

The situation will only get worse. By next summer, bottlenecks that have limited output from the U.S. shale patch should have eased and production should be growing quickly again. Even at prices $10 a barrel lower than today, Permian Basin producers will continue to invest.

At a time when Saudi Arabia is feeling politically isolated, its influence on the oil market is waning.

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Document WSJO000020181112eebc004h5

WSJ Pro

Sears Offers to Sell Bonds to Hedge Funds That Bet on Its Default; Debt auction could juice returns on funds' bearish credit derivative bets while raising cash for Sears

By Andrew Scurria
593 words
12 November 2018
04:46 PM
WSJ Pro Bankruptcy
RSTPROBK
English

Sears Holdings Corp. wants to sell off bonds that are suddenly in high demand among credit-derivative traders who bet on Sears to default.

Sears has offered to put up to $900 million of existing company debt on the auction block, an unusual maneuver that could help fund the retailer's turnaround strategy while boosting returns on insurance contracts known as credit default swaps.

The debt instruments Sears wants to sell is held internally and owed by its subsidiary Sears Roebuck Acceptance Corp., or SRAC, to other company affiliates. U.S. District Judge Robert Drain is scheduled to consider the request on Thursday.

Inter-company notes like these aren't typically brought to market following a bankruptcy. But they are potentially valuable to Leon Cooperman's Omega Advisors Inc., Och-Ziff Capital Management Group LLC and other hedge funds eager to maximize returns on more than $400 million in derivative bets that were triggered when SRAC defaulted, according to people familiar with the matter.

Credit default swaps are a source of protection for bondholders and suppliers that can also be used to speculate on a company's creditworthiness. Borrowers have occasionally tried to exploit credit default swaps to their benefit in recent years, shaking confidence in the multi-trillion-dollar market.

The case of Sears's now-in-demand bonds highlights the inner workings of the credit default market. After a bankruptcy, credit default swap holders deliver the borrower's debt into an auction. Insurance sellers pay out the face value of the credit default swap, minus the market value of the borrower's debt. The less it is worth, the larger the insurance payouts.

But traders who wagered against SRAC had struggled to find enough deliverable bonds. The International Swaps and Derivatives Association's Determinations Committee initially said less than $300 million in SRAC debt could be used in the auction compared with more than $400 million in net outstanding credit derivatives. Since there were more credit default swaps outstanding than SRAC debt, the insurance was potentially worth less than otherwise.

Sears pushed for the intercompany debt to be declared eligible as well, hoping to gin up demand from derivative traders, according to court papers filed in the U.S. Bankruptcy Court in White Plains, N.Y. On Wednesday the International Swaps and Derivatives Association's Determinations Committee included the SRAC notes as well.

Sears said it had engaged Jefferies LLC to reach out to potential buyers and negotiate the best price, in exchange for a 2% fee.

Flooding the market with cheap SRAC debt would likely disadvantage Cyrus Capital Partners LP, a Sears creditor that also wrote default insurance on the retailer, betting it would stay afloat longer than it did, people familiar with the matter said. Without the SRAC notes, the payouts from Cyrus would be limited because prices on other other deliverable debt have hovered around 42 cents on the dollar, according to FactSet.

Cyrus has also been vying to supply the bankruptcy financing that Sears needs to make it through the holiday shopping season and avert a liquidation, The Wall Street Journal previously reported. Sears said in court papers filed Friday it was negotiating with potential competing bankruptcy lenders and expected to bring a financing package to Judge Drain for approval by Nov. 27.

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THE WALL STREET JOURNAL.

Markets

Buyout Bids Return for U.S.-Listed Chinese Companies; Cooling markets in China could complicate relistings

By Kenan Machado
514 words
12 November 2018
06:21 AM
The Wall Street Journal Online
WSJO
English

Some Chinese executives are trying to buy their U.S.-traded companies back from other shareholders, even though cooling markets at home could complicate relistings.

On Sunday, Nasdaq-listed China Customer Relations Centers Inc. said founder Zhili Wang and Guangzhou Cornerstone Asset Management Co. had proposed buying the stock they don't own for $16 a share. That would value all of the company's shares at $293.3 million.

The preliminary, nonbinding offer was about 57% higher than the call-center operator's closing price of $10.16 on Friday but substantially below the high of $35.10 it reached in June. CCRC said an independent board committee would consider the proposal.

At least four other U.S.-traded Chinese companies have announced similar offers this year, in deals totaling $7 billion, according to research firm Dealogic. The largest is China Biologic Products Holdings Inc.'s $3.96 billion buyout offer, which was announced in August.

Last year, three such "take-private" deals were unveiled, worth a total $3.45 billion. That was down from a peak in 2015, when bids were made for 19 Chinese firms worth a total $20.14 billion. The figures refer to announced deals, which don't always close—either because bidders can't find funding or change their minds, or because outside shareholders reject an offer as too low. Many such deals involve founders or other insiders who already own large stakes.

Historically, Chinese companies relisting at home have enjoyed higher valuations than in the U.S., said Jeremy Choy, head of mergers and acquisitions at China Renaissance, which is advising the bidders on the buyout. Pessimism about China's economy may also have affected valuations of some U.S.-listed Chinese stocks, Mr. Choy said.

Similarly, Hao Hong, head of research at Bocom International said higher valuations stemming from local investors' familiarity with the firms were an attraction for such deals. He said last week's announcement of a technology board in Shanghai, to lure Chinese growth stocks from Hong Kong and New York, could help spur a further surge in activity.

However, Chinese shares have been hit by trade tensions and worries about an economic slowdown, with the main benchmark, the Shanghai Composite, down 26.1% from a high in January. Chinese regulators have also increased scrutiny of reverse listings, where a company goes public by merging with a listed firm, rather than through an initial public offering.

The biggest Chinese take-private deal was the $9.3 billion purchase of Qihoo 360 Technology Co. by founder Zhou Hongyi and an investor consortium including Citic Securities and Sequoia Capital China, which closed in July 2016. The firm, renamed 360 Security Technology Inc., returned to the public markets in Shanghai through a reverse merger. It still has a higher market value than that paid in the buyout, even though its shares have roughly halved this year.

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THE WALL STREET JOURNAL.
U.S. EDITION

World News: Iran Sanctions, U.S.-China Trade Fight Buoy Tanker Owners

By Costas Paris
592 words
12 November 2018
The Wall Street Journal
J
A12
English

Corrections & Amplifications

Oil traders and tanker brokers said Saudi Arabia has moved to supply more than one million barrels a day as Iran's crude exports have fallen because of sanctions against Tehran. A World News article Monday about freight rates for very large crude carriers incorrectly said one billion barrels. A quotation from Bimco analyst Peter Sand about Iran's crude exports also incorrectly said billion barrels rather than million.

(WSJ Nov. 13, 2018)

(END)

U.S. sanctions on Iran and the trade battle with China have become a boon for owners of tankers, with daily freight rates at their highest in two years as ships shift their routes to load up crude from other oil-producing countries.

Crude exports from Iran, the world's fifth-biggest oil producer, have fallen about 50% since May, when the U.S. pulled out of a landmark deal curbing Iran's nuclear program. A new set of sanctions against Tehran took effect at the start of this month.

Oil traders and tanker brokers said Saudi Arabia has moved to fill the void of more than one billion barrels a day. Meanwhile, China has stopped importing U.S. crude as it pushes back against American tariffs on Chinese-made goods. Beijing is now sourcing crude oil from as far as West Africa.

Before the trade dispute, China accounted for about a quarter of U.S. crude exports. Those are now moving to other markets like South Korea, the Netherlands and the U.K., according to Peter Sand, chief shipping analyst at Bimco, an international association representing shipowners.

This has significantly changed the routes and sailing times of very large crude carriers, or VLCCs, the supertankers that move oil across the oceans for the world's energy giants. As buyers prepare for winter and the demand for heating oil peaks, freight rates more than quadrupled from September to October, to $45,000 a day.

"We are making some good money for the first time since the beginning of 2017," said the chief executive of an Asia-based company with more than two dozen tankers, who asked not to be named. "Uncertainty is historically good for freight rates, and this time it's happening during the high season. The question is how long it will last."

A U.S. decision to grant waivers to eight countries that allow them to continue buying Iranian crude is softening the impact of the sanctions and providing needed revenue to state-run National Iranian Tanker Co., the country's flagship shipping company.

Singapore and London brokers say around 65% of NITC tankers are movingoil cargoes to the countries with U.S. waivers, including China, India, Japan, South Korea, Italy, Turkey and Greece.

These markets traditionally buy around 70% of Iran's oil exports. The White House wants the flow to wind down, but tanker brokers say that is unlikely to happen soon, as a halt could push **oil prices** to around $100 a barrel, potentially undermining U.S. economic growth.

The brokers said more NITC ships could be used as other tanker operators stay clear of Iran, fearing punitive action by Washington. NITC owns 38 VLCCs out of a global fleet of 733, and several smaller tankers. The company didn't respond to requests for comment.

"The big picture is that Iran crude exports won't grind to a halt, and about a billion barrels a day will continue to move out," Mr. Sand said. "That's more or less what they exported during the previous sanctions from 2012 to 2016 and it will bottom out around there."

VLCCs need daily charter rates of around $25,000 to break even, but rates were hovering well below that levelsince April 2017 until the October surge.

Industry executives say the rate increases could be short-lived as the buyers and sellers adjust to new trading patterns.

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THE WALL STREET JOURNAL.

C Suite

Today's Logistics Report: Labor Peace in Trucking; Tankers in Rebound; Supplier Tariff Tensions; Today's Top Supply Chain and Logistics News From WSJ

By Paul Page
1,236 words
12 November 2018
10:37 AM
The Wall Street Journal Online
WSJO
English

Sign up: With one click, get this newsletter delivered to your inbox.

The final stretch of the peak holiday shipping season will begin with peace on labor fronts. Unionized workers at the United Parcel Service Inc. freight trucking operation ratified a final contract offer, the WSJ's Paul Ziobro reports, averting a possible strike that was due to start today. UPS Freight had cleared its network in anticipation of a work stoppage. The contract cleared with 77% of votes cast by Teamsters union members approving the five-year agreement. UPS says it will immediately resume pickups for customers of its less-than-truckload service. The freight workers voted down the initial deal last month as workers in the package division ratified their tentative pact. The company and the Teamsters are still negotiating some local supplemental agreements for parcel workers. The trucking approval caps a year of agreements across U.S. shipping networks, including a pact for port workers on the Gulf and East coasts.

Disruption in global oil trade is giving the tanker industry a much-needed boost. Daily freight rates for big crude carriers have soared four-fold to the highest levels in two years, WSJ Logistics Report's Costas Paris writes, as buying patterns and shipping routes adjust to U.S sanctions on Iran and the trade battle with China. Crude exports from Iran have tumbled ahead of new sanctions against Tehran that hit at the start of this month, but the U.S. granted waivers to several countries and Saudi Arabia has filled the void with its own oil flows. At the same time, China has shifted buying away from the U.S. The upheaval is sending the global oil trade's very large crude carriers on different and longer routes, helping boost shipping rates in the beleaguered sector to $45,000 a day. Tanker owners fear the rebound is short-lived, but they're reaping the benefits now.

ECONOMY & TRADE

Growing trade restrictions are triggering tensions between companies in automotive supply chains. Manufacturers and suppliers are locked in battles over how to cover the costs of tariffs as parts move through the complicated global networks that make up the business. The WSJ's Chester Dawson and Mike Colias report the questions over tariffs have prompted some blunt warnings between buyers and suppliers and even a lawsuit between a major auto parts maker and a key components provider. Pierburg US LLC says a supplier is trying to exact "extortion" by refusing to ship parts from China unless the 25% tariff cost is paid in full. The disputes highlight the complexity of supply chains that may take in roughly 30,000 individual parts and hundreds of direct or downstream suppliers. The business is underpinned by thousands of detailed long-term contracts that now have big new costs and uncertainty thrown into the mix.

One of the world's biggest independent suppliers of marine fuel has a lifeline to continue operating under bankruptcy protection. A U.S. bankruptcy court judge says Greece-based and New York-listed Aegean Marine Petroleum Network Inc. can borrow up to $40 million as part of a financing package. The WSJ's Tom Corrigan reports the ruling comes over objections from bondholders who argue that Switzerland-based commodity trader Mercuria Energy Group Ltd. is using its backing in the chapter 11 bankruptcy process to take ownership of the business. The arguments are part of a messy bankruptcy of the bunker supplier that was triggered after an audit uncovered a $300 million hole in Aegean's books. The case comes amid uncertainty in the marine fuel business. Ship operators and bunker providers are wrestling with preparations for looming sulfur-emissions restrictions while fuel prices have soared over the past year as the cost of crude has increased.

The results from Alibaba Group Holding Ltd.'s annual Singles Day sale highlight both the growing power of digital commerce and the clouds hanging over the sector. The e-commerce behemoth clocked in record sales of $30.8

billion in the 24-hour span, the WSJ's Shan Li reports, generating a billion delivery orders for its Cainiao logistics network. But the 27% annual growth was the lowest in the sale's 10 years, and it comes amid signs China's rocket-like expansion of e-commerce is coming down to Earth. Alibaba recently cut its full-year forecast by as much as 6% as growth slowed in categories such as consumer electronics, and a property market slowdown has led to slowing sales of big-ticket appliances. Alibaba has been investing in brick-and-mortar businesses in hopes they will help boost online sales, and this year it tied those and its burgeoning food-delivery operations to its Singles Day promotions.

QUOTABLE

Number of the Day

5.5%

Year-over-year increase in container imports at major U.S. ports in October, according to the Global Port Tracker report.

IN OTHER NEWS

Oil prices rebounded after weeks of losses, as OPEC and its allies signaled willingness to again cut production. (WSJ)

A measure of American consumer confidence slipped slightly but remained at a high level this month. (WSJ)

A federal grand jury indicted a former Tesla Inc. global supply management worker for allegedly taking part in a $9.3 million fraud by impersonating a car parts supplier. (WSJ)

Sears Holdings Corp. is closing another 40 stores ahead of Black Friday sales. (WSJ)

Germany's Thyssenkrupp AG says quality problems at its automotive and industrial components operations contributed to its second profit warning in four months. (WSJ)

Cie. Financière Richemont SA is struggling under an oversupplied market for luxury watches. (WSJ)

Apparel companies increasingly are seeking to source goods outside China. (Sourcing Journal)

Mitsubishi Motors plans to expand from simple automotive assembly to full production in Vietnam. (Nikkei Asian Review)

Luxury online retailer Farfetch's third-quarter sales soared 53% and the company upgraded its outlook for future growth. (Business of Fashion)

Rio Tinto PLC and Cargill Inc. completed an end-to-end letter of credit transaction through Singapore using blockchain technology for an iron ore sale. (Splash 247)

Earnings for capsize dry bulk ships have plummeted because of disrupted iron ore shipments from Western Australia. (Lloyd's List)

The U.S. waived sanctions for a joint India-Iran port project in southern Iran. (Maritime Executive)

A test of General Electric Corp. Port Optimizer technology gave shippers two weeks' advance notice of goods arriving at California's Port of Long Beach. (Port Technology)

Warehousing equipment maker Zebra Technologies Corp. took an investment stake in startup Plus One Robotics Inc. (DC Velocity)

Freight forwarder Kuehne + Nagel International AG says it isn't in the market for acquisitions. (Shipping Watch)

British parcel network operator Connect Group swung to a $46 million loss amid a troubled restructuring. (Motor Transport)

Turkey producers are using new technology to help consumers trace birds back to farms. (Minneapolis Star-Tribune)

ABOUT US

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THE WALL STREET JOURNAL.
U.S. EDITION

Old Economy Gives Dow a Boost

By Michael Wursthorn
715 words
12 November 2018
The Wall Street Journal
J
B1
English

Investors coming back to U.S. stocks this month are going retro.

Old-economy companies like Procter & Gamble Co. and Walgreens Boots Alliance Inc. have surged in recent days, helping the **Dow Jones Industrial Average** to retrace much of its October market swoon and move within striking distance of its 16th record of the year.

The 30-**stock index** has added 1,300 points over the past two weeks, its best stretch since November 2016. After teetering on the cusp of correction territory late last month, denoting a 10% or more decline from a recent peak, the index is just 3.1% from its last record close in early October.

Comments on Friday from President Trump's trade adviser, Peter Navarro, blasting China and Wall Street over trade halted the advance and weighed on trade-sensitive stocks such as Caterpillar Inc. and 3M Co., as well as the technology shares whose rapid gains fueled the market rally of the first nine months of 2018. Friday's declines show that concerns persist among investors about rising costs, the possibility for slowing U.S. economic expansion and friction with China, analysts and money managers said.

Beneficiaries of those trends include P&G, a Cincinnati household-products maker whose shares are up 0.6% for the year after a 12% advance over the past month. Investors have shifted from seeking out the companies with the highest profit growth rates to those that are expected to generate more stable earnings and issue large dividends, and those that tend to hold up better during turbulent economic conditions.

Walgreens also added 12% over the past month, while restaurant chain McDonald's Corp. has risen 9.5% and retail powerhouse Walmart Inc. is up 8.7%.

The gains have come at the expense of technology companies and other fast-growing stocks that have seen their values erode since late September. Their selloff gained momentum through October as investors grew increasingly nervous that slowing sales growth among tech and internet giants like Apple Inc. and Amazon.com Inc. suggested these firms could have difficulty matching Wall Street's expectations in coming periods.

Continued weakness in those shares has limited the recent gains of the broader **S&P 500** and the technology-heavy **Nasdaq Composite**, which are off 5.1% and 8.7%, respectively, from their most-recent highs.

"We're buying value stocks since it has a tendency to be a safer play and has dividends," said James Hayett, a financial adviser out of Waukesha, Wis., who says clients have added stocks like P&G and General Motors to their portfolios. "We're not just jumping back into growth and technology stocks."

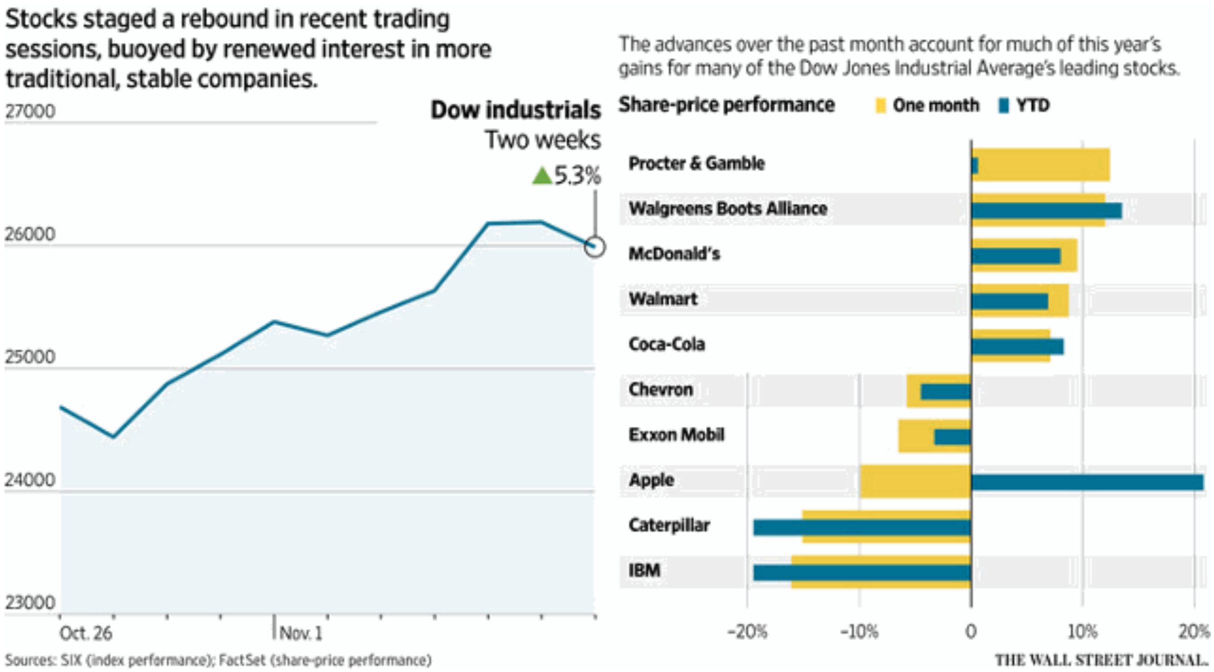
About $3.1 billion was pulled from tech funds last month, after more than $41 billion moved into such funds between January 2017 and September of this year, according to data compiled by Bank of America Merrill Lynch and EPFR Global.

Money that has flowed into equities has been directed toward value-oriented strategies that tend to favor consumer staples, financial stocks and other companies that the market had overlooked during the tech frenzy, money managers said. About $500 million flowed into health-care and consumer-focused stock funds in the week ended Wednesday, while most other sectors, including technology, financials and energy, saw redemptions, according to Bank of America/EPFR data.

Investors are "much more selective, finding names that have margin resilience today," said Anik Sen, global head of equities at PineBridge Investments. "Input costs are rising in the U.S., and that's a key concern right now."

In addition to tariffs, companies are coping with higher labor costs, fueled by one of the tightest job markets in decades. The Federal Reserve's campaign to raise interest rates will also put pressure on profit margins, analysts said, making companies with high and stable profit margins more desirable for their resiliency.

"We continue to recommend owning 'quality' stocks that should outperform as the cycle matures and economic growth decelerates," analysts at Goldman Sachs Group Inc. wrote in a recent note, saying that such companies are in a position to pass on their rising costs, helping them outperform the broad **S&P 500 index**.



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The New York Times

Business/Financial Desk; SECTB
Oil Producers Weigh Cuts To Counter Slide in Prices

By STANLEY REED
474 words
12 November 2018
The New York Times
NYTF
Late Edition - Final
8
English

Major oil producers meeting in Abu Dhabi on Sunday signaled that they were considering once again changing course and cutting production.

But the group, which included the Saudi oil minister, Khalid al-Falih, and his Russian counterpart, Alexander Novak, did not make any firm decisions. Those are more likely to come when officials gather in Vienna in the first week of December for a meeting of the Organization of the Petroleum Exporting Countries.

A statement after the meeting on Sunday, however, did warn that the gap between supply and demand could widen next year, which ''may require new strategies to balance the market.''

The producers at the meeting, from OPEC and non-OPEC nations, are clearly worried about the recent reversal of **oil prices**. After rising strongly this year on concerns about future supply shortages, **oil prices** have been sliding of late. Brent crude, the international benchmark, has fallen almost 20 percent to just over $70 a barrel from about $86 a barrel on Oct. 4. ''The concerns have diametrically flipped,'' said Antoine Halff, a founding partner of Kayrros, a market research firm based in Paris.

There are several reasons for the price drop. After restraining output since early 2017, the Saudis and Russians have significantly increased production in recent months, in part a response to pressure from President Trump. At the same time, Iranian output, which was expected to be hit hard by the Trump administration's reimposition of sanctions this year, appears to be holding up better than expected.

The granting of temporary exemptions to several of Tehran's biggest customers, including China, Japan and India, has also caused analysts to question whether their forecasts about Iranian exports were too dire.

In addition, output from shale oil producers in the United States has been growing much faster than analysts previously expected.

The Saudis, the world's largest oil exporters, are determined to try to shape the market to their liking, but doing so in the coming weeks and months may prove difficult, analysts say. For one thing, many uncertainties remain, including the impact of the Iran sanctions, which took effect on Nov. 5.

In addition, the Saudis, who suggested before the meeting that they would cut production by half a million barrels a day beginning next month, may need to take most of the hit themselves.

While Russia has become closely aligned with Saudi Arabia over the last two years, the signals are that Moscow, whose oil companies have invested heavily in increasing their output, will be reluctant to begin reining in production again so soon.

''In the final analysis, the Saudis are still the swing producers in the oil markets, whether they like it or not,'' said Bhushan Bahree, an OPEC analyst at IHS Markit.

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THE WALL STREET JOURNAL.

Business

Vista Reaches Deal to Buy Software Firm Apptio for $1.94 Billion; Apptio shareholders will get $38 a share

By Laura Cooper and Jay Greene
462 words
11 November 2018
11:41 PM
The Wall Street Journal Online
WSJO
English

Tech-focused private-equity firm Vista Equity Partners struck a deal to take software company Apptio Inc. private for $1.94 billion.

Under the agreement, Apptio shareholders will get $38 a share, representing a 53% premium to Friday's closing price of $24.85. The Wall Street Journal reported earlier Sunday that a deal was imminent.

The purchase price is below Apptio's all-time closing high of $41.23, hit about two months ago. Its shares have fallen recently as part of a broader slide in technology stocks. In late October, Apptio reported third-quarter results that included weaker-than-expected billings, further pressuring its shares.

Apptio provides tools to help corporate tech buyers keep track of the software and services they use to better manage their costs. The company says its customers include Unilever PLC, JPMorgan Chase & Co. and Cisco Systems Inc.

The Bellevue, Wash., company went public two years ago, raising about $96 million at $16 a share.

Co-founder and Chief Executive Sunny Gupta and his family have been Apptio's largest shareholders, collectively holding stock that gave them more than 46% voting power, according to a proxy statement the company filed in April. Since then, Apptio converted the class of its stock that had greater voting rights into common stock, reducing Mr. Gupta's control. Some of the venture-capital firms that initially backed Apptio, including Madrona Venture Group, have sold significant stakes this year.

The deal comes amid market **volatility**, coupled with tech-focused private-equity firms raising an avalanche of capital for deals. Austin, Texas-based Vista is raising its latest flagship Vista Equity Partners Fund VII LP, aiming to collect $16 billion for deals in the enterprise-software space. It had raised $11.4 billion toward that goal as of late September, The Wall Street Journal reported.

The purchase of Apptio is Vista's first take-private deal this year, but the firm is no stranger to shopping in the public market. Last year, it paid about $1.55 billion to buy software and consulting company Advisory Board Co.'s education division, taking the company private alongside UnitedHealth Group Inc., which bought its health-care unit.

Two years ago, Vista took marketing-services software provider Marketo Inc. private for about $1.79 billion. It sold Marketo to Adobe Inc. for $4.75 billion this year. Vista is weighing a sale of advertising-software provider Mediaocean LLC that could value it at more than $1.5 billion, the Journal has reported.

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Alibaba Pulls In $30 Billion From Daylong Shopping Fest

By Shan Li
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12 November 2018
The Wall Street Journal
J
B1
English

SHANGHAI -- Alibaba Group Holding Ltd. turned in another record-setting Singles Day on Sunday, with consumers snapping up bargains despite China's slowing economic growth, the trade fight with the U.S. and the diminished presence of Alibaba founder Jack Ma.

The e-commerce behemoth clocked in sales of $30.8 billion in the 24-hour span that began at 12 a.m. Sunday -- preceded by a televised stage show in Shanghai featuring Cirque Du Soleil, Mariah Carey and Australian model Miranda Kerr. Alibaba zoomed past the previous year's record of $25.3 billion by about 5:30 p.m.

Mr. Ma is usually an outsize presence at the gala -- but not this year. In September, he said he plans to retire next year as executive chairman and hand the reins to Chief Executive Daniel Zhang.

Mr. Ma was present at the event but didn't take his usual star turn on stage. Instead, he appeared in a prerecorded video that showed him competing against Alibaba employees at tasks including delivering meals, taping packages and tieing up crabs.

An Alibaba representative said the founder's participation in the annual gala is "different every year."

Late Sunday night, Mr. Ma showed up at the media center's area showcasing Alibaba's business units and stopped several times to admire the technology on view, including a robotic arm that mixed and poured a cocktail. "Not bad," he said in front of a crush of Alibaba employees.

Sunday was seen as a test for Mr. Zhang, who said he sees helping upgrade and digitize brick-and-mortar stores to be crucial to expanding Singles Day and the company.

Expanding Alibaba's reach further offline will "greatly extend the addressable market," he said.

Singles Day has boomed along with China's rising middle class, and the day has now become a test for an economy grappling with falling property prices, **volatile** stock markets and a tit-for-tat trade spat.

Executive Vice Chairman Joe Tsai acknowledged that a trade war might negatively affect China's economy in the short term. But a wave of increasingly affluent consumers is likely to lift both the country and the company, he said.

"There are 300 million [in China's] middle class. In the next 10, 15 years, that number will double to 600 million," Mr. Tsai said. "That number is not going to stop, trade war or no trade war."

Faced with short-term economic uncertainty, however, Alibaba cut its full-year forecast earlier this month by as much as 6% as growth slowed in categories such as consumer electronics. For now, the company has experienced slower growth in big-ticket items such as washing machines and refrigerators tied to a slowdown in the property market, Mr. Tsai said.

Overall, online retail-sales growth in China slowed to 24% in the third quarter, down from 36% in the previous quarter, according to the National Bureau of Statistics.

Shenzhen resident Zhang Yi, 25 years old, said he has reined in his spending as inflation has hit housing and food prices. The English teacher said he has cut down on meals out and recently moved after the rent on his previous apartment was raised nearly 25%.

Mr. Zhang spent as much as 1,000 yuan ($145) on past Singles Days, often buying clothes and skin-care products. "This year, to save money, I won't buy anything," he said.

But some shoppers were still eager to jump on any bargains. Jessica Cui of Beijing planned to splash out more on household items. "There's always something out there you're 100% sure to buy," said Ms. Cui, 33, who works for the government.

Despite such pressures, Alibaba still managed to top last year's record as it focused on new areas of growth, including global markets, food delivery and brick-and-mortar stores.

For the first time, Lazada Group, Alibaba's e-commerce arm based in Singapore, rolled out Singles Day sales in six Southeast Asian countries, including Vietnam and Thailand.

Singles Day was conceived as a holiday for China's young people to celebrate their solitary state.

Xiao Xiao in Beijing and Chunying Zhang in Shanghai contributed to this article.

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THE WALL STREET JOURNAL.
U.S. EDITION

OPEC Eyes Cutting Oil Production

By Summer Said, Christopher Alessi and Benoit Faucon
820 words
12 November 2018
The Wall Street Journal
J
A1
English

ABU DHABI -- Plummeting **oil prices** and signs of a coming global oversupply are bringing producers closer to a pact to cut output.

Saudi representatives said Sunday that the kingdom would slash its exports unilaterally next month, while a broader OPEC alliance debated -- but didn't agree to -- a collective production cut.

Meanwhile, Russia, the world's largest producer, sent mixed signals on whether it would pull back on supply -- after moving in lockstep on such matters with OPEC for more than two years. The Russians "keep you guessing," said John Hall, chairman of U.K. consultancy Alfa Energy. "They like to be in charge."

Saudi Arabia, Russia and other producers met here in the United Arab Emirates capital over the weekend to debate whether reductions of about one million barrels a day might be necessary next year, with a decision expected at an OPEC meeting next month.

At a June meeting, Saudi Arabia, the de facto leader of the Organization of the Petroleum Exporting Countries, and Russia, which heads an alliance of producers outside the cartel, agreed to boost production at a meeting in June over fears U.S. sanctions on Iran would trigger shortages.

But three days after the sanctions went into effect on Nov. 5, U.S. oil entered a **bear market**. And since late September, when OPEC and its Russia-led partners last met in Algiers, the price of Brent crude -- the global benchmark -- has fallen by more than $10 per barrel. In about the same period, U.S. **oil prices** have dropped 21% to $60 a barrel -- an eight-month low.

Oil prices extended declines after the U.S. said last week that it would allow eight countries to continue buying sanctioned Iranian crude. Selling continued after U.S. oil inventories rose again, driven by mounting production and weakening fuel demand. U.S. prices tumbled for 10 straight sessions through Friday, the longest losing streak since 1984.

Aside from the pressures of anticipating supply and demand, OPEC has endured criticism from Iran, which has accused it of helping to replace its oil on global markets. At the same time, U.S. President Trump has repeatedly attacked the cartel, asserting that it is pushing **oil prices** too high.

In Russia, state oil companies have been heavily investing in increased oil production in recent years, complicating any output reversal. Fiscal discipline has meant the Russian federal budget will balance with $53-per-barrel oil in 2018 and is heading toward a break-even of $44 in two years.

Russia's oil minister Alexander Novak said he was open to crude production cuts if the coalition reaches a consensus, and would adhere to any decision it makes. But he also said Russian production had "reached a certain level where we have stabilized and we will be fluctuating around that level in coming months."

Many OPEC delegates, who just a few months ago were concerned about a global market without Iranian oil, are now looking into next year with a set of very different concerns.

"There is a consensus that there will be oversupply in 2019," Oman's Oil Minister Mohammed bin Hamad al-Rumhy told The Wall Street Journal after exiting the meeting Sunday. He said the coalition of producers would likely agree to cut back on supplies when they gather next month in Vienna.

Hours earlier, Saudi Arabia's oil minister, Khalid al-Falih, said the kingdom was already planning to cut its own output regardless of any collective production. "You will see a tapering off," he said.

But Mr. Falih said it was too early to say what would be decided by the combined coalition when it meets next month. The group "will not be shying from doing a cut but only if it's necessary," he said, adding it needed to be sure "oversupply will continue into 2019."

Suhail al-Mazroui, the Emirati oil minister, said "a new strategy needs to be formed." "Whether it's a cut or something else, it's not going to be an increase in production," he said.

Though not unusual, Saudi Arabia's unilateral export cuts, executed regardless of any collective decision, come as a Saudi-funded think tank has been envisioning a life without OPEC. The King Abdullah Petroleum Studies and Research Center has been studying a scenario under which the cartel would disband, The Wall Street Journal reported last week.

"Think tanks like to think. We won't discourage them of thinking," Saudi Arabia's Mr. Falih said. "We are asking them to consider all scenarios."

But the minister, who said he was speaking on behalf of the Saudi leadership, said "we believe that any professional study by [KAPSARC] will show that the combination of cooperation and mitigating extreme **volatility** will be the best for the market."

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The New York Times

Business
How an Intelligence Expert Helps Wall Street Mavens Think Smarter

By Landon Thomas Jr.
1,486 words
11 November 2018
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NYTimes.com Feed
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English

Shane Parrish was a cybersecurity expert at Canada's top intelligence agency and an occasional blogger when he noticed something curious about his modest readership six years ago: 80 percent of his followers worked on Wall Street.

The blog was meant to be a method of self-improvement, helping Mr. Parrish deal with a job whose pressures had increased with the growing threat of global hacking. But his lonely riffs — on how learning deeply, thinking widely and reading books strategically could improve decision-making skills — had found an eager audience among hedge fund titans and mutual fund executives, many of whom were still licking their wounds after the financial crisis.

"People just found us," Mr. Parrish said. "We became a thing on Wall Street."

His website, Farnam Street, urges visitors to "Upgrade Yourself." In saying as much, Mr. Parrish is promoting strategies of rigorous self-betterment as opposed to classic self-help fare — which appeals to his overachieving audience in elite finance, Silicon Valley and professional sports. His many maxims cite Ralph Waldo Emerson, Bertrand Russell and even Frank Zappa. ("A mind is like a parachute. It doesn't work if it is not open.")

Today, Mr. Parrish's community of striving financiers is clamoring for more of him. That means calling on him to present his thoughts and book ideas to employees and clients; attending his regular reading and think weeks in Hawaii, Paris and the Bahamas; and in some cases hiring him to be their personal decision-making coach.

"These guys are driven to get that incremental edge — they are competitive, gladiatorial in that respect," said Mr. Parrish, 39. "We are trying to get people to ask themselves better questions and reflect. If you can do that, you will be better able to handle the speed and variety of changing environments."

To do that, Mr. Parrish advises investors like Scott Miller, the founder of Greenhaven Road Capital, to disconnect from the noise and read deeply.

"I will leave my computer and go into a separate room to read," said Mr. Miller, an early sponsor of Farnam Street who is currently reading "Atomic Habits: An Easy and Proven Way to Build Good Habits and Break Bad Ones," by James Clear. "It feels weird to do this in the middle of the day — but I do it."

Mr. Parrish's site has drawn the attention of some of the biggest names in finance. Dan Loeb, one of the more prominent hedge fund executives on Wall Street, is a big fan. And Ray Dalio of Bridgewater, the world's largest hedge fund, recently did a podcast with him.

"Shane is a special person," Mr. Loeb said via email.

Few Wall Street obsessions surpass the pursuit of an investment edge. In an earlier era, before computers and the internet, this advantage was largely brain power: Warren Buffett plucking a nugget from an annual report or George Soros making a seismic bet against a currency.

Today, information is just another commodity. And the edge belongs to algorithms, data sets and funds that track indexes and countless other investment themes. This has been devastating for hedge fund and mutual fund managers who make their living trying to outsmart the **stock market**.

With their business models under attack, they are searching for answers. And Mr. Parrish has a simple solution: reading, reflection and lifelong learning.

“These days, if you are not getting better you are falling behind,” said Mr. Parrish, who is reading “The Laws of Human Nature,” an examination of human behavior that draws on examples of historical figures by Robert Greene. “Reading is a way to consume people’s experiences, to learn something timeless and then apply it to your life.”

Chuck Royce, the founder and former chief executive officer of Royce mutual funds, who oversees $4 billion in investments, said he stumbled on Mr. Parrish’s site and related to it immediately.

Mr. Royce developed a reputation as one of the industry’s most astute fund managers, specializing in small, high-quality companies in the 1970s. But in the recent period of low interest rates, his main mutual fund’s performance has suffered.

“I failed to understand that in this period of zero rates, inferior companies would outperform high-quality companies,” said Mr. Royce, who was part of a group that spent a long weekend talking books and big ideas with Mr. Parrish in Hawaii two years ago.

Mr. Royce has embraced Mr. Parrish’s core principles. He gets up at 5:30 every morning to do his daily reading, which currently includes “Thinking in Bets: Making Smarter Bets When you Don’t Have All the Cards” by Annie Duke, a former poker champion — and a big favorite among investors these days. At the office, Mr. Royce works from a couch strewn with papers. His Bloomberg terminal is in another room.

“It is all about habits,” Mr. Royce said. “Setting goals is easy — but without good habits you are not getting there.”

Some executives have long sought insight from the printed page — and not just in the business section. Emmanuel Roman, the chief executive officer of the bond giant Pimco — who is reading “On Grand Strategy,” an assessment of the decisions of notable historical leaders by the Pulitzer Prize-winning biographer John Lewis Gaddis — called reading “a pure passion.” And Lloyd Blankfein, the chairman of Goldman Sachs, has talked up the benefits of reading books, especially those not related to economics or finance.

Mr. Parrish is an unlikely guru, a computer scientist from Halifax, Nova Scotia, who seems bemused by his sudden cachet. On a recent swing through New York to meet with clients, Mr. Parrish was dressed in a T-shirt and shorts and carried a worn backpack. Slight and balding, he looked more like an unhurried graduate student than a counselor to some of the wealthiest executives on Wall Street.

Mr. Parrish joined the Communications Security Establishment, a division of Canada’s Defence Department, straight out of college. His first day was Aug. 28, 2001, and he was soon promoted in the tumult that followed the Sept. 11 attacks. Suddenly, he was managing a large staff at the age of 24.

Wanting to improve his decision-making skills, Mr. Parrish found inspiration in Charlie Munger — Warren Buffett’s longtime investment partner. Mr. Parrish quickly became an acolyte, drawn to Mr. Munger’s thoughts on multidisciplinary thinking and mental models.

He pored over Berkshire Hathaway annual reports and became a regular attendee of Mr. Buffett’s yearly meetings in Omaha. The name of his site is another tribute to the billionaire investor: Berkshire Hathaway’s address in Omaha is 3555 Farnam Street.

Last year, Mr. Parrish left intelligence work to tend to the site full time. He would not disclose how much his various projects were making. Farnam Street now consists of book lists, essays, podcasts and a vibrant social network — all of which are anchored by Mr. Parrish’s self-improvement musings. There are also branded goodies to be had, such as a decision-making journal and a Farnam Street thinking cap.

Some 190,000 people have signed up to Brain Food, his free weekly newsletter. Mr. Parrish’s more dedicated followers pay $250 a year to become part of his “knowledge community” — a premium site with a private discussion forum and additional content. They have flocked to his social network, trading book ideas and meet-up suggestions in Toronto, Dubai and London.

James Aitken, an independent investment adviser in London who counsels some of the world’s largest investors, was among the readers that came upon Mr. Parrish in 2012. Since then, Mr. Aitken has revamped his work habits, pushing himself to disconnect from all his screens and read books — ideally for at least two hours a day.

“He is so indispensable to me that, beyond becoming a part of his network, I will occasionally write him a check at the end of the year,” Mr. Aitken said.

Mr. Aitken now pushes his clients to increase the time they spend reading and thinking away from their screens. Twice a year he sends out a list of books — including history, biography, finance and economics, self-help, and more — from which clients can choose a number of books as gifts. He has sent out about 2,300 over the past 10 years.

“Every world-class investor is questioning right now how they can improve,” he said. “So, in a machine-driven age where everything is driven by speed, perhaps the edge is judgment, time and perspective.”

* Offering Inspiration and Advice, Real Vision Is HGTV for Hedge Fund Hopefuls

Shane Parrish has become an unlikely guru for Wall Street. His self-improvement strategies appeal to his overachieving audience in elite finance, Silicon Valley and professional sports. | Dave Chan for The New York Times

Document NYTFEED020181111eebb003e9

THE WALL STREET JOURNAL.

World

Russia Demotes Dollar's Role at Home, Taking a Swipe at U.S. To ease sanctions pressure, Moscow promotes use of ruble and other currencies in trade deals

By Georgi Kantchev
1,039 words
11 November 2018
01:00 PM
The Wall Street Journal Online
WSJO
English

MOSCOW—Russia is trying to wean itself off the greenback as its economy buckles under U.S. sanctions and the country prepares for stricter penalties expected later this month.

Russia's central bank has ramped up its gold reserves this year and sold U.S. Treasurys. Now plans are under way to execute more trade deals in rubles and other currencies, and tax incentives are being considered for exporters that shun the dollar.

The so-called de-dollarization process, backed by President Vladimir Putin and Russia's central bank, should help soften the blow if new Western sanctions target the financial system.

For the Kremlin, the effort is a not-so-subtle retaliation against Washington's injunctions, and is part of its broader efforts to inoculate the economy by spurring local production and investment as well as

strengthening ties to China. Mr. Putin last month called the U.S. sanctions policies a "colossal strategic mistake" undermining confidence in the dollar as a universal currency, the official Russian news agency, TASS, reported. "They are sawing the branch on which they sit."

Officials say Moscow isn't planning to ban the use of dollars or dollar-denominated debt. But even diversifying away from the greenback is a tall order, analysts say.

The dollar is involved in nine out of every 10 transactions in the daily $5 trillion foreign-exchange market and the majority of global debt is in dollars. Wild swings in the ruble in recent years have undermined confidence in the currency, while the Russian economy is heavily reliant on dollar-priced commodities such as oil, gas and steel.

Still, Russia is joining a growing number of countries pushing back against the hegemony of the American currency. This March, China launched a yuan-denominated oil-futures contract that has rapidly gained popularity among oil traders. European Union officials have sought to bolster the role of the euro and openly discussed setting up a new payment system independent of the U.S. Iran, which faces even broader U.S. sanctions than Russia's, has also moved to limit the role of the dollar, as have Venezuela and Pakistan.

"It's not clear how much of this [de-dollarization] trend is poker games, but the unpredictability of current U.S. foreign policy means that more countries need to question things that have never been questioned before," said Thomas Flury, head of foreign-exchange strategies at UBS Global Wealth Management.

In Russia, the de-dollarization push has been driven by fears that future U.S. sanctions could cut off local banks and exporters from the U.S. financial system. A spate of Western sanctions since 2014, following Russia's annexation of Crimea from Ukraine, has already hit the economy, reduced investment and crippled aluminum giant United Co. Rusal PLC.

Russia will "stop using the U.S. dollar and will use our national currency [and] other currencies, including the European currency," Russia's Finance Minister Anton Siluanov said on state television in August. "So, as a matter of fact, these restrictions will backfire at the Americans."

Additional U.S. sanctions could be imposed as soon as this month as punishment for Moscow's alleged nerve-agent attack in March against a former Russian spy in the U.K. Congress is also considering further penalties on Russia's financial system and its banks.

Moscow is expected to publish its de-dollarization plan by the end of the year. Officials say the plan, originally conceived by the head of the sanctioned state bank VTB, Andrei Kostin, will include tax credits and other incentives for firms using the ruble such as expedited value-added tax returns.

Already, the dollar's role in the Russian economy has been shrinking. The share of foreign-currency deposits held by individuals and firms in Russian banks has fallen to 26% this September, from a 2016 peak of 37%, according to Wall Street Journal calculations based on central-bank data. And the share of dollar-priced export revenues fell to 68% in the second quarter of this year, from over 80% in 2013, central-bank data shows.

Russia's fast-growing trade with China is a case in point. The share of trade priced in rubles and yuan has nearly quadrupled in four years to around 19% of their bilateral trade and will continue to expand, according to Dmitry Dolgin, Moscow-based economist at ING Bank.

Russian officials have also proposed using national currencies for trading oil with countries such as Iran and Turkey, though little has come of these efforts so far.

Some Russian companies are also dipping into the de-dollarization fray.

Alrosa Group, the world's largest diamond producer, has recently piloted ruble deals with Indian and Chinese customers. To avoid exchange-rate **volatility**, it executed those transactions within a few hours, the company said.

"We are considering opportunities to expand this pilot to other countries or currencies," said Alrosa spokeswoman, Evgeniya Kozenko.

Still, ditching the dollar is easier said than done.

Though Russia's nondollar trade is poised to grow, businesses will be reluctant to incur greater costs than competitors who are using the dollar, according to Jason Bush, senior analyst at Eurasia consultancy.

Analysts also say that the push to de-dollarize is partly political rhetoric aimed at responding to the deepening chill in relations with the West. The structure of Russia's economy, where dollar-priced oil and gas sales bring in around 40% of budget revenues, will limit such initiatives.

"De-dollarization is a hot topic and the banks will help to facilitate this," said Richard Segal, emerging-market analyst at Manulife Asset Management. "But because the economy is so commodity-based, I doubt there will be a major long-term push."

Write to Georgi Kantchev at georgi.kantchev@wsj.com

More

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Document WSJO000020181111eebb0018h

THE WALL STREET JOURNAL.

Markets

With Retail Earnings on Tap, Investors Expect a Tale of Two Worlds; Quarterly reports from major retailers this week will offer new clues about the health of the industry and the consumer

By Lauren Pollock and James Benedict
378 words
11 November 2018
10:00 AM
The Wall Street Journal Online
WSJO
English

Retailers' fortunes have diverged in the wake of the financial crisis. Walmart and Home Depot have found ways to compete in an increasingly online world, while Macy's is still in the midst of a turnaround and J.C. Penney is fighting to stay alive.

Investors will be seeking clues about the all-important holiday shopping season when the companies report results this week.

Walmart is seen posting a slight bump in quarterly sales and earnings on Thursday. The big-box retailer, which gets more than half its U.S. revenue from groceries and staples, has drawn more shoppers to its supercenters as it remodels stores and cuts prices. The company last month lowered its earnings targets for 2019 after buying Indian e-commerce company Flipkart.

Home Depot's shares haven't kept pace with the **S&P 500** this year. The home-improvement retailer is projected to post higher earnings and sales on Tuesday. But concerns about a cooling housing market, partly tied to rising interest rates, have kept some investors on the sidelines. Tariffs on Canadian lumber and Korean washing machines also have led to higher costs.

Macy's is expected to report another quarter of higher sales on Wednesday. The retailer, whose shares have surged nearly 50% this year, has been investing in its stores and upgrading its online operations. Some critics, though, have argued the company isn't moving fast enough in its turnaround efforts as department stores continue losing market share to off-price chains.

J.C. Penney is one of few retailers not to benefit from a stronger consumer economy. The department-store retailer is expected to post a wider loss and a drop in sales on Thursday, continuing a long slump. Penney has closed stores, cut jobs and reduced inventory, but its shares now trade below $2, down from a high above $80 in 2007. New CEO Jill Soltau, formerly of Joann Stores, has been tasked with turning about the troubled company.

Write to Lauren Pollock at lauren.pollock@wsj.com

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The New York Times

Business/Financial Desk; SECTB
Markets Slump as Oil Prices Keep Dropping and China's Economy Falters

By THE ASSOCIATED PRESS
669 words
10 November 2018
The New York Times
NYTF
Late Edition - Final
2
English

Markets fell Friday as a combination of weak economic data from China and disappointing earnings hurt shares in technology and internet companies. Crude **oil prices** fell for the 10th day in a row.

Auto sales in China fell in October for the fourth month in a row and are down 13 percent from a year ago, the latest sign its economy is under pressure. Concerns about China's economy and its trade dispute with the United States contributed to the global **stock market** skid in October. The stocks that fared the worst during that time included tech and internet companies and retailers, which all took sharp losses Friday.

''China has played such a critical role in driving global growth,'' said Kristina Hooper, chief global market strategist for Invesco, adding that investors ''are having concerns that these tariff wars are essentially going to kick China when it's down.''

The price of United States crude oil slipped 0.8 percent, to $60.19 a barrel, to extend its losing streak. Its price has fallen for five weeks in a row and tumbled 21 percent since Oct. 3. Shares of energy companies have suffered steep losses during that time.

The **S&P 500 index** dropped 25.82 points, or 0.9 percent, to 2,781.01. The **Dow Jonesindustrial average** fell 201.92 points, or 0.8 percent, to 25,989.30. The **Nasdaq composite** sank 123.98 points, or 1.6 percent, to 7,406.90.

The Labor Department said wholesale prices jumped, and Ms. Hooper said that could be linked to the tariff dispute as well. Wholesale prices rose by the most in six years in October as gas, food, and chemical prices increased. The Labor Department's wholesale price index has climbed 2.9 percent over the last year.

Shares of the video game maker Activision Blizzard tumbled after its forecast for the critical holiday season fell short of analysts' projections. The stock fell 12.4 percent to $55.01, and shares of a rival, Electronic Arts, lost 5.3 percent to $88.89.

Shares of major technology and internet companies also turned lower. Apple stock fell 1.9 percent to $204.47 and Facebook stock shed 2 percent to $144.96. Shares of Amazon lost 2.4 percent to $1,712.43.

Walt Disney's net earnings were better than expected, as the entertainment giant raked in revenue from movies including ''Avengers: Infinity War,'' '''Incredibles 2'' and ''Ant-Man and the Wasp.'' The stock gained 1.7 percent to $118.

Shares of the online reviews company Yelp nose-dived after it posted weak third-quarter revenue and its forecast for the fourth quarter also fell short of Wall Street's estimates.

Bond prices rose. The yield on the **10**-**year Treasury** note fell to 3.19 percent from 3.24 percent.

In other commodities trading, natural gas prices jumped 5 percent to $3.72 per 1,000 cubic feet. That helped gas companies stem their losses. Heating oil was little changed at $2.17 a gallon and wholesale gasoline fell 1.4 percent to $1.62 a gallon.

Gold fell 0.3 percent to $1,207.70 an ounce. Silver lost 2 percent to $14.14 an ounce. Copper slid 1.9 percent to $2.68 a pound.

The dollar slipped to 113.78 yen from 113.97 yen. The euro fell to $1.1336 from $1.1359.

The Nikkei 225 declined 1 percent in Japan, while in Hong Kong, the Hang Seng slumped 2.4 percent. The Kospi was down 0.3 percent in South Korea.

In Germany, the DAX was little changed and in France, the CAC 40 lost 0.5 percent. The FTSE 100 was also down 0.5 percent in Britain.

CHART: The **S&P 500 Index**: Position of the **S&P 500 index** at 1-minute intervals on Friday. (Source: Refinitiv)

Document NYTF000020181112eeba0000e

THE WALL STREET JOURNAL.
U.S. EDITION

EXCHANGE --- Heard on the Street: Businesses Curb Tax-Cut Enthusiasm --- With more money coming in, consumers have opened their wallets; companies are holding on more tightly

By Justin Lahart
788 words
10 November 2018
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

The tax cut passed late last year was supposed to spur a wave of spending by consumers and companies that would boost demand, rekindle productivity and set the economy on a higher growth trajectory. So far consumers have held up their part of the bargain. But businesses? Not so much.

Give people more money, and they will spend plenty of it. It is a lesson that has guided past tax cuts and fiscal stimulus plans, and it looks like it still holds true. About 80% of U.S. households received a tax cut this year, and, in combination with continued strength in the job market, that has provided a powerful boost to the economy. The Commerce Department's most recent report on gross domestic product showed that consumer spending grew at a 4% annual rate in the third quarter.

That has been good news for consumer-facing companies, as should be evident when retailers including Walmart and Nordstrom report third-quarter results next week. Analysts polled by Refinitiv expect same-store sales across 91 traditional retailers will be up 3.7% from a year earlier, on average, more than double the third-quarter 2017 gain of 1.7%. Right now, consumers are the best thing the economy has going for it, and retailers are the biggest beneficiaries.

On the other hand, even though the reduction in the corporate tax rate to 21% from 35% is providing a big boost to companies' profits, there has been a marked slowing of growth in capital spending in recent months. Business investment grew at just an 0.8% annual rate in the third quarter, down from the second quarter's 8.7% and the slowest pace since the fourth quarter of 2016. The Federal Reserve noted after its policy meeting Thursday that business spending "has moderated from its rapid pace earlier in the year."

Recent weakness in monthly order figures for capital goods suggest that business spending will remain lackluster this quarter as well. Likewise, a survey conducted by Duke University's Fuqua School of Business showed that as of the third quarter, chief financial officers expected capital spending at their companies to grow by 5.7% on average over the next 12 months. In the first quarter, they expected spending to grow by 11%.

In discussing their third-quarter results, several companies said they expect to spend less this year than they had previously forecast. Union Pacific, for example, lowered its capital spending guidance by $100 million to $3.2 billion. Chief Financial Officer Robert Knight said the company was "being disciplined around our capital spending."

The decline in capital spending implies that businesses have a more cautious outlook on the economy than consumers. Instead of investing to boost output and increase efficiency, companies have used their tax windfall to return money to shareholders. Companies in the **S&P 500** spent a combined $600 billion on buybacks and dividends in the first half of this year -- up $142 billion from a year earlier -- according to S&P Dow Jones Indices.

These moves will lessen the impact of an expected slowdown in earnings growth early next year when the profit boost from the tax cut reaches its anniversary. In a perfectly rational world that wouldn't matter, since the absolute level of earnings will still be significantly higher as a result of the tax cut. But many investors' knee-jerk response to earnings slowdowns is to clamor for companies to cut spending to keep profit growth strong.

The biggest impact of the capital spending slowdown will be companies that make construction machinery, factory equipment and basic materials, all sectors that have lagged behind the market recently. Over the longer term, a slowdown would also augur poorly for the economy at large. Productivity growth has been persistently weak in recent years, in part because of a stretch of weak business investment that goes back to before the financial crisis.

In fact, one of the big selling points of the corporate tax cut was that it was going to change that dynamic. Companies would invest more, and that would boost productivity, allowing the economy to pick up pace without overheating. Wages and profits would rise faster, and that would help the tax cut pay for itself.

But unless companies have a change of heart and devote more of their money to capital spending, the corporate tax won't provide nearly the bang for the buck that the individual tax cut did.

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Document J000000020181110eeba0001d

THE WALL STREET JOURNAL.
U.S. EDITION

EXCHANGE --- A Second Wind Post-Rout

By Michael Wursthorn
518 words
10 November 2018
The Wall Street Journal
J
B11
English

Money managers are doubling down on stocks after a brutal October selloff, as cheaper valuations and the potential for continued profit gains help support a rebound among equities.

UBS Group AG said Thursday it was increasing its exposure to stocks, including in the U.S. and emerging markets, while asset-management giant BlackRock Inc., BMO Global Asset Management and QMA, the $128 billion quant-equity arm of PGIM, Prudential Financial's investment-management business, all recently reiterated their preference for stocks.

The pronouncements come as many investors are still trying to determine where major indexes are headed after stocks around the world lost about $4.5 trillion in value last month. For many, the selloff was swift and jarring as companies were in the midst of reporting another quarter of robust profit growth.

But cheaper valuations and expectations that profits will continue to grow in 2019, even without the benefit of a massive corporate tax cut, have supported asset managers' moves to increase exposure to stocks.

The outlook has contributed the **S&P 500**'s 2.6% gain so far in November, bringing the broad index up 4% for the year as it continues to work on recouping its October losses.

"Although we are mindful of the potential risks of adding to stocks against such a backdrop, we believe the scale of the selloff has been disproportionate," UBS's investment strategists wrote in their note, saying they would increase exposure to stocks after paring back their position in July.

"Even if we use our own relatively cautious estimates on earnings for 2019, which include the expected impact of tariffs in the U.S. and Asia and a modest slowdown in headline economic growth, valuations still look favorable," the bank added.

The **S&P 500** is trading near its lowest average valuation of the year.

The broad index is currently trading at 16 times forward earnings, down from 17 times at the end of the September, according to FactSet. Meanwhile, the risk premium among U.S. shares stands at 4.6%, above the long-term average of 3.2%, UBS added.

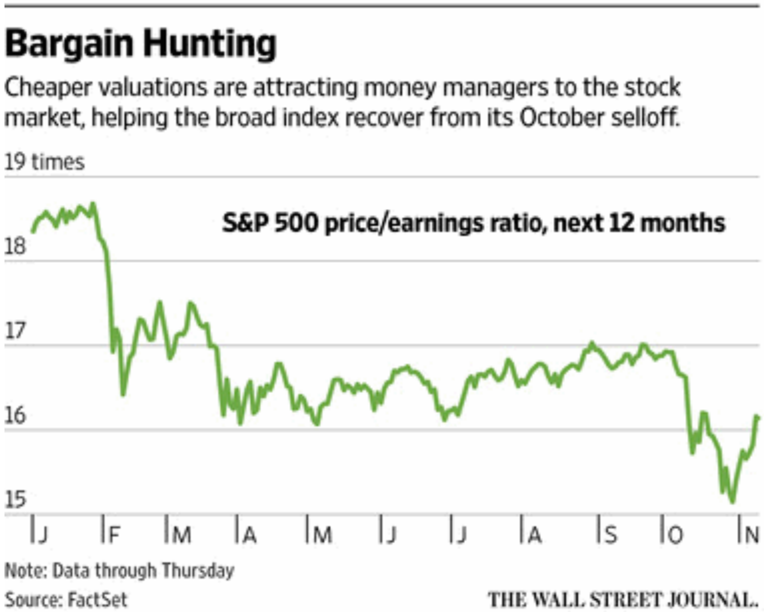
"With solid corp earnings, valuations have become more attractive given the selloff over the last month, removing a potential headwind," said Jon Adams, an investment strategist at BMO, which is overweight U.S. equities.

In emerging markets, equities are now trading at 11 times future earnings, a discount to the 30-year average of 13 times, according to UBS. European stocks are trading at 12 times future earnings, versus a long-term average of 16 times.

Still, analysts warn that the recent turbulence among stocks is likely to continue.

Trade negotiations are ongoing and investors expect further **volatility** ahead of and during the Group of 20 summit later this month in Argentina, where President Trump and Chinese President Xi Jinping are expected to meet.

Expectations for political gridlock in the U.S. with a divided Congress could also send shockwaves through the **stock market** in the near term, several analysts said.



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THE WALL STREET JOURNAL.
U.S. EDITION

EXCHANGE --- Banking & Finance News: Jumpy Bitcoin Calms Down

By Steven Russolillo
436 words
10 November 2018
The Wall Street Journal
J
B10
English

Cryptocurrencies, among the most **volatile** of financial assets, have fallen quiet even as turmoil has gripped stocks, bonds, commodities and traditional currencies.

Bitcoin has mostly traded around $6,500 in recent weeks, in contrast to last year's manic rally and the steep plunge that followed this year. Enthusiasts hope muted swings could help cryptocurrencies, of which bitcoin is the largest, gain traction as a means of transaction.

Since Oct. 1, bitcoin has moved at least 2% on only three days. By comparison, bitcoin averaged daily moves of 5% in late 2017 and earlier this year, while frequently notching double-digit percentage swings.

Bitcoin's recent action contrasts with more traditional markets. For instance, U.S. stocks in October suffered their worst month in more than seven years, and the **S&P 500** has had four swings of at least 2% since the beginning of last month. Meanwhile, bond yields have soared, many emerging-market currencies have tumbled, and U.S. crude oil has entered a **bear market**.

Bitcoin's 30-day **volatility** recently fell to the lowest since December 2016, whereas a similar measure for the **S&P 500** jumped to its highest since March. The two measures, which reflect how much prices have varied in the past month or so, are now roughly equivalent.

"I've got a bunch of buddies running equity hedge funds and they're joking over the past month or so that they want to come over into the calm crypto market," said Peter Smith, chief executive of Blockchain Ltd., a cryptocurrency-wallet service.

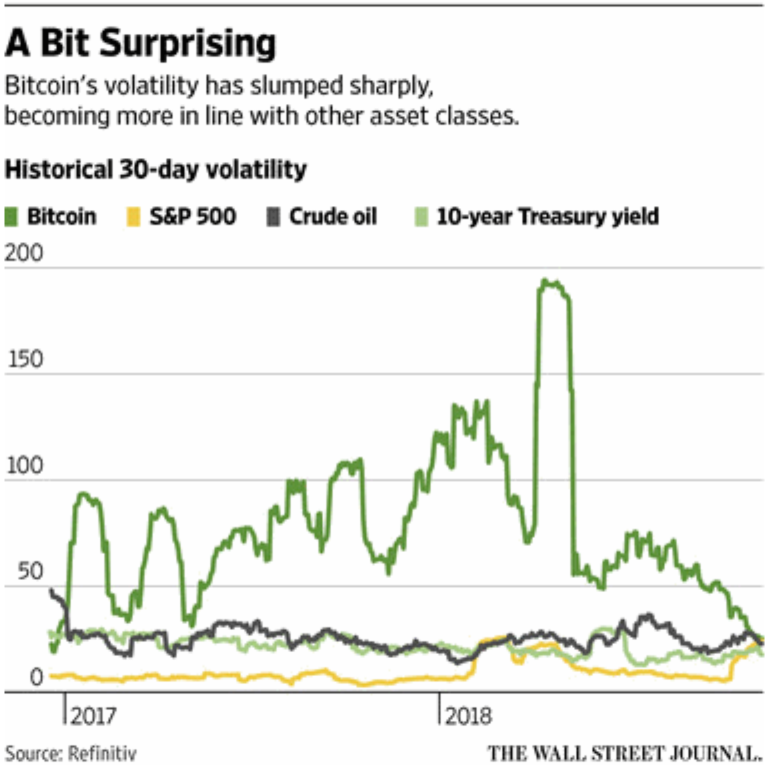
Some investors say the stability is due to speculators fleeing the market. Bitcoin's average daily trading volume in October was about 70% lower than the most active days last December, according to bitcoinity.org.

"We're seeing some institutional buyers come in as other assets are dropping," said Tony Gu, founding partner at NEO Global Capital, a blockchain investment fund with about $400 million in assets under management.

Bitcoin's absolute **volatility** is still higher than traditionally stable assets, such as developed-world government bonds or major currencies. But its **volatility** has trended lower as many other asset price swings have increased.

Rivals such as Ethereum, XRP and Bitcoin Cash have also been relatively steady. Since August, the value of all cryptocurrencies has mostly held just above $200 billion, according to research site CoinMarketCap.

Morgan Stanley analysts say the stability suggests investors are waiting for the next technological development that gets more people to use cryptocurrencies.



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THE WALL STREET JOURNAL.
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EXCHANGE --- Oil Suppliers Set to Clash Over Output --- Russia likely to oppose crude-production cuts

By Benoit Faucon, Christopher Alessi and Summer Said
740 words
10 November 2018
The Wall Street Journal
J
B1
English

U.S. sanctions aimed at shrinking Iranian oil exports to zero are less than a week old, but when officials from Saudi Arabia and Russia meet Sunday, supplying more oil to global markets won't be on the agenda.

Instead, with crude prices in **bear market** territory, the world's two largest producers are preparing to debate -- and likely split -- on output cutbacks, following reports from the Organization of the Petroleum Exporting Countries that point to a ballooning oil glut and **bearish** prices in the first half of 2019.

At the gathering in Abu Dhabi, Saudi Arabia, Russia and other oil-producing nations are set to consider output cuts for next year of as much as 1 million barrels a day, according to OPEC officials.

"Saudi Arabia realizes that there might be a need to reverse course next year and wants to look at the options," said a senior Saudi official.

However, Russia is likely to oppose any reductions, experts say.

The potential disagreement between key allies comes as OPEC labors under unprecedented pressure. Iran is accusing the cartel of helping to replace its oil on global markets while President Trump has repeatedly attacked it with assertions that it is pushing **oil prices** too high.

OPEC members are absorbing reports of Saudi research that seeks to understand how oil markets might fare if the cartel were to break up.

Since late September, when the group last met in Algiers, the price of Brent crude, the global benchmark, has fallen by more than $10 per barrel. In roughly the same period, U.S. **oil prices** have dropped 21% to $60 a barrel -- an eight-month low.

Oil prices extended declines after the U.S. said Monday it would allow eight countries to continue buying sanctioned Iranian crude. Selling continued after U.S. oil inventories rose again, driven by mounting production and weakening fuel demand. U.S. prices tumbled for 10 straight sessions through Friday, the longest losing streak since 1984.

"Suddenly, supply risks have taken on a different meaning," said Norbert Rucker, head of macro and commodities research at Swiss bank Julius Baer in a note Thursday. "The noise around the embargo against Iran is calming and the oil market's focus is shifting to the prospects of oversupply next year."

At the Abu Dhabi gathering, assembled countries plan to study a host of market scenarios and hope to reach a consensus on production levels for next year, according to OPEC officials. Under one option, the cartel would keep production unchanged, leading to a surplus of about 1 million barrels a day in the first half of 2019, the officials said.

OPEC pumped 32.76 million barrels a day in September, which is 1.13 million barrels a day more than the market will need in the first half of 2019, according to the cartel's latest public report. The report said preliminary data for September showed that U.S. commercial oil stocks rose for a third consecutive month and American oil production would grow by another 1.38 million barrels a day next year.

Another plan would foresee a return to the 100% compliance to individual reductions that the group and its Russian-led allies agreed to in 2016, the officials said.

The biggest snag is likely to be Russia, the world's largest producer and senior partner of OPEC. On Wednesday, Russia's oil minister Alexander Novak said the market was well-balanced and that he was keeping his options open, according to Russian news agency Prime.

Matthew Sagers, head of the Russian energy advisory at IHS Markit, said Russia would be reluctant to cut production again.

Chris Weafer, a senior partner at Moscow-based consultancy Macro Advisory, said there was much less pressure on Russia to agree to a new production deal with OPEC than in 2016, because it no longer needs high **oil prices**.

Budget discipline means the Russian federal budget will balance with $53 per barrel oil in 2018 and is heading toward a break-even of $44 in two years, Mr. Weafer said, compared with a break-even of $115 in 2013. At an average of $75 per barrel in 2018, the budget will run a surplus of $25 billion this year, he added.

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EXCHANGE --- The Intelligent Investor: Talking Back to the Stock Spam in Your Inbox

By Jason Zweig
773 words
10 November 2018
The Wall Street Journal
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B1
English

In late October, as the **stock market** was floundering, brash emails started to appear in my inbox.

With the subject line "Stock Exchange predictions for tomorrow and next trading week," the messages said they contained forecasts "generated by 7,445 adaptive machine intelligence models . . . that predict stock movements one day and one week in advance" at an average accuracy of 72.45%.

Human intelligence usually fails to predict where stocks are headed in the short term, so I decided to see whether artificial intelligence is better at it. I used the most basic guidelines I know, from the chapter "How to Talk Back to a Statistic" in Darrell Huff's classic 1954 book, "How to Lie With Statistics."

To help determine whether evidence is valid, Mr. Huff suggested asking five questions. Following along as I apply his method here may help you size up other investment approaches elsewhere.

Question One: Who says so?

Peter Simmons, founder of Self Aware Apps LLC of Aurora, Colo., and a 20-plus-year veteran of the software industry, operates AIEquityPredict.com, the website that has been sending me the emails.

"I'm not monetizing this in any way," says Mr. Simmons, 60 years old. His firm isn't a brokerage or financial adviser and doesn't have positions in any of the stocks it is analyzing, he says. Nor is he selling subscriptions; the emails are free.

Mr. Simmons says he is running the service largely as "a social experiment," to see whether artificial intelligence can excel at picking stocks. He has no professional investing experience.

Question Two: How does he know?

AI Equity Predict uses open-source artificial-intelligence software -- freely available programs that can train computers to identify predictive patterns in data -- to try forecasting short-term stock returns, says Mr. Simmons.

His software draws entirely on public data, including short sales (bets against a rising **stock price**), daily trading volume, changes in volume, and new high or low prices.

Many other companies already purport to forecast stock prices with similar techniques, although the track record of firms investing real money in artificial-intelligence strategies is spotty at best.

Mr. Simmons says AI Equity Predict's claim that its "average model accuracy is 72.45%" measures the five-day rolling average of its predictions for the 2,345 individual stocks it has modeled -- not for any stock indexes.

Question Three: What's missing?

I tracked AI Equity Predict's daily forecasts for the S&P since its emails started arriving. Its "next day" predictions for Oct. 23 through Oct. 31 -- a total of seven trading days -- were "down" every time. Yet, over the same period, every one of its "next week" predictions -- covering the five successive trading days -- was "up."

"That's a good question," says Mr. Simmons when I ask him how that could be. "That's something going wrong on the back end. That's definitely challenged."

Question Four: Did somebody change the subject?

AI Equity Predict says that the "S&P" is among the groups of stocks it forecasts. That turns out to be not the **S&P 500 index**, but only 30 of its stocks.

The largest is Facebook, at 1.6% of the total market value of the **S&P 500**. All told, the 30 stocks add up to a mere 6.1% of the total market value of the **S&P 500**.

So AI Equity Predict isn't forecasting whether the **S&P 500** will go up or down. It's predicting whether a few scattered and mostly obscure stocks, accounting for less than one-sixteenth of the total index, will go up or down.

"Those are the only ones that the models can predict for so far," says Mr. Simmons. Thus, his estimates of forecasting accuracy exclude all the stocks his software isn't ready to forecast.

Question Five: Does it make sense?

Perhaps someone with no investing background, using publicly available data and free software, could discover the Holy Grail of predicting tomorrow's stock returns today. Stranger things have happened, but that doesn't make it likely.

After answering my questions, Mr. Simmons says he will stop distributing forecasts for the **S&P 500** (but not other markets) until he has models for more of its stocks. "It could be right," he says, "but I agree the sample's not big enough."

He adds, "As you probably perceived, I'm not a financial guy at all."

Elisa Cho contributed to this column.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
Confidence Is a Commodity in Short Supply in China; The word 'uncertainties' characterized Chinese companies' near-term outlooks, despite a pretty healthy third quarter for many.

By Jacky Wong
355 words
9 November 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

One thing is certain in China these days: Businesses are feeling uncertain.

Chinese companies for the most part reported decent third-quarter earnings in the past couple of weeks, but few seem confident about the future. The latest striking example came when **Nasdaq**-listed online travel agency Ctrip.com said it expected its adjusted operating margin to decline to 0%-1% in the current quarter, down from 20% last quarter, citing accounting changes but also a likely hit to revenue growth due to China's slowing economy. Ctrip's stock plunged 19% Thursday, its largest one-day drop since it listed in 2003.

Executives at e-commerce giant Alibaba meanwhile used the words "uncertain" or "uncertainties" seven times in their earnings conference call last week—compared with zero times in the previous nine quarters. It cut its revenue guidance for the fiscal year ending March citing "fluid macroeconomic conditions," with its chief financial officer adding the decision to revise its forecasts was only taken recently. Search-engine giant Baidu and rival Sogou—backed by Tencent—were among others to use "uncertainties" when describing the outlook.

So what can investors be sure of anymore?

Firstly, Chinese consumers, who kicked off this year in an upbeat mood, have become much more cautious. Sales of big ticket items have already fallen off a cliff: Auto sales slumped 12% in October. They may now pull back spending on discretionary items such as travel, clothes and phones. The U.S.-China trade fight may have dampened sentiment, but a more important factor has been China's domestic credit tightening. China's property market—the main source of wealth in the country—has also started to look shaky: sales in major cities have dropped in the past two months, according to property research firm CRIC.

The only certainty for investors right now is that things in China can still get worse.

Write to Jacky Wong at JACKY.WONG@wsj.com

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THE WALL STREET JOURNAL.

Life
The One Time American Troops Fought Russians Was at the End of World War I—and They Lost; Thousands of U.S. soldiers sent to guard military storehouses from the Germans were instead ordered to wage war on the Bolsheviks

By Michael M. Phillips
4,653 words
9 November 2018
09:00 AM
The Wall Street Journal Online
WSJO
English

In late February 1919, the soldiers of Company B reached the breaking point, when griping gave way to mutiny.

The Americans had expected to face Germans on the Western Front. Yet three months after the Nov. 11 armistice ended the Great War, they were instead fighting Bolshevik revolutionaries in Russia's frigid European north.

Dozens of their fellow troops had succumbed to influenza on the sea voyage to the Russian port of Archangel. Others had been killed in combat by an enemy armed with a local's knowledge of trails and villages. Wounded Americans had frozen to death awaiting rescue in snowy forests.

Over the fall and winter, U.S. troops felt misled by their government, deceived by their officers, abused by their allies and outgunned by their enemy, fighting in a war that was already over.

Many Americans demonstrated bravery and fortitude in the frozen-mud swamps and pine forests around Archangel. Others gave into the temptations of rebellion.

The discontent blistered to the surface on Company B's ration day, when the men in line realized the Army wasn't issuing enough food to hold them until the next delivery. "Hey, fellows, let's stop all the God damn talk and do something," Pvt. Bill Henkelman told the other soldiers.

Pvt. Henkelman and three others drafted an ultimatum addressed to the regiment commander. If not withdrawn from the front by March 15, 1919, the soldiers wrote, "we positively refuse to advance" against the enemy.

Pvt. Henkelman, who painted car bodies at Detroit's American Auto Trimming Co. before being drafted, told the soldiers he would cross enemy lines alone, carrying a white flag. He would invite the Bolsheviks to a goodbye party. Then he and his co-conspirators would walk away from the war.

Four days later, U.S. Army officers caught wind of the plot. Pvt. Henkelman was hauled before a court-martial and charged with treason, desertion and mutiny—crimes punishable by death.

At the hearing, the private tore open his uniform blouse and exposed his chest to the judges: "Look at the lice, the dirt, the filth. We are half-starved," he said in his defense. "But none of you have lice or go hungry."

Washington and Moscow have been hot-war allies and Cold War adversaries. The only time U.S. and Russian troops battled each other came a century ago, with the heaviest fighting in the Archangel campaign that so aggrieved Pvt. Henkelman. It didn't go well for the Americans, a loss all but erased from the country's collective historical memory on the 100th anniversary of the end of the Great War.

In the early years of World War I, Imperial Russia fought beside France, Britain and the U.S. against Germany and its allies. Then the 1917 Russian Revolution upended the alliance.

The Bolsheviks seized power in Moscow and, on March 3, 1918, signed a peace deal with Germany. The pact allowed Germany to focus on the Western Front. The Bolsheviks, led by Vladimir Lenin, turned to defending their revolution from White Russians, supporters of czarist rule who were backed by the British and French.

In the late summer and early fall of 1918, President Woodrow Wilson added some 5,300 American soldiers to that **volatile** mix, sending them to northern Russia with vague and contradictory orders.

This account of the 1918 Archangel campaign is based on century-old military records, declassified government memos, personal letters, diaries, photos and film in the National Archives and Records Administration, and the Bentley Historical Library at the University of Michigan, as well as soldiers' memoirs.

E for Russia

The 339th Infantry Regiment was known as Detroit's Own. Most of the 3,800 car-factory workers, tax attorneys, farm laborers, shopkeepers and other conscripts who filled its ranks hailed from Michigan.

The men underwent a month or so of infantry training at Camp Custer in Battle Creek, Mich., before traveling to New York and embarking on ships to England in July 1918.

The troops assumed they were headed to the Western Front, a 450-mile stretch of trenches and barbed wire that ran between Switzerland and the North Sea. Rumors of other destinations also circulated.

Pvt. Walter McKenzie figured his mail would be censored. So he wrote his girlfriend, Connie Loveday, that he would use code to let her know where he was headed: A would be Belgium; B would be England; E for Russia. Pvt. McKenzie urged her to memorize the code and destroy the letter, but Ms. Loveday kept it.

The private was raised by his widowed mother, and at age 9 he went to work picking fruit in Shelby, Mich. At 14, he got a permit for a factory job. He worked his way through the University of Michigan, earned a law degree and became a lawyer for the Internal Revenue Service. Poor eyesight didn't keep him out of the service.

Aboard ship, the men slept in sling beds hung close to the ceilings. Unaccustomed to hammocks or sea voyages, some tumbled onto the floor. "I am sorry to say that extreme profanity is common at all times," Pvt. McKenzie reported to his mother. As they approached England, the soldiers, fearing torpedoes from German submarines, slept in their clothes and life belts, full canteens by their sides.

The ships put in at Liverpool on Aug. 4, 1918. The troops rode a train to a tent camp set up on the estate of the widow of Henry Stanley, the Africa explorer.

On Sunday, Aug. 18, Pvt. McKenzie was heading to church services when commanders ordered the troops to line up to receive woolen suits, woolen gloves and heavy leather mittens.

"It's still conjecture as to where we shall go," Pvt. McKenzie wrote his mother, "but I don't believe it will be sunny Italy."

A week later, the 339th, along with engineering, ambulance and medical companies, loaded aboard three camouflage-painted steamers at Newcastle upon Tyne and set out on the eight-day journey to the port of Archangel.

Godforsaken

After a few days at sea, the first soldiers showed symptoms of Spanish flu, a pandemic that in 1918 and 1919 killed between 20 million and 40 million people world-wide. Men came down with fever faster than the doctors could treat them. Drug supplies ran short; medical wards overflowed.

The ships cruised north of the Arctic Circle, passing polar bears and snow-covered hills, sailed through the narrow neck of the White Sea and entered the Dvina River.

On the gray afternoon of Sept. 4, 1918, the men disembarked at Archangel, a crescent-shaped port with grubby docks, muddy streets and a cathedral dome painted blue with gold stars.

The city had been wrested from Bolshevik hands just a month earlier, in an operation led by French, British and White Russian forces.

As the American soldiers walked down the gangplank, they were greeted by the University of Michigan fight song, "The Victors," played by the band from the warship USS Olympia.

Hail to the victors valiant

Hail to the conquering heroes

Hail! Hail! To Michigan

The champions of the West!

Hungry Russians soon descended on the ship's trash, looking for scraps of food.

"This is really the most godforsaken hole on Earth," Lt. Charles Ryan, an accountant by profession, wrote in his diary. "Never did I strike such a fine set of assorted odors. The people are filthy and seem starved to death."

Within two weeks of arriving in Archangel, nearly 40 soldiers in the 339th had died of the flu. "We have lost a great number, this included some very good friends of mine," Lt. Ryan wrote home.

Around the time President Wilson dispatched the force to Archangel, he had also ordered a separate contingent to Siberia, 3,500 miles east of Archangel. Their mission was to rescue 40,000 Czech troops who had sided with the Allies and were trying to escape Russia. Mr. Wilson's orders for the Archangel campaign weren't as clear-cut.

The men of the 339th disembarked in Russia with the understanding that they were to guard military stores from the Germans. The Wilson administration made plain that Americans wouldn't intervene in the civil war, saying that would only "add to the sad confusion in Russia rather than cure it."

But Mr. Wilson put the U.S. troops under British command, and British commanders had other ideas. They envisioned British, American, French and other Allied forces pushing south from Archangel to link up with the Czechs and reverse the Russian Revolution.

Almost as soon as the 339th set foot on the dock in Archangel, the British ground commander, Lt. Gen. Frederick Poole, ordered two U.S. battalions to reinforce his men against the Bolsheviks.

The Americans were sent into combat so quickly, there wasn't time to unload their winter gear from the holds of the transport ships. The men didn't receive their sheepskin coats until after the first snow in October.

One battalion moved more than 300 miles southeast along the Dvina River to help British troops in a failed lunge for Kotlas. The other shipped out in boxcars along the rail line in an aborted British attempt to capture Vologda, a transportation hub about 460 miles south of Archangel.

That wasn't what President Wilson had authorized. But the commander of the 339th obeyed the British general's orders, and Washington didn't object.

Within days of coming ashore, the inexperienced Americans were engaged in heavy combat with Bolshevik troops armed with airplanes, artillery and machine guns.

Hard tack

In their first firefight that September, the American soldiers of Machine Gun Company spent a week knee-deep in swamp water. Bolshevik artillerymen began their barrage before daylight.

One man was killed, three were wounded and one was sidelined with shell shock in the battle against the Bolos, as they called the enemy. "Say a prayer for Charlie," Lt. Charles Ryan wrote his girlfriend.

At the front, troops often survived on canned corned beef and hard tack.

Some soldiers got lucky. For a short time, Lt. Ryan holed up in a convent on the Dvina River, where he dined on vegetable soup, boiled potatoes, roast pheasant and canned pears. He contributed his flour ration to the kitchen, and the nuns baked white bread.

One battalion of the 339th remained in the rear, in Archangel. The men watched Charlie Chaplin movies and danced with Red Cross nurses and local women with bob haircuts. Troops decorated the mess halls with flags and evergreen boughs. They visited red brick bathhouses, alternating between steam rooms and cooling rooms.

"I made a hit with an eskimo girl spent the day riding around the Divina River with a Reindeer taking photographs," Cpl. Fred Kooyers of Muskegon, Mich., wrote in his diary. Not long after, the major gave him a lecture on venereal disease.

Two months after the 339th arrived in Archangel, the Great War came to an end with the signing of the armistice in a train carriage parked in a French forest. Within hours, the guns fell silent on the Western Front.

"It looks…as if our going home was rapidly becoming an assured fact," Pvt. McKenzie wrote his mother from Russia the day after the signing.

The men of the 339th soon learned the peace agreement didn't extend to them. "I don't see why we are up here anyway, as the war was with Germany not Russia as far as I can see," Sgt. Carleton Foster wrote his mother from Archangel two weeks after the armistice. "If these people want to fight among themselves what is it to us."

American commanders were hard-pressed to explain. Col. James Ruggles, the U.S. military attaché in Archangel, told headquarters that neither enlisted men nor their officers could understand why they were still fighting.

His concerns reached Gen. John "Black Jack" Pershing, commander of U.S. forces in the war, and then landed on the desk of the Army chief of staff in Washington.

By December, the daylight around Archangel lasted only about four hours, and temperatures fell as low as 50 degrees below zero. In such cold, soldiers could only remain on guard duty for 15 minutes at a time.

With so many U.S. field units under the command of British officers, American soldiers on the front lines believed they were "being used to further selfish designs of England upon Russian territory," Col. Ruggles reported.

U.S. censors in Liverpool, who rifled through the letters soldiers sent home, cabled Archangel to complain about anti-British missives. "They are unsoldierly in tone," the message said.

One letter caught by the censors read: "America does not have the least conception of this situation, if they did they would pull us out of here without any hesitancy," Sgt. Thomas F. Moran wrote in December. "We are fighting for British interest and spilling good American blood and wasting good American lives for a cause that our government surely does not understand."

Bolshevik propaganda specialists encouraged such dissension. "Young America, what are you fighting for?" the Bolsheviks yelled across the battle lines, according to a letter home in December from Lt. Bradley Taylor. "Why are you lying in the swamps while the British are sitting in the rear and enjoying nice warm billets?"

U.S. military censors intercepted the lieutenant's letter before it reached his family in Rhinelander, Wis.

The Call, a Bolshevik propaganda newspaper, circulated among the U.S. troops. "Workers of All Countries Unite!" the paper's motto said.

Bolshevik leaflets littered the front lines. "Bring down the whole rotten edifice of your capitalist state with the shattering blow of your arms!" said one. "Demand to be sent home," another said.

U.S. officers tried to boost morale. At Christmas, every soldier in Company K received 50 cents to spend on plum pudding and other luxuries at the British canteen in Archangel. The Red Cross issued each man a Christmas stocking filled with raisins, dates, candy, cigarettes and the other sock.

'Unswerving loyalty'

On Jan. 19, 1919, the Bolsheviks launched an offensive that proved a turning point.

The Americans in the fall had often faced poorly trained Bolshevik conscripts. The 339th now found itself under attack by 4,000 or so battle-hardened troops. The Bolsheviks first hit Ust Padenga—a village on the Vaga River where the Americans had hunkered down for the winter—with three days of artillery and machine-gun fire.

During the fighting, Cpl. James Chesher's machine gun was knocked over by artillery fire. He propped it up and kept shooting until his arm was blown off. Cpl. Joseph Franczak fought off advancing infantry from an exposed position on a road until his hand was shot away.

Lt. Ralph Powers, a medic from Amherst, Ohio, moved his aid station three times in search of cover, before a direct hit by a Bolshevik artillery round critically wounded the lieutenant and killed three of his patients.

A Russian doctor administered first aid to Lt. Powers's wounded arm and leg. Soldiers loaded the lieutenant onto a sleigh and evacuated him 20 miles north to the town of Shenkursk. A surgeon there amputated his arm, but he didn't survive.

The rest of the joint forces in Ust Padenga—American infantry, Canadian artillerymen and a company of Cossacks—also fell back to Shenkursk. They held out for two days, until nearly surrounded by the pursuing Bolsheviks.

The Americans had to leave Lt. Powers's body in a shed by the hospital when they abandoned the town. They and their allies retreated on foot another 50 miles, chased through snow by enemy troops. Some 700 civilians fled with the retreating forces.

During the battle, 29 Americans were killed and 58 wounded; 19 went missing. "Most of those missing are believed to have been wounded and probably frozen," the regimental commander reported to headquarters.

Col. Ruggles, the U.S. military attaché, declared the situation around Archangel critical: Too few American troops were spread over too wide a front, facing an enemy superior in numbers, arms and morale.

Back in Michigan, enthusiasm slumped, fueled by pessimistic news dispatches and the horror stories told by wounded soldiers who had returned home.

Lt. Powers's father, Dr. Harry W. Powers, wrote the U.S. military attaché in Archangel a few weeks after his son's death: "We want to have his body returned to the United States when conditions will permit."

In February, thousands of family members and their supporters signed a petition to Congress demanding a withdrawal from north Russia—or at least reinforcements and better food.

The families swore their "unswerving loyalty" to the U.S. At the same time, they complained that the American troops in northern Russia "not only are suffering incredible hardships, but are in grave danger."

The commander of the 339th, Col. George Stewart, was swamped with letters from parents who wanted to know if their sons were still alive. The deluge was "interfering with official business," the colonel wrote, begging headquarters to put the word out to Detroit and Chicago newspapers that the situation around Archangel was under control.

Winter discontent

White Russian soldiers were the first to mutiny that winter.

On Dec. 11, 1918, two companies from the Archangel Regiment refused orders to the front. The rebels barricaded themselves in the Alexandra Nevsky Barracks and shot at loyal Russian troops sent to dislodge them. American troops, summoned to contain the uprising, fired machine guns through the windows. The mutineers emerged under a white flag.

The Russian commander ordered the troops to identify the instigators of the revolt, threatening to execute every 10th man if they didn't. Loyal troops lined up 13 of the alleged leaders against a wall and shot them.

On March 1, the French Second Company refused to relieve American troops along the Archangel-Vologda rail line. The French soldiers finally agreed to advance, but only to a position behind the front, where they drank heavily. Soon after, the French stopped fighting.

In March, a detachment of Royal Scots along the Dvina River ignored orders to travel through deep snow to burn a nearby village. The Scots, who had fought fiercely in the summer of 1918, "came to be regarded as an unreliable fighting unit," a U.S. military report said.

Discontent turned to disobedience among the American troops as well.

Soldiers in Company A of the 339th tried to forge a separate peace with Bolshevik soldiers across from their lines. One American, apparently the son of Russian or Eastern European immigrants, drafted the truce offering in rough Russian on Knights of Columbus stationery decorated with an American flag. The writer complained about the deceit of the British officers and the absence of British troops on the front lines.

"We are combating you and fighting you only to stay alive," the letter said. "We support your desire to give up the crown and throw the Tsarism down to the ground, and we are ready to help you because it's for the good of the working people."

The note, signed by "The Soldiers of the United States," said: "We will not attack you and if you, dear comrades, will hold off for two-and-a-half months, we will all go back home from Russia." It wasn't clear whether the note was ever delivered.

At first, the commander of the 339th, Col. Stewart, sent rosy cables to headquarters. "Condition of infantry health discipline morale clothing and equipment excellent," he wrote on Feb. 13, 1919. Rumors to the contrary back in Michigan, he said, were a "slur…cast on the regiment."

There were indeed many reports of battlefield heroics. American troops received French, White Russian and British medals for valor.

Other American officers were less optimistic. Capt. Eugene Prince, who provided intelligence assessments to the U.S. military attaché in Archangel, wrote a stinging memo about the dismal troop morale.

Just a few weeks after the captain's report, Pvt. Henkelman and Company B were in revolt. More than 65 men signed the ultimatum demanding withdrawal from the battlefront by March 15.

The ultimatum, however, was a ruse. The mutineers circulated it to see how many soldiers were willing to rise up against their commanders. Once the rebels knew whom to trust, they intended to disarm their officers, seize control of Company B and desert the front.

One conspirator, Sgt. Silver Parrish, was born in Jenny Lind, Ark. He worked in Ohio coal mines as a teenager, and was employed as a die setter at Fisher Body Co. in Detroit when he was called up by the Army. He couldn't understand why—after the war against Germany had ended—he and his friends were fighting young Russian men plucked from their own coal mines and factories.

"The majority of the people here are in sympathy with the Bolo & I don't blame them," Sgt. Parrish wrote in his diary.

Sgt. Parrish's squad had months earlier been ordered to burn a village that gave cover to enemy snipers. Local women dropped to the ground and grabbed the sergeant's legs, begging for mercy. The soldiers torched the houses anyway. "Orders are orders," Sgt. Parrish wrote in his diary.

By late February, he was fed up. "This life is just 1 dam thing after another," he wrote in his diary.

The commanders, hoping to tamp down brewing unrest, pulled Company B off the front line and let the conspirators go unpunished. In return, Pvt. Henkelman promised to use his influence to quiet dissent.

Rebel force

On the morning of March 30, 1919, Company I was resting in the rear, at a camp on the outskirts of Archangel.

The soldiers gathered around a barracks stove, swapping complaints. Each man's sense of injustice echoed off the grievances of comrades, building to an angry crescendo. They had endured rain, hail and snow, marched through swamps and streams and lost men in battle.

Some of the soldiers had received letters with Detroit newspaper clippings about a U.S. senator who was questioning the wisdom of sending the 339th to Russia.

It was an inopportune moment for the first sergeant to order them to load the sleds and return to the front. The men refused to leave the barracks and threatened mutiny if Washington didn't set a withdrawal date.

The sergeant reported to the captain, who alerted Col. Stewart that he had an uprising on his hands. The colonel was a regular Army officer and had earned the Medal of Honor, the nation's highest military award, for braving enemy fire to save a drowning man during the Philippine insurrection in 1899. He was described by the Grand Rapids Herald as "an American officer every inch, and a good one."

The colonel gathered the soldiers and reminded them the penalty for mutiny was death. "Why are we fighting in Russia?" the men asked.

Col. Stewart said he didn't know why. "Whatever other reasons there may be, there is one good reason why we must fight now," he told the soldiers. "If we don't fight, we will all be wiped out."

The colonel asked anyone who still refused orders to step forward. Nobody moved. The men agreed to return to the front only after the release of a private who had already been arrested. The officers agreed.

The men grudgingly loaded the sleds, crossed the iced-over Dvina River and boarded the train to the front. They were soon under attack from artillery rounds and Bolshevik raiding parties.

Censors couldn't keep the rebellion quiet. The Grand Rapids Herald ran the headline: "Mutiny in Russia Alarms Capital: General Outbreak Among 339th Men Now Open Threat; When Shall We go Home? Boys Want To Know."

President Wilson had already had enough. In March, he met in Paris with his new northern Russia commander, Brig. Gen. Wilds P. Richardson, and told him to withdraw American troops from Archangel as soon as the White Sea ice broke up.

On April 8, 1919, Col. Stewart told his men they would be going home. He also reminded them of their obligation to fight to the end. "It could never be forgotten for an instant the reputation an American makes for himself in the service of his country will follow him through life," the colonel warned.

The bulk of the U.S. forces withdrew by the end of June 1919. All told, 6,083 Americans served in northern Russia. Of those, 144 were killed in action or died from their wounds, and 100 died from disease, suicide or accident. Another 305 survived shrapnel wounds, gunshots and other injuries.

British forces withdrew from Archangel by the end of September 1919, and the Bolsheviks took the city from the remaining White Russian defenders in February, 1920. The American expedition to Siberia ended in 1920.

Epilogue

The Army retrieved 120 American bodies from northern Russia in the fall of 1919. When the remains arrived in Detroit, a bugler played taps in otherwise silent streets. Theodore McPhail, whose brother had served in Russia, watched the passing parade.

"I was thinking of the fool hardy expedition those poor fellows died for and the God forsaken place they must have died in," he recalled.

The humbling U.S. withdrawal led to finger-pointing. A military memo buried in the National Archives summed up the undeclared war-within-a-war. In it, Capt. Hugh S. Martin wrote to the U.S. military attaché in Archangel:

"The real truth was, we were waging war against Bolshevism. Everybody knew that. Yet no Allied government ever stated that that was its policy in intervening…The result was that in the course of a day the ordinary soldier would hear any number of varying—and sometimes contradictory—replies to the questions which were constantly being asked; for example, why were they being called upon to fight here after the fighting on the Western Front had ceased…what were our reasons for making war on the Bolsheviks; why not let Russia take care of her own internal affairs, etc."

Veterans of the north Russia campaign—who called their war the Polar Bear Expedition—formed the Polar Bear Association in 1922. They shared a sense of obligation to retrieve their roughly 120 comrades whose bodies remained in Russia.

Archangel veterans and Michigan politicians lobbied Congress and the state for funds, and in July 1929 a five-man commission set out for Russia. They drew up maps with notes such as "Lt. Ballard Killed Here" and "6 Graves Block Houses."

The commissioners dug up the bodies of 86 Americans. Among those who were returned home was Lt. Powers, the Ohio medic whose body was left behind in a hospital shed during the retreat from Ust Padenga.

A special train carried them to Detroit, where they lay in state, many of them until Memorial Day 1930. Those were then interred in Troy, Mich., adjacent to a white marble statue of a polar bear. A dozen more bodies were returned in 1934, leaving twenty-some soldiers still missing.

Capt. Joel Moore, who had commanded Company M, wrote a poem about men lost in a forgotten corner of the Great War.

In Russia's fields no poppies grow

There are no crosses row on row

To mark the places where they lie,

No larks so gayly singing fly

As in the fields of Flanders

Read Endnotes

Write to Michael M. Phillips at michael.phillips@wsj.com

More on World War I

* The Reinvention of Warfare

Document WSJO000020181109eeb9003s5

THE WALL STREET JOURNAL.

Markets

General Electric Shares Still Haven't Hit Bottom, JPMorgan Warns; Analysts cut their price target on the former Dow component to $6 a share, sparking another big selloff

By Corrie Driebusch
543 words
9 November 2018
04:31 PM
The Wall Street Journal Online
WSJO
English

General Electric Co.'s woes are worsening.

The industrial conglomerate's shares tumbled again Friday after analysts at JPMorgan Chase & Co. sharply cut their price target on the stock, underscoring the deepening questions on Wall Street about the true worth of a company that just two decades ago was the most-valuable U.S. stock.

Shares declined 5.7% to $8.58, extending their losses for the year to more than 50%.

The analysts, who cut their price target to $6 a share, shared a few reasons for their dimmed view of the stock: GE's high leverage and little cash on hand, its disappointing third-quarter results and its slashed dividend. That target is 90% below the company's all-time high of $60, reached in August 2000, and below its financial-crisis trough of $6.66 a share on March 5, 2009.

The lower target, which JPMorgan called generous under the circumstances, is the latest blow to the company, which was an original member of the **Dow Jones Industrial Average** and earned the distinction of being the most valuable company in America in the early 2000s. GE lost its coveted spot in the 30-stock **Dow Jones Industrial Average** in June.

"GE is a fundamentally strong company with a sound liquidity position," a spokeswoman for the company said.

The shares suffered their worst one-day performance since Oct. 30. Shares fell 8.8% that day after the conglomerate cut its dividend to a token one penny a share—and revealed simultaneously that federal prosecutors had opened a criminal accounting probe into the company's practices.

The JPMorgan analysts said GE's $100 billion in liabilities and nonexistent enterprise free cash flow are particularly concerning. Though the stock's recent pullback—it is down a quarter since the start of October—may seem like capitulation, JPMorgan isn't so optimistic. The company's run rate, or its expected financial performance based on current financial information, will be zero in six of GE's eight business segments by 2020, according to JPMorgan's analysis. All eight business segments were profitable two years ago, the analysts' note adds.

Operational and financial struggles have led investors to sell GE's stock, even as the company has worked to transform itself. It named its second new CEO in less than 15 months and unveiled major portfolio changes, including billions in divestitures and plans to spin off its health-care division and reduce its stake in oil-field services provider Baker Hughes, among other changes, the analysts acknowledged. It also has said it remains focused on shrinking and deleveraging GE Capital, its financial-services arm. And one bright spot for the company is its aviation business, whose engines are still in demand from airplane makers like Boeing Co.

Still, analysts pointed to worries about poor earnings, structural concerns in key power markets and what they called an expensive **stock price** based on free cash flow. Going forward, the likelihood of improvement is uncertain, the analysts said.

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Document WSJO000020181109eeb900691

THE WALL STREET JOURNAL.

Heard on the Street
Markets
Cartier Owner Takes Shine Off China's Luxury Boom; A sales slowdown at Swiss watchmaker Richemont seems to confirm investors' fears about the health of Chinese consumer spending

By Carol Ryan
402 words
9 November 2018
08:03 AM
The Wall Street Journal Online
WSJO
English

Watchmaker Richemont's latest results may set the clock ticking on a Chinese luxury slowdown.

The Swiss owner of the Cartier and Jaeger-LeCoultre brands, formally known as Compagnie Financière Richemont, said Friday that sales weakened in September. Trading in Asia was especially poor. The news sent the group's stock down 6% in early morning trading and hit the shares of other luxury groups, such as LVMH.

Coming at the end of an otherwise strong earnings season for Europe's big luxury names, this is the first concrete sign that the Chinese are spending more cautiously. Richemont's sales increased 8% in the six months through September, a slowdown from the 10% previously reported for the five months through August. In Asia, sales growth was just 5% in September, compared to 20% in previous months, estimates UBS.

Jittery investors had already braced for trouble. Fears that the weaker Chinese currency and **stock market** would dampen spending, together with reports of a Chinese customs crackdown on shoppers bringing home suitcases full of handbags, have wiped a fifth off the valuations of the 10 biggest European luxury stocks since mid-August.

Richemont's portfolio leaves it uniquely vulnerable. Shoppers tend to forgo big-ticket purchases such as $100,000 Vacheron Constantin wristwatches before handbags, meaning the Swiss group will be hit first in a downturn. It is also more exposed than peers to third-party retailers, who order cautiously at the first sign of trouble. And Richemont makes more of its sales to the Chinese than competitors—44% compared with 38% for the wider luxury business, according to HSBC.

That explains why the company's shares are among the cheapest in the sector, changing hands for 17 times next year's projected earnings, half the level of French handbag group Hermès. Granted, investors have other reasons to steer clear, including recent unpopular acquisitions that have drained its cash pile and put pressure on operating margins.

Richemont said sales recovered in October, suggesting September was a blip. But it didn't give details, and investors seem in no mind to give luxury companies the benefit of the doubt just now. Richemont's rocky September could be a sign of things to come.

Document WSJO000020181109eeb9003bh

WSJ PRO CENTRAL BANKING

Economy

Consumers Poised to Pick Up Spending Heading Into Holiday Season; University of Michigan's consumer sentiment index falls slightly, but remains robust

By Sharon Nunn
488 words
9 November 2018
11:38 AM
WSJ Pro Central Banking
RSTPROCB
English

The economic outlook for consumers remained strong in early November as their income expectations rose, suggesting Americans could increase their spending heading into the important holiday retail season.

The University of Michigan on Friday said its consumer sentiment index was 98.3 in November, down slightly from 98.6 in October. Still, the index remains at high levels.

Sentiment this year is the highest since the turn of the century. Meanwhile, among the working-age population, those aged 25 to 54, the anticipated annual gain in pay was 3.6% in November, the best in the past decade, according to the survey.

Though consumer confidence hasn't been a great guide to consumption growth recently, its current level is consistent with solid spending growth, according to Michael Pearce, senior U.S. economist at Capital Economics.

"Strong consumer spending momentum should persist, so long as income expectations remain supported by a healthy and vibrant labor market," according to analysis released by Oxford Economics in response to the report.

Wages grew in October at the fastest rate in nearly a decade and the unemployment rate remained at a 49-year low. Employers added 250,000 jobs too, which is reflected in the latest sentiment report. Consumers' view of the current economic situation remained elevated, though their expectations for future conditions declined at the beginning of November. The survey also showed Americans' expectations for inflation in both the near and long term have risen over the past year.

"The stability of consumer sentiment at high levels acts to mask some important underlying shifts," said Richard Curtin, the Michigan survey's chief economist. "Income expectations have improved and consumers anticipate continued robust growth in employment, but consumers also anticipate rising inflation and higher interest rates."

Meanwhile, a bit of an age divergence is apparent in the report, according to Mr. Curtin. Younger Americans have benefited most from positive income gains, while older consumers were more likely to complain about falling living standards because of inflation.

Measures of how consumers feel about the economy climbed after President Trump was elected in 2016 and have been buoyed by strong economic growth, low unemployment and rising wealth.

But rising interest rates, a pricey housing market and **stock market volatility** threaten that consumer buoyancy.

Analysts also think political tensions could harm consumers' outlook, but that didn't appear to be the case in the latest sentiment data. Though there was only a one-day overlap after the midterm election results and the early-November survey's closing, those "few cases held expectations that were identical with the data collected earlier in the month, which isn't so surprising given that the split between the House and Senate was widely anticipated," Mr. Curtin said.

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Document RSTPROCB20181109eeb9000gp

WSJ PRO CENTRAL BANKING

Economy
U.S. Producer Prices Surged in October; Experts say increase was likely a temporary bulge driven by companies preparing for Black Friday sales events

By Paul Kiernan and Sharon Nunn
509 words
9 November 2018
03:14 PM
WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—A gauge of U.S. business prices surged in October, but the increase was likely a temporary bulge driven by companies preparing for Black Friday sales events later this month.

The producer-price index, a measure of the prices businesses receive for their goods and services, rose a seasonally adjusted 0.6% last month from September, the Labor Department said Friday. That was double the 0.3% median forecast of economists surveyed by The Wall Street Journal, and marked the biggest increase in the PPI since late 2012.

Most of the jump can be traced to a 1.6% rise in a category of prices dubbed "final demand trade services." According to the department, this reflects an expansion in the profit margins of retailers and wholesalers.

Businesses grow their margins by raising prices faster than their costs go up, or by keeping prices steady while costs go down.

It isn't unusual for the trade services index to spike in the fall, said Scott Sager, a department economist. That is because retailers often raise their prices before November, when they offer steep discounts.

"A lot of times, companies are going to increase their prices coming into that, so that when they cut prices for the sales…it's not such a hit to their bottom line," Mr. Sager said.

Private economists took the October PPI data in stride.

Ian Shepherdson, chief economist at Pantheon Macroeconomics, called the overall increase "startling," but said the trade services index is "wildly **volatile**."

He noted that a PPI measure that excludes trade services, food and energy items rose a moderate 0.2% last month. Falling **oil prices** are now putting downward pressure on producer prices, he said.

The data also suggest that tariffs imposed by the Trump administration on imported Chinese goods this year aren't yet feeding inflation. Andrew Hunter of Capital Economics said that a slowdown in producer prices for goods, excluding food and energy, "supports our initial assumption that most of the higher costs resulting from the tariffs have either been absorbed into the margins of Chinese suppliers or offset by the 8% appreciation of the trade-weighted dollar this year."

Such takeaways are meaningful for the Federal Reserve, which is on the lookout for inflationary pressures as wages rise and unemployment hovers at the lowest rate in nearly five decades.

The Fed is gradually raising interest rates to keep the economy from overheating, but an acceleration in inflation could force it to tighten policy faster.

"Overall, the producer prices data show that inflationary pressures remain fairly strong, which will keep the Fed hiking rates once a quarter in the near term," Mr. Hunter said. "But there is little sign that a more marked acceleration lies around the corner."

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THE WALL STREET JOURNAL.

Markets

Copper Extends Slide as Commodities Rout Deepens; Prices have fallen 18% from their June four-year peaks

By David Hodari and Amrith Ramkumar
344 words
9 November 2018
02:29 PM
The Wall Street Journal Online
WSJO
English

Copper prices fell for the fourth time in the past five sessions Friday, engulfed by a worsening commodities slump that has punished materials across the board.

Front-month copper for November delivery fell 1.8% to $2.6865 a pound on the Comex division of the New York Mercantile Exchange.

Prices have fallen 18% from their June four-year peaks, hurt by anxiety that a slowing Chinese economy will crimp demand for materials widely used in manufacturing and construction.

A recent slump in **oil prices**has also hurt metals, as some investors trade both energy commodities and materials in a single basket. U.S. crude fell into a **bear market** this week on signs of robust domestic supply and steady output from Saudi Arabia and other large producers.

Analysts say the broadening commodities rout is a sign of lingering worries about slowing global economic growth, as materials are the building blocks of everything from smartphones to houses and vital for travel and commerce.

Elsewhere in base metals, aluminum for delivery in three months on the London Metal Exchange fell 1.8% to $1,954 a metric ton. Zinc closed up less than 0.1% at $2,523, tin fell 0.9% to $19,150, nickel slumped 2.6% to $11,470 and lead shed 1.3% to $1,977.

Among precious metals, front-month gold for November delivery dropped 1.3% to $1,206.40 a troy ounce, falling again on worries about a stronger dollar and higher interest rates. A stronger dollar makes gold more expensive for overseas buyers, while higher Treasury yields make the metal less attractive because it offers no yield.

Most-active silver futures dropped 2% to $14.140 a troy ounce. Platinum shed 1.6% to $856 and palladium fell 1.7% to $1,097.50.

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The New York Times

Strategies
Business Day

Now, the Markets Can Worry About Other Things. Here's a List.

By Jeff Sommer
1,121 words
9 November 2018
01:17 PM
NYTimes.com Feed
NYTFEED
English

So much for the midterms.

Now the markets can start obsessing about gridlock, impeachment and the 2020 election.

And they can resume worrying about bread-and-butter issues like corporate earnings, interest rates and the threat of rising tariffs and recession.

Uncertainty about control of Congress has at last been lifted: Come January, the Democrats will run the House, while the Republicans will retain a slender majority in the Senate.

From the standpoint of the markets, that welcome clarity on Wednesday set off the biggest one-day midterm election rally since 1982. And while investors were relieved that the results conformed with Wall Street expectations, longstanding financial concerns were made even more visible while introducing a series of other political problems.

"The midterm results only highlight the ongoing political divisions within the country and the parties," John Raines, head of political risk at the business information service IHS Markit, and Lindsay Newman, a principal analyst there, wrote on Wednesday.

Sooner rather than later, the focus of **financial markets** is likely to shift to new sets of political and economic concerns.

On the political side, these include:

■ The likelihood of investigations of the Trump administration in the House of Representatives and perhaps, down the road, impeachment proceedings.

■ The prospect of congressional gridlock and vituperation.

■ Rising partisan conflict as politicians prepare for 2020.

At the same time, the markets will refocus on the bread-and-butter concerns that have weighed on stock and bond returns for much of the year.

Among these worries are the possibilities that:

■ The rate of corporate earnings growth, unusually robust right now, has already peaked, creating a benchmark that most companies won't meet next year.

■ The Federal Reserve's interest rate increases will slow the economy, puncturing the prices of risky assets like stocks, which have already begun to lose altitude.

■ The Trump administration's aggressive trade policy — and worsening foreign relations with allies and adversaries alike — will raise global tensions further and hurt the economy.

■ After a long recovery, the economy will fall into a recession in the next two years, pushing stocks into a deep **bear market**.

This may seem like an excessively glum list, right after elections that sent the **stock market** into a bout of euphoria. If the markets abhor uncertainty, then these midterm elections were wonderfully reassuring.

“The consensus was right,” John Lynch, chief investment strategist for LPL Financial, wrote on Wednesday. Wall Street generally viewed the election’s broad outcome as highly probable and fairly desirable, though not the outcome thought most likely to produce the highest future stock returns.

That would have been a Republican sweep with a large majority in the Senate as well as the House, leading to a repeal of the Affordable Care Act and cuts in programs like Social Security and Medicare.

The UBS Global Wealth Management Chief Investment Office gamed out the various possibilities ahead of the election, concluding that such a sweep “should boost global stock markets, limit increases in long-term bond yields, and support the U.S. dollar.”

But the “base case” that UBS and most other analysts forecast ahead of the voting was what actually happened — a split decision producing gridlock. The real-world validation of so much consensus opinion tilted stock prices upward. And as I wrote last week, the markets have generally prospered after the midterms, regardless of which party has won.

In addition, despite substantial evidence to the contrary, there is a deep, stock-bolstering belief on Wall Street that gridlock — defined as a political alignment in which no single party controls all three branches of government — has been good for the market.

But the data bears this out only when a Democrat has been president and Republicans have held either the House or the Senate. Since 1901, in all such cases, the **Dow Jonesindustrial average** has outperformed its long-term average, an analysis by Bespoke Investment Group shows. When a Republican has been president during a stretch of gridlock, the market has lagged.

In the five previous congressional sessions since 1901 in which Republicans controlled the White House and the Senate while Democrats controlled the House — the political alignment in Washington starting in January — the annualized return has been a loss of 1.69 percent. That’s not encouraging, though the data is too scanty to use “as a blueprint for what to expect this time around,” Bespoke said.

The IHS Markit analysis predicted a “legislative impasse” in the new Congress but reserved the possibility of deals on big issues. And several analysts said these might be an infrastructure rebuilding program, measures to reduce prescription drug prices or an agreement to help the so-called Dreamers. These are the young undocumented immigrants who have benefited from an Obama-era program called Deferred Action for Childhood Arrivals, or DACA, but face the possibility of deportation under current Trump administration policies.

But President Trump could demand that a deal on the Dreamers be paired with funding for his coveted border wall, an objective that many Democrats abhor.

The one sure thing in Washington appears to be a high level of political strife. That was underlined on Wednesday when Mr. Trump fired Attorney General Jeff Sessions and replaced him with Matthew G. Whitaker, a loyalist who has been critical of the special counsel investigation into Russia’s election interference. House investigations into these matters could begin early next year, and, at some point, the start of impeachment proceedings is certainly possible.

History suggests that while such developments would rattle the markets, they needn’t hurt stock prices much. Bill Clinton is the only president to have been impeached in the last century — he was eventually acquitted by the Senate — and the **stock market** prospered during much of his ordeal.

Market performance during the Watergate scandal is less reassuring. President Richard Nixon resigned from office in August 1974, after the impeachment process began. (In his resignation speech, he conceded that could not avoid impeachment by the House and conviction by the Senate.)

The **stock market** fell sharply during the truncated Nixon impeachment process, but that is likely because of the recession that began in November 1973. That downturn continued until March 1975, impairing the political prospects of President Gerald Ford, Nixon’s successor.

That is a reminder that while the **stock market** can withstand political stress, it is one of the many victims of recessions, which throw people out of work, destroy wealth and alter political destinies. A recession would be the market’s biggest worry. It might become Mr. Trump’s, as well.

Follow Jeff Sommer on Twitter: @jeffsommer

Diana Chu

Document NYTFEED020181109eeb90093t

THE WALL STREET JOURNAL.
U.S. EDITION

World News: Eurozone Economy Seen Cooling --- Bloc expects global demand for its exports to wane, warns Italy over budget deficit

By Paul Hannon and Giovanni Legorano
479 words
9 November 2018
The Wall Street Journal
J
A12
English

The eurozone economy will cool over 2018 and the coming years as global demand for the bloc's exports wanes, with a sharper slowdown possible if the U.S. economy overheats or trade tussles escalate, the European Union said.

The EU also used its quarterly economic forecasts to increase the pressure on Italy's government over its borrowing plans, projecting the country's budget deficit will exceed the upper limit set by the bloc in 2020.

The EU still expects the gross domestic product of the 19 countries that use the euro to grow 2.1% this year, having expanded 2.4% in 2017, which was the currency area's best year in a decade. The bloc cut its 2019 growth forecast to 1.9% from 2% in July and now projects a further slowdown to 1.7% in 2020.

It highlighted a number of threats to that scenario, chiefly the possibility that the U.S. economy grows too rapidly in response to cuts in taxes and increased government spending, prompting the Federal Reserve to raise its key interest rate more rapidly than currently anticipated. The EU warned that this could spread "turmoil" through global **financial markets** and weaken growth in developing and developed economies.

"Barring major shocks, GDP should continue to grow at a moderate pace," said Marco Buti, head of the European Commission's economics department. "The road ahead is, however, fraught with uncertainty and numerous, interconnected risks."

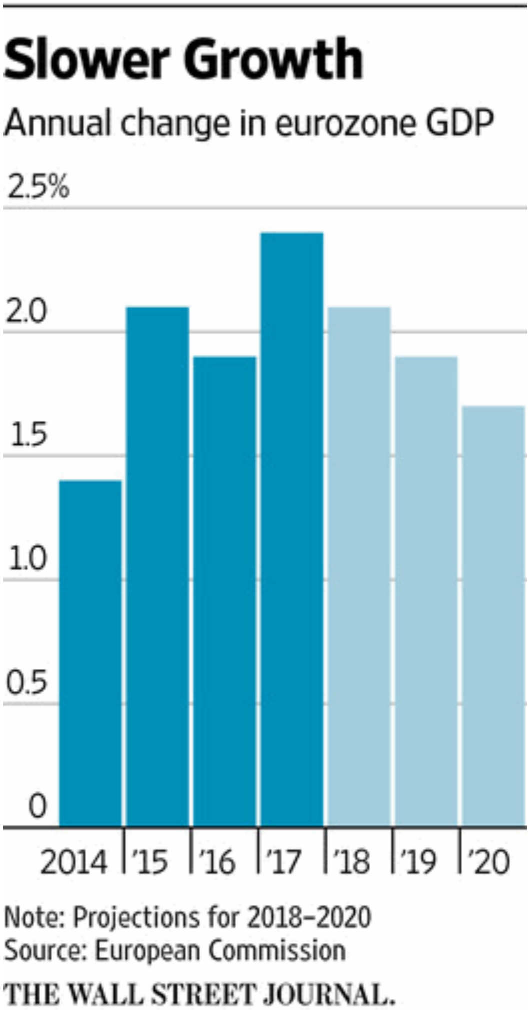
The EU also raised concerns that a rapidly expanding U.S. economy will suck in more imports, widening the country's trade deficit and prompting fresh tariff increases.

The EU also warned of threats to growth from within the bloc, highlighting increased borrowing by Italy's new government and the possibility that the U.K. could leave the bloc in March abruptly and without a new trade agreement.

Italy's government wants to raise spending on welfare benefits and pensions, in defiance of EU rules that require Italy to steadily balance its books.

The EU on Thursday raised its forecasts for Italy's budget deficit to 2.9% of GDP next year and 3.1% in 2020, above the government's forecasts of 2.4% and 2.1%, respectively. If the EU is right, the 2020 deficit would be above the upper limit set by the bloc's budget rules.

"The European Commission's forecasts of the Italian deficit are in stark contrast with those of the Italian government and derive from a partial and careless analysis of the Draft Budgetary Plan, the budget law and the trends of Italian finances, despite the information and clarifications provided by Italy," Italian Economy Minister Giovanni Tria said.



Document J000000020181109eeb90001h

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Fed Keeps Rates Flat, Signals Rises Ahead

By Nick Timiraos
542 words
9 November 2018
The Wall Street Journal
J
A2
English

WASHINGTON -- The Federal Reserve held short-term interest rates steady Thursday and offered a mostly upbeat assessment of the U.S. economy, suggesting another rate increase is likely by year-end.

The Fed repeatedly emphasized the economy's strength in a statement released after its two-day policy meeting. It offered nothing to dispel market expectations that it would deliver its fourth rate rise of the year in December.

Data released since officials last met in September indicate "that the labor market has continued to strengthen and that economic activity has been rising at a strong rate," the Fed said.

The only significant change to the statement nodded to a recent pullback in business investment from its rapid pace earlier this year.

Officials voted unanimously in September to raise their benchmark rate to a range between 2% and 2.25%. On Thursday, they voted to leave it unchanged, again with no dissents.

The economy expanded at a 3.5% annual rate in the third quarter after a 4.2% pace in the second quarter, the Commerce Department reported. That is roughly double the growth rate Fed officials believe can be sustained over the long run unless the supply of workers, or their productivity, increases more rapidly.

Meanwhile, the unemployment rate held at 3.7% in October, a nearly half-century low, and average hourly wages rose 3.1% from a year earlier, the biggest year-to-year increase since 2009.

Broad strength in the economy and labor market -- powered in recent quarters by solid consumer spending -- is more than enough to offset any concerns about soft spots in the economy.

The housing sector, for example, has cooled this year, as interest-rate increases have pushed mortgage rates to a seven-year high. That has exacerbated affordability challenges stemming initially from low supplies of homes for sale that have rapidly pushed up prices in recent years.

Financial markets have also experienced more **volatility**. Stocks and bonds were sold off last month as investors began to take more seriously the Fed's plans to continue raising rates over the coming year to prevent the economy from overheating. The potential of more tariffs have also weighed on the outlook for corporate earnings.

In September, Fed officials penciled in plans to raise their benchmark short-term rate once more this year. Officials are equally split over whether to raise rates two, three or four times next year. That would push the rate closer to 3%, which is where most officials expect it to settle over the long term -- a so-called neutral level that neither spurs nor slows growth.

Fed Chairman Jerome Powell last month played down the debate over whether the Fed would raise rates above neutral, suggesting it was premature because rates are still boosting growth.

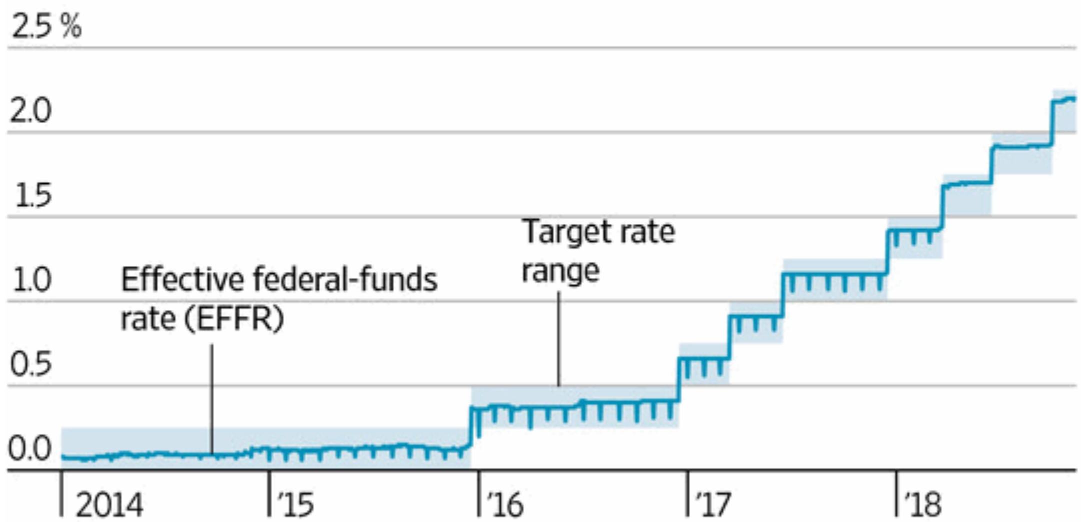
Rates are "a long way from neutral at this point, probably," he said. "We need interest rates to be gradually, very gradually, moving back toward normal."

The recent **stock-market** selloff appears unlikely to change the Fed's plans. The market pullback received no mention in the Fed's statement, unlike earlier downdrafts in 2015 and 2016.

Holding Steady

The Federal Reserve voted to keep interest rates unchanged.

Federal-funds rate and range



Source: Federal Reserve Bank of New York

THE WALL STREET JOURNAL.

Document J000000020181109eeb90002b

THE WALL STREET JOURNAL.
U.S. EDITION

Streetwise: Election Rally Shows Risks of Betting on Polls

By James Mackintosh
697 words
9 November 2018
The Wall Street Journal
J
B1
English

I had discussed with colleagues a well-worked-out forecast for what would happen to stocks after the midterm elections. It was smart, logical, and 100% wrong.

Quite why is an interesting question and shows how hard it is to predict markets even when events go exactly as predicted.

My flawed prediction was that U.S. stocks would fall in the event of the widely expected Democrat win of the House and Republican retention of the Senate.

The argument started with the probabilities. Bets on the Iowa Electronic Markets before polling day had the split Congress at about 60%, a roughly 30% chance of Republicans keeping the House and Senate, and a "blue wave" giving the Democrats control of both chambers at just 10%.

Continued GOP control would have led to hopes of more **stock-market**-friendly tax cuts, and the probability was high enough that it was an obvious trade to profit if that 1-in-3 chance happened. It didn't, so I expected those bets would be unwound, leading the market to fall.

There are three decent reasons why I was wrong.

First, I was looking at the wrong market. Rather than stocks, the focus should have been on the dollar and Treasury markets, which followed exactly the playbook I had set out.

When Fox News called the House for the Democrats at 9.30 p.m. on Tuesday, the dollar tumbled, Treasury yields jumped and investors unwound their bets on more deficit-busting tax cuts. Stock futures were basically unchanged for hours.

The second reason involved investor psychology. Bond investors often accuse shareholders of being driven by emotions, and perhaps there was an element of emotion at work.

Alan Ruskin, macro strategist at Deutsche Bank, points out that much of the analysis being circulated by Wall Street and reported by the media showed that previous midterm elections were typically followed by a stock rally to the end of the year. This past record might have given investors -- shaken by the October selloff -- confidence to pile back into the market after the elections.

Equally, investors might have just been nervous about the election outcome and holding on to cash to avoid the uncertainty. With the results out, they were ready to get back into stocks, pushing up prices. Either way, U.S. stocks had a fabulous Wednesday.

The fact that European stock futures did basically nothing after the election until the **equity market** opened, when stocks soared -- and that this coincided with U.S. stock futures taking off -- supports the idea that nervous investors had held off buying until after the elections. Only when the futures-market speculators saw real money going to work in stocks did they join in.

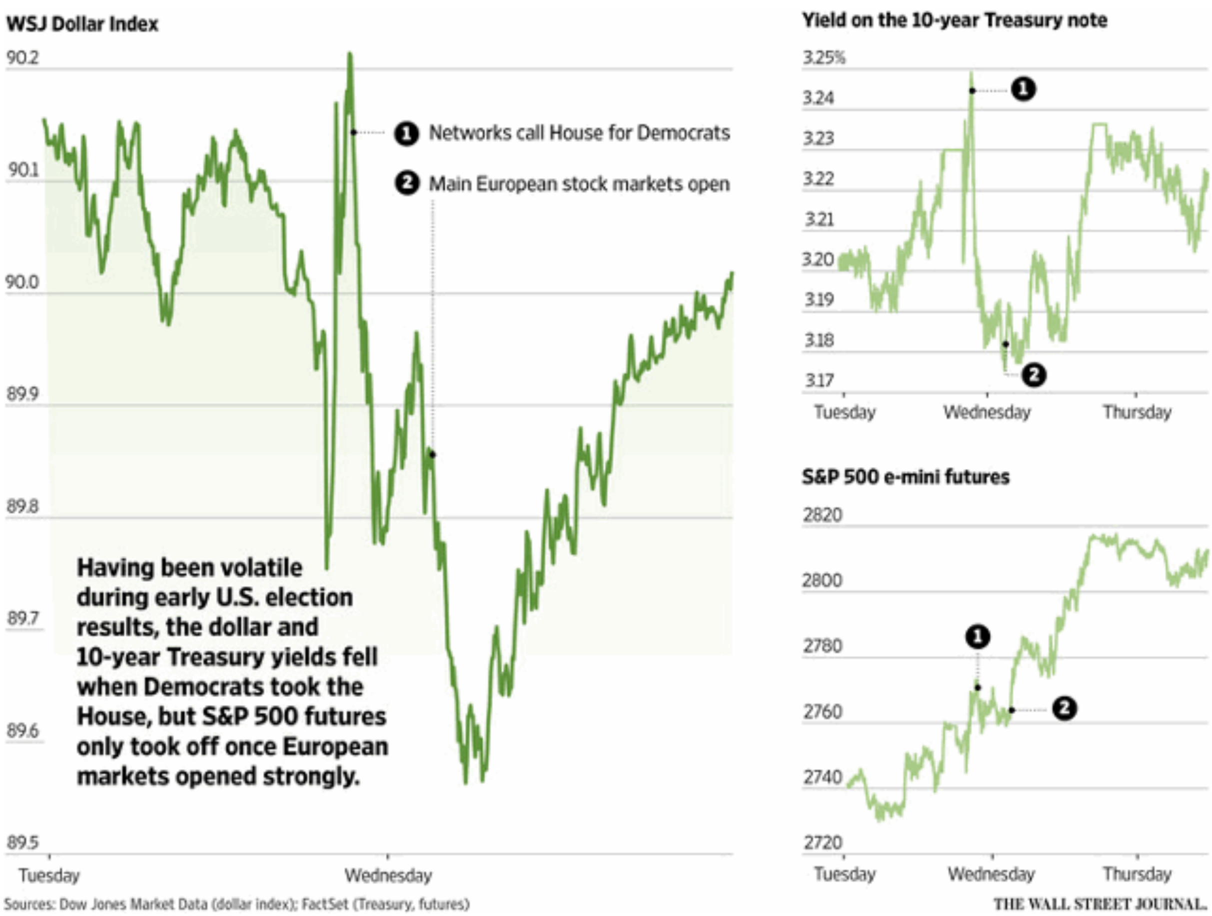
The third explanation is the least likely. Perhaps investors were so worried about the implications of a blue wave for stock prices that they had hedged their portfolio to minimize losses. When the wave turned out smaller than they feared, they no longer needed the protection, so they could buy back in. The trouble with this argument is the timing: Why the big dollar and bond moves but little action in equities until European stocks opened?

A final suggestion is that investors thought President Trump is now more likely to strike a deal on trade with China to avoid more tariffs, in order to bolster his position before the 2020 election. Leave aside the questionable logic here; the fall in the dollar would fit with this story (tariffs push up the dollar), but improved hopes on trade ought to help Chinese stocks, and didn't, much.

I am inclined to think both the first two explanations are right, and the obvious lesson is to not have too much confidence in one's predictions of how the market will respond.

Even if you are sure what will happen in some event, stocks might do something quite different. Moves in other assets can have big knock-on effects to the **stock market**.

The basic advice: Regard any short-term trade as no more than a punt.



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WSJ PRO CENTRAL BANKING

Economy
Australia Central Bank ‘Doesn't See Strong Case' to Adjust Rates Soon; The Reserve Bank of Australia this week kept interest rates unchanged at a record-low 1.5%

By David Winning and James Glynn
328 words
9 November 2018
05:57 AM
WSJ Pro Central Banking
RSTPROCB
English

SYDNEY—Australia's central bank Friday said that despite its more **bullish** view of the economy it still doesn't see a strong case to change interest rates.

In a quarterly statement, the Reserve Bank of Australia said higher rates would be appropriate if unemployment falls further and inflation moves within its 2% to 3% target band consistently. But it said progress toward these goals would likely to be gradual, so its current policy settings were right for the near term.

The RBA's key forecasts were included in Tuesday's statement accompanying a decision to keep interest rates unchanged at a record-low 1.5%. Those projections included the unemployment rate falling to 4.75% in 2020, with growth this year and in 2019 seen higher than at its previous quarterly statement in August.

The RBA had previously forecast the jobless rate would be at 5.0% by the end of 2020, but that level was achieved unexpectedly in September.

The job market continues to be one of the strong points of the economy, with the RBA hoping for a rise in wages growth over time as conditions tighten around hiring.

Inflation in the third quarter remained at levels well below the RBA's target band, while wages growth has been flat for around six years.

While prices and wages growth are soft, the economy more generally is doing well. Economic growth has accelerated in 2018, supported by a falling Australian dollar, solid commodity prices, infrastructure spending and a gas-led export boom.

Australia is posting record trade surpluses at the moment, showing a high level of resilience in the face of rising global trade tensions.

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The New York Times

Business/Financial Desk; SECTB
Oil Prices Sink Again and Enter Bear Market as Postelection Surge Fades

By THE ASSOCIATED PRESS
947 words
9 November 2018
The New York Times
NYTF
Late Edition - Final
3
English

Stocks in the United States slipped Thursday as the ninth consecutive drop in crude **oil prices** hurt energy companies. Markets were coming off huge gains the day before.

United States crude oil has now slumped more than 20 percent since early October, meeting Wall Street's definition of a "**bear market**."

Government fuel stockpiles have steadily expanded, pushing supplies higher, and the United States issued waivers to a number of countries that buy oil from Iran. That allows those countries to keep importing Iranian oil in spite of renewed sanctions on that country.

Most other groups of stocks finished little changed. Banks made the largest gains. The Federal Reserve left interest rates where they are, but suggested it plans to keep raising rates in response to the strong United States economy.

After its steep plunge in October, the **S&P 500** had risen for six of the seven days ending on Wednesday. Stocks started sinking last month because investors worried that the Fed was going to raise interest rates to the point they slowed down economic growth. But John Lynch, chief investment strategist at LPL Research, said he does not think that is going to happen and that the Fed will stop raising rates in 2019.

"We do not believe they will be as aggressive as many fear," he said. "We still don't have anything approaching the wage pressures that have historically scared the Fed."

The **S&P 500 index** shed 7.06 points, or 0.3 percent, to 2,806.83 after it jumped 2.1 percent Wednesday. The **Dow Jonesindustrial average** inched up 10.92 points to 26,191.22. The **Nasdaq composite** dipped 39.87 points, or 0.5 percent, to 7,530.89 after a 2.6 percent surge a day earlier.

Benchmark United States crude oil fell 1.6 percent to $60.67 a barrel in New York. On Oct. 3 it closed at $76.41, the highest level in almost four years.

Brent crude lost $1.00 to $60.67 a barrel in London. Brent crude is the standard for international **oil prices** and it has also fallen sharply over the last five weeks.

Exxon Mobil fell 1.6 percent to $81.71 and ConocoPhillips gave up 4.5 percent to $119.36.

Bond prices held steady. The yield on the **10**-**year Treasury** note was unchanged at 3.24 percent, near its highest level this year. The Federal Reserve left interest rates where they are, but suggested it plans to keep raising them in response to the strong United States economy. The Fed has raised its key rate eight times since late 2015 and is expected to do so again in December, with several more increases to follow.

Bank of America rose 1.2 percent to $28.87 and M&T Bank added 1.2 percent to $167.37.

The Fed has been raising rates to prevent inflation from getting out of hand. Mr. Lynch, of LPL, said that inflation is not going to get much stronger because wages are not going to grow much faster than they currently are. He said factors like the retirement of more baby boomers, global competition and slower economic growth in the United States will all limit increases in pay.

Chip-maker Qualcomm had a strong fourth quarter, but for the current period it is projecting revenue of $4.5 billion to $5.3 billion, far below the $5.6 billion analysts expected, according to FactSet. Its stock lost 8.2 percent to $58.05.

Apple stopped making royalty payments to Qualcomm following a dispute between the companies, and later decided to stop using Qualcomm modems in some of its products. Qualcomm said both of those changes have hurt its results.

D.R. Horton, one of the largest homebuilders, fell 9 percent to $34.22 after its earnings and sales fell short of Wall Street forecasts. The company said rising home prices and mortgage rates are affecting demand. That exact combination has been weighing on home sales and the stocks all year. PulteGroup fell 3.5 percent to $24.23 and Lennar lost 2.5 percent to $41.90.

Wynn Resorts dropped 13.1 percent to $99.02 after the casino operator said its business in Macau has slowed down recently.

Stocks climbed Wednesday after the midterm elections generally went the way investors thought they would. The Democrats took control of the House of Representatives while the Republicans held on to a majority in the Senate. That means that politics appears that much less likely to crowd out the performance of the strong United States economy.

In other commodities trading, wholesale gasoline was little changed at $1.64 a gallon. Heating oil dropped 3.1 percent to $2.17 a gallon. Natural gas edged down to $3.54 per 1,000 cubic feet.

Gold fell $3.30 to $1,222.90 an ounce. Silver lost 1 percent to $14.42 an ounce. Copper slipped 0.7 percent to $2.74 a pound.

The dollar rose to 113.96 yen from 113.34 yen. The euro fell to $1.1359 from $1.1437.

Stocks on Thursday slipped a bit after six days of climbing back from a steep plunge last month. Banks led the gainers. (PHOTOGRAPH BY RICHARD DREW/ASSOCIATED PRESS) CHARTS: The **S&P 500 Index**: Position of the **S&P 500 index** at 1-minute intervals on Thursday. (Source: Refinitiv); Jobless Claims: Weekly number of people who have filed for unemployment benefits for the first time. (Source: Labor Department, via Reuters)

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THE WALL STREET JOURNAL.
U.S. EDITION

World News: ECB's Draghi, Citing Risks, Urges Nations To Pay Down Debts

By Tom Fairless
174 words
9 November 2018
The Wall Street Journal
J
A12
English

European Central Bank President Mario Draghi urged eurozone governments to pay down their national debts to strengthen the currency bloc against potential economic shocks such as Brexit.

Speaking with lawmakers at Ireland's Parliament on Thursday, Mr. Draghi said he expects the region's five-year-old economic recovery to continue, but noted a number of risks including rising trade protectionism, weaknesses in emerging markets, and **financial-market volatility**.

"Given the current buoyant economy, it's time to rebuild fiscal [budgetary] buffers," Mr. Draghi said.

Despite those economic risks, Mr. Draghi said the ECB expects to phase out its 2.5 trillion euro ($2.86 trillion) bond-buying program, known as quantitative easing, in December as planned.

"We are now at the point where we anticipate -- subject to incoming data confirming our medium-term inflation outlook -- that we will end net asset purchases at the end of the year," he said.

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THE WALL STREET JOURNAL.
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Heard on the Street
Fed Doesn't Budge on Higher Rates

By Justin Lahart
296 words
9 November 2018
The Wall Street Journal
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B12
English

[Financial Analysis and Commentary]

Anybody who thought the Federal Reserve might scale back its plans for future rate increases after all the recent turmoil in the **stock market** has to be disappointed.

The Fed left interest rates unchanged, and it didn't change much else. The statement it put out following its two-day meeting contained only minor tweaks from its September statement. It noted that the unemployment rate had declined since its September meeting (as opposed to "stayed low"), and that business investment has "moderated from its rapid pace earlier in the year" (rather than "grown strongly"). The two roughly offset each other and have been clear from the data.

One important change the Fed didn't make was to soften its expectation of "further gradual increases" in rates to "some further gradual increases." The danger of doing that, points out Krishna Guha, vice chairman of research firm Evercore ISI, is that it might have come off as the Fed responding to an unsettled **stock market**. It might also have looked like the Fed was reacting to recent criticism from President Trump.

The Fed's statement is very different from early 2016, the last time markets were this **volatile**. With the economy more fragile and market declines bigger, the Fed put its rate-increase plans on pause for nearly a year. In 2016, the Fed was mostly worried about risks to the downside, but now it appears equally concerned with the risk of things running too hot.

A cooler economy, rather than a **volatile stock market**, is what would persuade the Fed to take a more dovish tack. Investors, and the president, may be disappointed.

page,5043

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WSJ PRO CENTRAL BANKING

Economy
Fed Holds Rates Steady, Signals More Rate Increases Ahead; Central bank offers a mostly upbeat assessment of economy

By Nick Timiraos
873 words
8 November 2018
05:40 PM
WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—The Federal Reserve held short-term interest rates steady Thursday and offered a mostly upbeat assessment of the U.S. economy, suggesting another rate increase is likely by year-end.

The Fed repeatedly emphasized the economy's strength in a statement released after its two-day policy meeting. It offered nothing to dispel market expectations that it would deliver its fourth rate rise of the year in December.

Data released since officials last met in September indicate "that the labor market has continued to strengthen and that economic activity has been rising at a strong rate," the Fed said.

The only significant change to the statement nodded to a recent pullback in business investment from its rapid pace earlier this year.

Officials voted unanimously in September to raise their benchmark rate to a range between 2% and 2.25%. On Thursday, they voted to leave it unchanged, again with no dissents.

The economy expanded at a 3.5% annual rate in the third quarter after a 4.2% pace in the second quarter, the Commerce Department reported. That is roughly double the growth rate Fed officials believe can be sustained over the long run unless the supply of workers, or their productivity, increases more rapidly.

Meanwhile, the unemployment rate held at 3.7% in October, a nearly half-century low, and average hourly wages rose 3.1% from a year earlier, the biggest year-to-year increase since 2009.

Broad strength in the economy and labor market—powered in recent quarters by solid consumer spending—is more than enough to offset any concerns about soft spots in the economy.

The housing sector, for example, has cooled this year, as interest-rate increases have pushed mortgage rates to a seven-year high. That has exacerbated affordability challenges stemming initially from low supplies of homes for sale that have rapidly pushed up prices in recent years.

Financial markets have also experienced more **volatility**. Stocks and bonds were sold off last month as investors began to take more seriously the Fed's plans to continue raising rates over the coming year to prevent the economy from overheating. The potential of more tariffs have also weighed on the outlook for corporate earnings.

In September, Fed officials penciled in plans to raise their benchmark short-term rate once more this year. Officials are equally split over whether to raise rates two, three or four times next year. That would push the rate closer to 3%, which is where most officials expect it to settle over the long term—a so-called neutral level that neither spurs nor slows growth.

Fed Chairman Jerome Powell last month played down the debate over whether the Fed would raise rates above neutral, suggesting it was premature because rates are still boosting growth. Rates are "a long way from neutral at this point, probably," he said. "We need interest rates to be gradually, very gradually, moving back toward normal."

The recent **stock-market** selloff appears unlikely to change the Fed's plans. The market pullback received no mention in the Fed's statement, unlike earlier downdrafts in 2015 and 2016.

Some officials have indicated the market movements could ease concerns that low **volatility** and rising asset values have fueled excessive risk-taking.

Inflation over the next year will be central to determining how the Fed's policy path evolves. Inflation has been holding near the Fed's 2% target for most of this year after undershooting it for many years. The Fed views inflation around 2% as a sign of balanced supply and demand.

"If we see things getting stronger and stronger, and inflation moving up, then we might move a little quicker," Mr. Powell said last month. "And if we see the economy weakening or inflation moving down, we might move a little more slowly."

One key question is the degree to which higher wages could lead businesses to raise prices.

Tariffs could also result in slightly higher inflation by raising prices of imported goods, though a stronger dollar could offset these effects somewhat by making it cheaper for Americans to buy from overseas.

This week's Fed meeting was the first since President Trump recently escalated his criticism of the central bank. In an interview with The Wall Street Journal last month, Mr. Trump cited the Fed as the top risk facing the economy. He earlier described the Fed as crazy and out of control due to its plans to gradually lift rates despite few obvious signs of inflation.

Fed officials have said they will make monetary-policy decisions without any consideration of politics.

"We've stayed pretty focused on the facts about the economy," said Randal Quarles, the central bank's vice chairman for bank supervision, in response to a question about Mr. Trump's criticism last month. "The job of the Fed is to remain focused on the facts of the economy and to be independent of the administration."

Write to Nick Timiraos at nick.timiraos@wsj.com

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THE WALL STREET JOURNAL.

Markets

D.E. Shaw Is a Quant King. Its Humans Are Losing Money; Old-fashioned investment strategies, relying on balance-sheet analysis and interviews, took a beating in an October rout

By Rachael Levy
957 words
8 November 2018
03:18 PM
The Wall Street Journal Online
WSJO
English

D.E. Shaw Group is known as one of the most successful quantitative investment funds, using computers to make trading decisions. This year, it is facing challenges replicating its success using human beings.

A group of D.E. Shaw traders who oversee about $2 billion in bets for and against individual stocks have struggled to make money in 2018, people familiar with the matter said. They were down about $60 million as of late September, these people said. By mid-October, the losses had deepened to roughly $100 million, one of these people added.

A spokesman for D.E. Shaw, a $53 billion hedge-fund firm, said its so-called long-short equities group has produced annualized returns of 40% since January 2013, not including client fees. The company declined to provide further data or to say whether it included borrowed funds in calculating investment returns.

D.E. Shaw isn't the only investment giant wrestling with stock-picking problems this year. A market rout in October tested a number of funds that specialize in an old-fashioned practice that relies more on balance-sheet analysis and face-to-face interviews than algorithms and automated trading strategies.

Some of these funds closed in early October due to performance that trailed stock indexes. Then on October 24 many stock-picking hedge funds had their worst day in almost seven years, according to a report from Goldman Sachs Group Inc. They lost 7.4% for the full month of October, Goldman Sachs Group Inc. said in a separate client report.

"The funds getting hit the hardest in October are the ones taking big market risks," Larry Newhook, chief executive of asset manager Alpha Innovations, said in an interview. "They've been increasing their net exposures [to the market] and their investors are paying the price."

Yet the recent challenges don't represent a crisis for D.E. Shaw, people familiar with the firm said. Its largest funds have made money this year, with returns in the high single digits through September, according to investors. People familiar with the firm say investors haven't pulled assets.

Not every stock picker inside D.E. Shaw has recorded losses this year. A large group encompassing the long-short equities unit called Fundamental Equities gained 10% before fees through September, people close to D.E. Shaw said. That group, formed this year, includes managers who bet on mergers and deals between companies, including a winning wager earlier this year around the bidding war for broadcaster Sky PLC, people familiar with the matter said.

Fundamental Equities now has a portfolio of stocks worth $30 billion, if borrowed money is included, according to people familiar with the matter. The bulk of the portfolio belongs to the long-short equities group, some of these people said.

There's disagreement about exactly how much belongs to the long-short equities group. A D.E. Shaw investor estimated the figure at around $22 billion. One person close to D.E. Shaw said that number is inaccurate and declined to elaborate.

The stock-picking push is counterintuitive in the hedge-fund industry. Many investment firms pay up to hire mathematical and computer experts to automate more of their trading. Quants now control about 29% of all trading on U.S. stock markets, up from about 14% five years ago, according to data from the TABB Group, LLC.

D.E. Shaw is considered a pioneer of the quantitative approach. David Shaw, a computer scientist, founded the firm in 1988 above a bookstore in Manhattan.

The hedge-fund firm established its group of human stock pickers in 2004. The group began making bets in sectors such as health care and technology, based on factors ranging from a company's fundamentals to market sentiment. Their decisions were then applied across the firm to individual funds.

The long-short equities group is now overseen by Julius Gaudio, a longtime D.E. Shaw executive who joined the firm in the early 1990s, with the portfolio managed day to day by Edwin Jager. It occupies about half of a trading floor in midtown Manhattan, which it shares with at least six other investment strategies, a person familiar with the firm says.

One sign of its importance, according to that person, is that it has more investment staff than the firm's quantitative stock-trading unit.

The people tasked with picking stocks for D.E. Shaw have experienced some **volatility** over the years. Throughout the mid-2000s the long-short equities strategy had big gains often followed by big losses, people familiar with the matter said.

In one case, the group made the right bet at the wrong time when it wagered against drugmaker Valeant Pharmaceuticals International Inc. earlier this decade. That decision was made by unit head James Mackey, years before Valeant came under scrutiny over its accounting and business practices.

D.E. Shaw liquidated the Valeant position around 2012 when Mr. Mackey left the firm—which meant it didn't benefit when the stock finally dropped in 2015, a person familiar with the matter said. Mr. Mackey declined to comment.

Now, D.E. Shaw's stock pickers are wrestling with an aggressive recruiting effort by hedge-fund giant Citadel. The rival has been pursuing D.E. Shaw staff with lucrative offers, people familiar with the matter said. So far this year, Citadel has hired away three portfolio managers and an analyst, these people said. Citadel's spokesman declined to comment.

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THE WALL STREET JOURNAL.

World

Eurozone Economy Seen Cooling as Risks Mount; The European Union says a sharper slowdown is possible if the U.S. economy overheats or trade tussles escalate

By Paul Hannon and Giovanni Legorano
719 words
8 November 2018
08:04 AM
The Wall Street Journal Online
WSJO
English

The eurozone economy will cool over 2018 and the coming years as global demand for the bloc's exports wanes, with a sharper slowdown possible if the U.S. economy overheats or trade tussles escalate, the European Union said Thursday.

The EU also used its quarterly economic forecasts to increase the pressure on Italy's government over its borrowing plans, projecting the country's budget deficit will exceed the upper limit set by the bloc in 2020.

The EU still expects the gross domestic product of the 19 countries that use the euro to grow by 2.1% this year, having expanded by 2.4% in 2017, which was the currency area's best year in a decade. The bloc cut its 2019 growth forecast to 1.9% from 2% in July and now projects a further slowdown to 1.7% in 2020.

It highlighted a number of threats to that scenario, chiefly the possibility that the U.S. economy grows too rapidly in response to cuts in taxes and increased government spending, prompting the Federal Reserve to raise its key interest rate more rapidly than currently anticipated. The EU warned that this could spread "turmoil" through global **financial markets** and weaken growth in developing and developed economies.

"Barring major shocks, GDP should continue to grow at a moderate pace," said Marco Buti, head of the European Commission's economics department. "The road ahead is however fraught with uncertainty and numerous, interconnected risks."

The EU also raised concerns that a rapidly expanding U.S. economy will suck in more imports, widening the country's trade deficit and prompting fresh tariff increases.

"Should extensive new tariff and non-tariff barriers emerge and spread, the negative impact on international trade and global growth would be sizable," Mr. Buti said.

The EU also warned of threats to growth from within the bloc, highlighting increased borrowing by Italy's new government and the possibility that the U.K. could leave the bloc in March abruptly and without a new trade agreement.

"Uncertainty about the outlook for public finances in Italy has led to higher interest spreads, and the interaction of sovereign debt with the banking sector is still of concern," Mr. Buti said.

Italy's government wants to raise spending on welfare benefits and pensions, in defiance of EU rules that require Italy to steadily balance its books.

The EU raised its forecasts Thursday for Italy's budget deficit to 2.9% of GDP next year and 3.1% in 2020, above the government's forecasts of 2.4% and 2.1% respectively. If the EU is right, the 2020 deficit would be above the upper limit set by the bloc's budget rules.

"The European Commission's forecasts of the Italian deficit are in stark contrast with those of the Italian government and derive from a partial and careless analysis of the Draft Budgetary Plan, the budget law and the trends of Italian finances, despite the information and clarifications provided by Italy," said Italy's Economy Minister Giovanni Tria in a statement.

Mr. Tria added that what he branded as a "technical failure of the Commission" won't influence the ongoing talks between the Rome and European authorities and pledged to stick to a budget deficit of 2.4% of GDP for next year.

European Economics Commissioner Pierre Moscovici said the EU wouldn't immediately follow through with penalties.

"The time for forecasts is not the time for decisions," Mr. Moscovici told reporters. "We want a dialogue with Italy."

Under the EU's protracted procedures for enforcing its fiscal rules, Italy has until Tuesday to submit a revised budget and the European Commission then has three weeks to respond. As a result, the budget spat could come to a head in early December.

Write to Paul Hannon at paul.hannon@wsj.com and Giovanni Legorano at giovanni.legorano@wsj.com

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THE WALL STREET JOURNAL.

World

Saudi Arabia, OPEC's Anchor, Ponders a Future Without the Cartel; Kingdom, under pressure from U.S. and investors, researches possible impact of a breakup of oil producers' group

By Summer Said and Benoit Faucon
1,290 words
8 November 2018
02:04 PM
The Wall Street Journal Online
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English

Saudi Arabia's top government-funded think tank is studying the possible effects on oil markets of a breakup of OPEC, a remarkable research effort for a country that has dominated the oil cartel for nearly 60 years.

The effort coincides with new pressures on the Saudi government, including from the U.S., where President Trump has accused the cartel of pushing up **oil prices**, and from investors who distanced themselves from the kingdom after the brutal killing of a U.S.-based Saudi journalist.

While the think tank's president, Adam Sieminski, said the study hadn't been triggered by Mr. Trump's statements, a senior adviser familiar with the project said it provided an opportunity to take into account the criticism from Washington. Depending on the findings, the study could offer a defense of the cartel and the Saudi role in it.

The research project doesn't reflect an active debate inside the government over whether to leave the Organization of the Petroleum Exporting Countries in the near term, according to people familiar with the matter.

Senior Saudi officials see the study as a high priority economic-policy inquiry, according to these people. Mr. Sieminski said he ordered the study, and that the analysis isn't unusual and explores topics his researchers normally delve into.

The report is part of a wider rethinking among senior government officials in Saudi Arabia about OPEC, according to the people familiar with the matter. Officials are grappling with the assumption—shared increasingly in the oil industry—that oil demand will one day peak, the senior Saudi adviser said.

In this context, the study is seen among senior officials as an exercise in gaming out how markets might react if demand falls so much that OPEC loses sway and disbands, the adviser said.

For decades, Saudi Arabia and its fellow members have insisted the Organization of the Petroleum Exporting Countries is a crucial global economic institution—a forum by which big producers can mete out oil production to keep prices from getting too low or too high.

Critics have accused OPEC of manipulating **oil prices** at the expense of big oil-consuming economies such as the U.S., and Mr. Trump has been outspoken in his condemnation. A group of U.S. lawmakers has pushed legislation that would effectively label OPEC an illegal cartel.

The proposed legislation, dubbed NOPEC, has withered during several U.S. administrations. Backers have said they think it might fare better under Mr. Trump.

"The kingdom knows demand for oil won't last forever…so you need to think past OPEC," the senior adviser said. "You also have a NOPEC act being considered" in Washington.

While there is no debate in the Saudi government about disbanding OPEC soon, senior government officials have recently started to question the longer-term rationale for the cartel because of the clout that Saudi Arabia and Russia alone can have on markets, according to another senior Saudi adviser.

Those questions have grown as Russia has worked more closely with Saudi Arabia in recent years. Russia and a group of allied oil producers joined OPEC in a deal about two years ago to rein in oil production amid superlow prices. The combined group's leverage over global production succeeded in lifting prices—so much so that the group more recently agreed to open the taps again to cool them off. The two sides are slated to meet again this weekend in Abu Dhabi.

Despite the impact on global markets, the closer coordination has upset some OPEC members, who have complained they are being sidelined by decision makers in Riyadh and Moscow.

Spokesmen for the Saudi government and energy ministry didn't answer requests for comment.

The think tank, Riyadh-based King Abdullah Petroleum Studies and Research Center, or Kapsarc, bills itself as an independent research institution. Its staff advises dominant Saudi agencies such as Saudi Aramco and the Saudi energy ministry.

Mr. Sieminski said the study was building on previous research that looked at the role of OPEC's spare capacity in stabilizing oil markets. The earlier work concluded that the absence of such a cushion "would lead to a more **volatile** price environment and be negative for the global economy," he said.

The research project comes as Crown Prince Mohammed bin Salman, who has broad control running the kingdom, has pushed in several directions to reshape his country's economy, society and its wider role in the world. Prince Mohammed pushed an initial public offering of a slice of Saudi Aramco, the country's state owned oil company—an effort that people familiar with the matter say has since stalled.

The IPO plan was a pillar in what the crown prince has called a bigger plan to modernize the Saudi economy. He has pushed big investments in global technology and finance, while the country has tried hard to lure foreign investors into the kingdom.

Those plans have been complicated after Turkey reported the killing of dissident Jamal Khashoggi at the Saudi consulate in Istanbul, and later said Saudi officials "at the highest levels" were behind it. Saudi Arabia has claimed rogue elements killed Mr. Khashoggi, without the knowledge of the crown prince.

The OPEC study aims to "assess the short/medium-term consequences of a dissolution of OPEC," according to an overview reviewed by The Wall Street Journal. It is intended to determine how the global oil market, and Saudi finances, would look "if coordination between oil producing countries disappear," according to the overview.

The overview describes two scenarios to investigate, if OPEC isn't in the picture: 1. All big oil producers, including Saudi Arabia, act competitively—fighting each other for market share; 2. Saudi Arabia, instead, attempts to leverage its massive oil output alone to help balance global supply and demand in an attempt to keep **oil prices** steady—similar to the role that members say OPEC plays today.

Two prominent Saudi government advisers, both central to the formation of the kingdom's oil policy, are scheduled to meet researchers on the project weekly, according to the overview. Mr. Sieminski said contacts with the Saudi energy ministry were to provide data for the study.

The study comes at a time of particularly acute tensions inside OPEC, a fractious group on the best of days. Relations between longtime regional rivals Saudi Arabia and Iran, two of the group's most important members, have spilled into oil-policy deliberations at the Vienna-based cartel.

Saudi Arabia is by far the most important OPEC member, accounting for more than 10 million barrels a day of the group's collective 33 million barrels a day of output. Saudi Arabia's oil minister has long presided over the group as its de facto head.

The kingdom has tended to play down publicly its leadership role, emphasizing what it and fellow members say is the group's consensus-driven decision making process. That has given individual members, including Saudi Arabia, some degree of cover from critics.

U.S. sanctions targeting Iranian oil exports have inflamed recent OPEC debates, with Iran's delegation accusing Riyadh of doing America's bidding inside the cartel. Saudi Arabian officials have expressed exasperation at times at what they call Iran's intransigence during what is supposed to be nonpolitical, oil-market debates.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Banks' Answer to Volatile Italian Debt: Accounting Changes; Italian banks are cutting the proportion of Italian government bonds they have to mark to market

By Paul J. Davies
521 words
8 November 2018
08:59 AM
The Wall Street Journal Online
WSJO
English

Italian banks are building defenses against their government's budgetary game of chicken with markets and the European Union's financial police.

Italy's face-off with Europe over its expansive borrowing and spending plans has sparked fears over Italian debt levels and caused a sharp rise in sovereign bond yields and a corresponding drop in their value. This hurts Italian banks because they own lots of these bonds.

But shareholders risk overreacting: Italian banks sovereign bondholdings may be big compared with their balance sheets, but that doesn't mean market value changes always spell losses. In fact, banks like UniCredit, Italy's second largest, are making future market moves less costly by changing the bonds' accounting treatment.

Jean-Pierre Mustier, UniCredit chief executive, aims to reduce sensitivity to government bond moves by more than one-third next year, he said at third-quarter results on Thursday. That means any further rise in yields will cost it less in terms of capital losses.

The bank will do this is by reinvesting money from maturing Italian debt into new bonds that it will classify as "held to maturity", rather than held for trading or available for sale. In accounting terms, any asset held to maturity can be valued at its historical cost. Assets held for trading or sale must be valued at the current market price.

UniCredit isn't alone: Banco BPM, a smaller rival, also said Thursday it was doing a similar thing.

This makes particular sense for UniCredit because it has a greater share of Italian sovereign bonds being marked to market than most peers. At the end of the second quarter, less than 9% of its Italian bonds were held to maturity. While that increased to more than 14% at the end of the third quarter, it still lags behind most rivals.

Intesa classified 32% of its Italian debt as held to maturity at the end of the third quarter, up marginally from 31% in the second. For Banco BPM the share is more than 50%. At BNL, the local subsidiary of French bank BNP Paribas, all Italian bonds are held to maturity, meaning it saw no losses at all this year from market moves.

Most of the banks' government bonds not held to maturity are classified as available for sale, according to Tom Kinmonth at ABN Amro. This is most costly because market-value losses cut directly into capital.

Of course, the different accounting treatment won't help if Italy defaults, or quits the euro, but both outcomes look very unlikely. A bigger problem could be that if conditions improve, banks with more debt held to maturity will miss out on market gains. The new accounting cuts both ways.

But right now these moves are sensible. Italy's battles with Europe and markets aren't over. Bank investors could do with having less reason to worry about them.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Retreat as Oil Prices Slump; Energy shares are the biggest loser as crude tumbles more than 20% from October high

By Jessica Menton and Christopher Whittall
759 words
8 November 2018
05:09 PM
The Wall Street Journal Online
WSJO
English

The S&P 500 fell Thursday, dragged down by shares of energy companies as U.S. crude oil entered a bear market.

Energy stocks in the index tumbled 2.2% as oil dropped 1.6% to $60.67 a barrel. That marks a decline of more than 20% from Oct. 3's high of $76.41 a barrel and ends oil's longest bull market since 2008. The slump has been fueled, in part, by the U.S. government's decision to soften oil sanctions on Iran.

"If oil breaks below $60 a barrel, that would be psychologically significant for the market where investors may lose confidence in crude prices," said Stacey Morris, director of research at Alerian.

The S&P 500 declined 7.06 points, or 0.3%, to 2806.83, while the Dow Jones Industrial Average rose 10.92 points, or less than 0.1%, to 26191.22. The technology-heavy Nasdaq Composite shed 39.87 points, 0.5%, to 7530.88.

After a turbulent period for stocks, the S&P 500 had climbed in six of the previous seven sessions entering Thursday and notched a 2.1% gain on Wednesday—its largest postelection increase since 1982.

Concerns over slumping oil prices, rising interest rates, the longevity of the U.S. expansion and the heady valuations of large technology companies led many investors to pull back in October. The S&P 500 fell nearly 7% that month, its steepest decline in more than seven years, despite most U.S. companies reporting robust earnings growth.

Interest rates were back in focus Thursday as the Federal Reserveheld short-term rates steady. The central bank offered a mostly upbeat assessment of the economy's performance, suggesting another rate increase is likely at its next meeting in December. Economists have debated whether rising inflation will force the central bank to raise rates faster than investors are anticipating.

"Inflation hasn't gotten too out of control, but there is a question of whether it makes sense for the Fed to take a pause, given the skittishness we've seen in the market in the past month," said Lindsey Bell, investment strategist at CFRA Research.

The yield on the 10-year Treasury note rose to 3.232% Thursday from 3.215% Wednesday, its highest level since May 2011. Yields rise as bond prices fall. The WSJ Dollar Index, which measures the greenback against a basket of 16 other currencies, added 0.5%.

Getting through the midterm elections removed one element of uncertainty hanging over the market. The result met most investors' expectations for the Democrats to gain control of the House of Representatives and the Republicans to retain the Senate.

Analysts say the likely gridlock in Washington will reduce uncertainty for companies over potential changes to economic policy and regulations. It should also decrease the likelihood of the Trump administration passing other measures that could fuel growth—but inflate the budget deficit—such as further tax cuts.

Investors are "just happy to get it behind us. Markets tend to like it when things go as expected," said Matt Brill, a senior portfolio manager for Invesco Fixed Income.

It also eliminates "the tail risk of greater budget deficits going forward," he added.

Disappointing corporate news drove some of Thursday's modest declines.

Shares in Wynn Resorts lost $14.97, or 13%, to $99.02 after the hotel and casino operator reported profit that fell short of analyst expectations and cast doubt on its Macau business in the fourth quarter.

Qualcomm slumped $5.16, or 8.2%, to $58.05 after the company posted a loss in its latest quarter. Shares of Monster Beverage fell $1.77, or 3.2%, to $54.14 after partner Coca-Cola said it would launch its own energy drinks.

Elsewhere, the Stoxx Europe 600 rose 0.2%. Most markets in the Asia-Pacific region rose, catching up with the sharp jump on Wall Street in the previous session.

In Asia, Japan's Nikkei Stock Average added 1.8% after registering a small decline Wednesday. Hong Kong's Hang Seng Index climbed 0.3%, while Korea's Kospi index rose 0.7%. China's Shanghai Composite Index bucked the trend, falling 0.2%, in its fourth consecutive session of declines.

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THE WALL STREET JOURNAL.

Markets
Right on the Election, Dead Wrong on the Market Reaction; Three possible reasons for why stocks soared

By James Mackintosh
830 words
8 November 2018
10:37 AM
The Wall Street Journal Online
WSJO
English

I had a well-worked-out forecast for what would happen to stocks after the midterm elections. It was smart, logical, and 100% wrong. Quite why is an interesting question, and shows how hard it is to predict markets even when events go exactly as predicted.

My flawed prediction was that U.S. stocks would fall in the event of the widely expected Democrat win of the House and Republican retention of the Senate.

The argument started with the probabilities. Bets on the Iowa Electronic Markets before polling day had the split Congress at about 60%, a roughly 30% chance of the GOP keeping House and Senate and a "blue wave" giving the Dems control of both at just 10%.

Continued Republican control would have led to hopes of more **stock-market**-friendly tax cuts, and the probability was high enough that it was an obvious trade to profit if that one-in-three chance happened. It didn't, so I expected those bets would be unwound, leading the market to fall.

There are three decent reasons why I was wrong, and the reason the **stock market** soared after the election could be down to any one of them, or parts of all of them.

First, I was looking at the wrong market. Rather than stocks, the focus should have been on the dollar and Treasury markets, which followed exactly the playbook I'd set out. When Fox News called the House for the Democrats at 9.30 p.m. the dollar tumbled, Treasury yields jumped and investors unwound their bets on yet more deficit-busting tax cuts. Stock futures were basically unchanged for hours afterward.

Second, investor psychology. Bond investors often accuse shareholders of being driven by emotions, and perhaps there was an element of emotion at work. Alan Ruskin, macro strategist at Deutsche Bank, points out that much of the analysis being circulated by Wall Street and reported by the media showed that previous midterm elections were typically followed by a stock rally to the end of the year. This past record might have given investors—shaken by the October selloff—confidence to pile back into the market after the election.

Equally, investors might have just been nervous about the election outcome and holding on to cash to avoid the uncertainty. With the result out, they were ready to get back into stocks, pushing up prices. Either way, U.S. stocks had a fabulous day on Wednesday.

The fact that European stock futures did basically nothing after the election until the **equity market** opened, when stocks soared—and that this coincided exactly with U.S. stock futures taking off—supports the idea that nervous investors had held off buying until after the election. Only when the futures-market speculators saw real money going to work in stocks did they join in.

The third explanation is the least likely. Perhaps investors were so worried about the implications of a blue wave for stock prices that they had hedged their portfolio to minimize losses. When the wave turned out smaller than they feared, they no longer needed the protection, so could buy back in. The trouble with this argument is the timing: Why the big dollar and bond moves but little action in equities until European stocks opened?

A final suggestion is that investors thought President Trump is now more likely to strike a deal on trade with China to avoid more tariffs, in order to bolster his position before the 2020 election. Leave aside the questionable logic here; the fall in the dollar would fit with this story (tariffs push up the dollar), but improved hopes on trade ought to help Chinese stocks, and didn't, much. It is true that China's market is much less connected to global stocks thanks to its domestic dominance and capital controls, but given the market was open, it was odd that stocks rose only 0.4% as the yuan rose against the dollar, and then stocks gave back all their gains and more even as the yuan kept rising.

I'm inclined to think both the first two explanations are right, and the obvious lesson is not to have too much confidence in one's predictions of how the market will respond.

Even if you're sure what will happen in some event, stocks might do something quite different. Moves in other assets can have big knock-on effects to the **stock market**. And anticipating how other investors will react—investors who are trying to predict each other's reactions too—is typically more important in the short run than the true fundamental effects of whatever actually happens.

The basic advice is longstanding: Regard any short-term trade as no more than a punt, and expect to lose your stake.

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THE WALL STREET JOURNAL.

Markets
SEC Charges EtherDelta Founder for Operating Unregistered Exchange; Regulator reaches settlement with Zachary Coburn, who launched token-trading platform

By Allison Prang and Paul Vigna
412 words
8 November 2018
02:51 PM
The Wall Street Journal Online
WSJO
English

The Securities and Exchange Commission said Thursday it reached a settlement with the founder of a digital-token trading platform for operating an unregistered exchange.

The regulator reached a settlement with EtherDelta founder Zachary Coburn, who in 2016 launched the EtherDelta website as a platform for trading blockchain-based tokens—known as ERC20 tokens—the SEC said. ERC20 is a standard coding protocol often used in initial coin offerings.

This is the first time the SEC has targeted a cryptocurrency exchange, and what is known in the crypto sector as a "decentralized" exchange. Essentially, EtherDelta was a piece of software that allowed users to trade with each other directly, as opposed to a centralized business like a traditional **stock market** that facilitates trading.

Mr. Coburn, without admitting or denying the SEC's accusations, will pay $300,000 in disgorgement, a $75,000 penalty and $13,000 in prejudgment interest, the SEC said. The regulator said it took Mr. Coburn's cooperation into consideration when deciding on his penalty.

"We are pleased with the result," said Greg Lisa, an attorney for Mr. Coburn, in a statement. "The Commission recognized that there was no fraud involved, or even alleged."

Mr. Coburn didn't respond to requests for comment.

The enforcement action is another indication that the commission is focused more on the impact a business has, not how it is organized or how its operators describe it. It also shows that the commission will target individuals. A common argument against regulation in the cryptocurrency space is that coders are just writing software, and aren't responsible for the effects of the software. The action against Mr. Coburn illustrates that the commission rejects that line of thinking.

The SEC said that it had issued a report last year that said platforms that trade these types of tokens, among other assets, had to be registered. Over 3.6 million orders for ERC20 tokens were carried out by EtherDelta users over 18 months, which also included tokens that are considered securities, the SEC said.

Write to Allison Prang at allison.prang@wsj.com and Paul Vigna at paul.vigna@wsj.com

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Markets

U.S. Dollar Up as Fed Signals December Rate Rise; Rising interest rates can make the greenback more attractive for investors

By Gunjan Banerji
216 words
8 November 2018
02:50 PM
The Wall Street Journal Online
WSJO
English

The U.S. dollar jumped Thursday as the Federal Reserve suggested that it would likely raise rates at its next meeting.

The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, rose 0.4% on Thursday to 90.31. It was on track to snap a three-day streak of declines.

The dollar hit a year-plus high ahead of the U.S. midterm elections as investors sought safety amid turmoil in other markets. It has pared some of its gains since.

The dollar darted higher after the conclusion of the two-day Fed meeting on Thursday. The central bank held interest rates steady but signaled that another rate increase was likely at the next meeting. Rising interest rates can make the greenback more attractive for yield-seeking investors.

The **10**-**year Treasury** yield was recently at 3.235%, according to Tradeweb, up from 3.215% Wednesday. Yields rise as **bond prices** fall.

The euro was down less than 0.4% to $1.1378. The dollar rose 0.3% against the yen to ¥113.93.

Write to Gunjan Banerji at Gunjan.Banerji@wsj.com

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THE WALL STREET JOURNAL.

Markets
Match Group Rolls in the Deep; Disappointing Tinder outlook sinks shares, sparks creative headlines

By Dan Gallagher
170 words
8 November 2018
01:29 PM
The Wall Street Journal Online
WSJO
English

Wall Street analysts are usually buried in spreadsheets, so it is understandably hard to resist the opportunity to write a punchy headline.

As the parent of popular online dating services such as Tinder and OkCupid, Match Group Inc. remains the most direct play on the turbulent world of human relationships.

That alone makes it hard to write a straight headline. The company's **volatile** stock is an added inducement. Match shares slid 17% on Wednesday following the company's third-quarter report.

The problem was a disappointing forecast in Tinder subscribers. That led Eric Sheridan of UBS to observe that "Earnings 'Dates' Can Become Unhinged." Brent Thill of Jefferies noted that "Love Is a Battlefield," after the 1983 Pat Benatar tune.

No analysts have yet mined the 1980 hit "Love Stinks" by the J. Geils Band, but there is always next quarter.

Write to Dan Gallagher at dan.gallagher@wsj.com

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WSJ PRO CENTRAL BANKING

Economy

Federal Reserve Likely to Keep Interest Rates Steady; Officials are expected to discuss how recent market developments shape their views on the economy at their two-day meeting

By Nick Timiraos
907 words
8 November 2018
05:30 AM
WSJ Pro Central Banking
RSTPROCB
English

Federal Reserve officials are expected to keep interest rates steady at their two-day policy meeting that concludes Thursday. They will likely discuss the economy, **financial markets** and the future path of rates, among other topics.

This will be Fed Chairman Jerome Powell's last meeting without a press conference afterward.

The central bank issues a policy statement at 2 p.m. ET, and officials aren't releasing new economic projections.

Here's a look at the main issues up for discussion:

The Economy

Employers have added jobs at a steady pace, likely firming Fed officials' plans to raise rates in December. Their statement should again describe the labor market as strong.

On the other hand, the interest-rate sensitive housing sector is slowing amid rising mortgage rates. And business investment was surprisingly soft during the third quarter.

Officials' September statement stopped describing rates as "accommodative," or low enough to stimulate the economy. Mr. Powell said then that rates were still accommodative, but the language had grown stale because it no longer said anything meaningful about policy going forward.

The challenge ahead is to parse financial and economic developments to determine whether rates are edging closer to a neutral setting that neither spurs nor slows growth.

Financial Conditions

Don't be surprised if the statement makes no mention of the recent selloff in stock and bond markets, which have tightened financial conditions since officials last met in September.

Fed officials haven't signaled serious worries about recent market **volatility** or financial conditions more broadly. Quite the opposite: rising asset values earlier this year raised concerns about excesses and risk-taking in **financial markets**.

Drawing attention to changing market conditions would likely be interpreted by investors as indicating less urgency to raise rates further. The last time the Fed statement highlighted weakening market conditions, in late 2015 and early 2016, Fed officials slowed down their plans to raise short-term rates relative to earlier projections.

The IOER Sideshow

Some analysts have focused on a development in the run-up to this week's meeting concerning movements in short-term money markets that have caused Fed officials' benchmark federal-funds rate to drift closer to the top of its target range between 2% and 2.25%. When this happened in April, officials tweaked the way they set rates in June to keep them closer to the midpoint of the range.

The solution was to change the way they set the rate at the upper bound of the fed-funds range—the rate the Fed pays on excess reserves, or deposits, parked at the Fed by private banks, called IOER.

Until June, the Fed had lifted this rate by the same amount as the fed-funds rate—by 0.25 percentage point—each time it raised rates since late 2015. In June, it raised IOER by just 0.20 percentage point to keep the effective fed-funds rate closer to the middle of the its range.

Despite market speculation over a possible reduction in IOER at this week's meeting, certain technical conditions for such a cut don't appear to have been met. Moreover, cutting the IOER rate could create extra communications challenges, as it would come on the heels of Tuesday's midterm elections and President Trump's criticism of the central bank's rate rises. In May, officials signaled they were more comfortable cutting the IOER rate, relative to the top of the fed-funds range, at a meeting when they were raising the fed-funds rate.

The Bond Portfolio

Fed officials think the upward pressure on their benchmark rate is coming from market developments unrelated to the gradual runoff of their bond portfolio, which dropped to around $4.1 trillion in October from $4.5 trillion a year earlier. The runoff is draining bank reserves from the system. At some point, this will probably put upward pressure on the fed-funds rate.

At the Fed's July 31-Aug. 1 meeting, Mr. Powell signaled he would begin a debate at this week's meeting about a broader question over how the Fed manages the fed-funds rate, which will help determine how long the runoff continues.

If they return to the approach used before the 2008 financial crisis, it would require fewer reserves and a small portfolio, meaning the runoff could continue well into the next decade. If they maintain the current framework, they would have more reserves and a larger portfolio, meaning the runoff might end in the next couple of years.

Roll Call

This week's meeting will be the sixth since Mr. Powell became chairman, and he has yet to face any dissents. That streak should continue for now.

The nine-member rate-setting committee will have one new member this week, since it is the first meeting attended by new San Francisco Fed President Mary Daly. Kansas City Fed President Esther George had voted at the last two meetings as an alternate member covering for the vacancy in the San Francisco Fed presidency.

Write to Nick Timiraos at nick.timiraos@wsj.com

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THE WALL STREET JOURNAL.

Markets

Volatility Heightens Focus on Fed Statement; Wall Street will be combing central bank's statement for policy clues given recent market volatility

By Sam Goldfarb
447 words
8 November 2018
08:00 AM
The Wall Street Journal Online
WSJO
English

It's that time again—when Wall Street traders turn into linguists, closely parsing the text of a Federal Reserve statement for minor word changes that could offer clues about the central bank's future monetary policies.

Few people expect the central bank to raise its key policy rate above its current target of 2% to 2.25% when the Fed concludes its two-day meeting Thursday. There is also no press conference after the meeting, limiting officials' ability to communicate their outlook.

Officials will, however, release a statement that analysts say could potentially tip in a dovish or a hawkish direction.

A glancing reference to recent market **volatility** or tightening financial conditions could be interpreted as a sign that officials are taking that **volatility** seriously, and proceeding cautiously about raising interest rates should it continue. At the same time, a reference to rising wages or other forms of inflation pressure could send the opposite signal: that officials are more concerned about inflation than skittish markets and are prepared to raise rates even faster than investors are anticipating.

Either move could send ripples through markets while many investors remain uncertain about the economic outlook. There is now little doubt the economy is doing well. The question is whether it is doing too well, with investors increasingly nervous that there could be an upswing in inflation or a hawkish turn by Fed officials intent on mitigating the inflation threat.

A big reason why U.S. government bonds, and then U.S. stocks, declined in recent months was rising uncertainty about inflation expectations and the Fed's potential response, said Karissa McDonough, a fixed-income strategist at People's United Wealth Management.

The conclusion of the U.S. midterm elections may have curbed some of that uncertainty, as analysts foresee slimmer odds that Congress could stoke the economy through additional fiscal stimulus. Yet much remains unknown, with recent data showing unemployment at a 49-year low and U.S. workers earning their biggest pay raises in nearly a decade.

If Fed officials lean harder in a hawkish direction—suggesting they'll keep raising rates to the point where it curtails economic activity—investors can expect more **volatility**, said Priya Misra, head of global rates strategy TD Securities in New York.

"Risk assets will not like that at all" while yields on short-term Treasury notes would likely shoot higher, she said.

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THE WALL STREET JOURNAL.
U.S. EDITION

Home-Improvement Stocks Take Beating

By Jessica Menton
506 words
8 November 2018
The Wall Street Journal
J
B13
English

Shares of home-improvement stocks have suffered sharp losses over the past month as the housing market continues to slump, pressured by rising interest rates and higher materials costs.

Recent data have shown the U.S. economy remains on solid footing, with strong hiring handing workers their best pay raises in nearly a decade.

But housing remains a weak spot. Existing-home sales have fallen for seven straight months, marking the longest slump since 2014.

Sales of new homes haven't fared much better, falling for four straight months.

That is partly because rising borrowing costs have pushed up mortgage rates, while pricier materials have limited both new construction and consumer spending on remodeling and maintenance.

Shares of paint maker Sherwin-Williams Co. have been hit hard, shedding 6% over the past month, compared with a 4.7% fall for the **S&P 500**. Cabinet maker American Woodmark Corp. and flooring maker Mohawk Industries Inc. have tumbled 13% and 24%, respectively, while window maker Jeld-Wen Holding Inc. has plunged 29%.

Shares of home-improvement retailers Home Depot Inc. and Lowe's Co. haven't been immune from the recent selloff, falling 5% and 8%, respectively, over the past month.

Stocks of home-building companies have likewise suffered a bruising 2018. Shares of Hovnanian Enterprises Inc., Beazer Homes USA Inc., KB Home and NVR Inc. each have lost at least one-third of their value.

Rising rates are likely squeezing first-time home buyers, particularly among millennials, said Lindsey Piegza, chief economist at Stifel, in some cases leaving them with smaller budgets for renovations.

Borrowing costs for mortgages are quickly approaching 5%, levels not seen since 2011. The rate for a 30-year fixed-rate mortgage rose to 4.83% last week, according to mortgage-finance giant Freddie Mac. That compares with 3.95% at the start of the year.

"Younger generations don't remember when mortgage rates were 13%, 15% or even 20%," Ms. Piegza said.

"For them, that may stall or completely deter them from making that purchase."

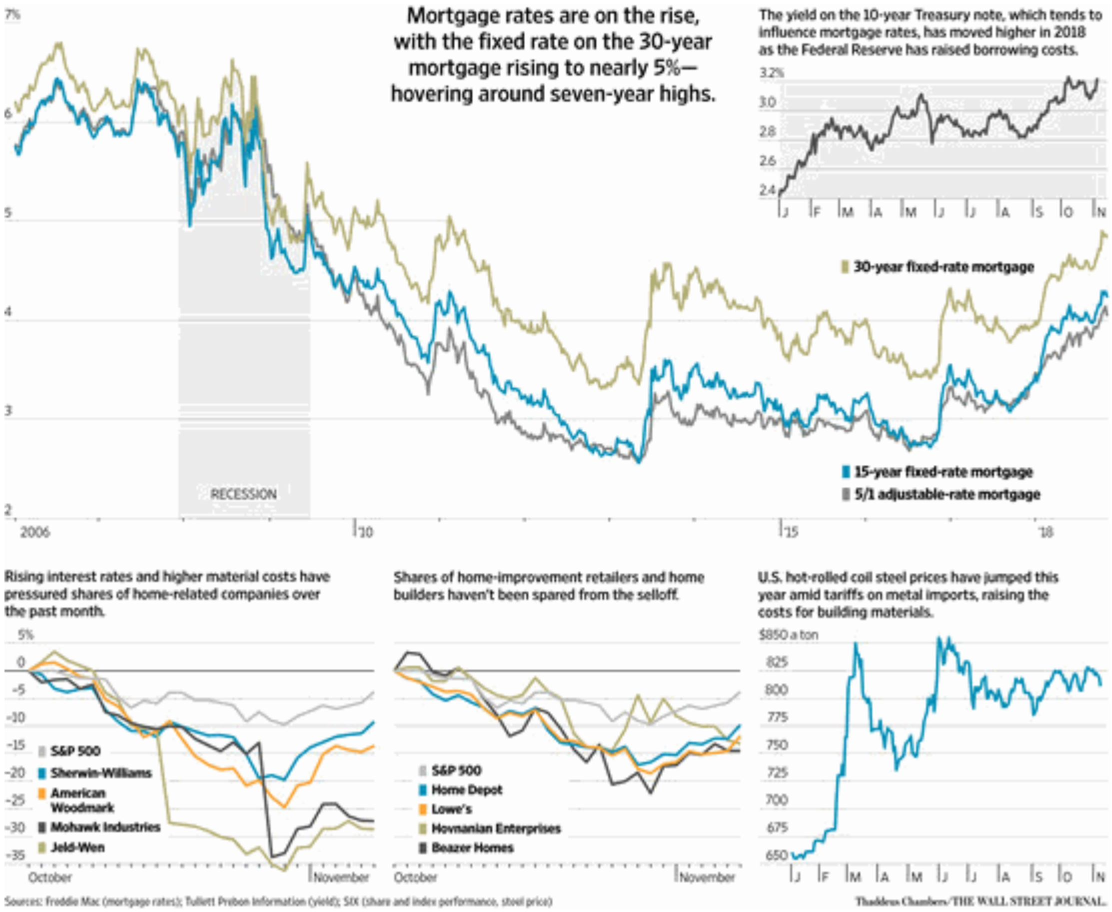
U.S. tariffs, meanwhile, have raised the costs of aluminum and steel, while a labor shortage in the construction sector has caused home building and remodeling to slow.

In one bright spot for builders and home-improvement companies, the cost of lumber has decreased. Futures have fallen 24% in 2018, settling Wednesday at $341.30 per thousand board feet.

Economists are debating whether the recent data mark a soft patch as buyers readjust their finances or a shift in the housing market.

Traditionally, most remodeling has been associated with preparing to sell or buy an existing home, said Robert Dietz, chief economist at the National Association of Home Builders.

"If we're now in an environment where existing-home sales are going to post small declines for the rest of the economic cycle, then that will weigh on the demand for remodeling even if homeowner wealth rises," Mr. Dietz said.



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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
An Outflow of Cash From China Presents a Warning Sign

By Nathaniel Taplin
427 words
8 November 2018
The Wall Street Journal
J
B13
English

[Financial Analysis and Commentary]

The Trump administration has spent much of the past year arguing that capital leaving China was a sign of flagging confidence, which would enhance the U.S.'s leverage in trade talks. Until recently, there wasn't much evidence that was true. Now there is.

Lost in the flurry of election coverage this week was a pair of important numbers from China. The country's third-quarter balance-of-payments data showed the first net investment outflow since 2016. Data released Wednesday showed Chinese foreign-exchange reserves dropping $34 billion in October, the biggest monthly fall since late 2016.

China is still far from the sort of sustained outflow pressure that drove its reserves down by nearly $1 trillion in 2015 and 2016. But this latest data shows the investment environment has deteriorated markedly in China in the past four months. And since China's earnings from trade also are flatlining, that means more pressure on the yuan -- and even less space for big monetary stimulus at home.

China's net trade earnings have been weak all year. But until very recently, big investment inflows had offset this. As recently as June, foreign holdings of Chinese government bonds were rising at nearly 80 billion yuan ($11 billion) a month as fund managers eyed China's inclusion in a key global bond benchmark. Foreigners are still buying Chinese government debt, but the pace has slowed dramatically. They added just 20 billion yuan in October according to Wind. Net foreign direct investment was also close to zero in the third quarter after strong net inflows in the first half.

The third-quarter figures are preliminary. And a stronger dollar, which reduces the value of nondollar reserves, made October's foreign-exchange reserves figure look worse. But slowing bond-market inflows are harder to dismiss -- and weakening foreign investment overall wouldn't be surprising given rebounding inflation, slowing growth and a **stock market** in full retreat. Price gains in China's red-hot real-estate market, a key factor keeping investment capital at home, also slowed in September.

Foreign interest in Chinese assets has been a key -- and underappreciated -- factor that had slowed the yuan's decline this year and permitted modest monetary easing by Beijing without triggering big net capital outflows. If foreigners are now having second thoughts, it portends a much tougher period ahead for China's currency and policy makers.

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Markets

Malaysia's Central Bank Holds Rates Steady; Overnight policy rate kept at 3.25%, as expected

By Yantoultra Ngui
446 words
8 November 2018
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WSJ Pro Central Banking
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English

KUALA LUMPUR, Malaysia—Malaysia's central bank left interest rates unchanged Thursday as the country faces the prospect of slowing economic growth and a widening fiscal deficit.

All 10 economists polled by The Wall Street Journal expected Bank Negara Malaysia to hold its overnight policy rate, or OPR, at 3.25%. The central bank raised the rate by a quarter of a percentage point for the first time in 3½ years in January.

"At the current level of the OPR, the degree of monetary accommodativeness is consistent with the intended policy stance," Bank Negara Malaysia said in a statement.

Malaysia, Southeast Asia's third-largest economy, has been hurt by the trade tensions between two of its major trading partners--the U.S. and China--as well as spillover effects from financial crises in Argentina and Turkey. In the second quarter, Malaysia's GDP grew 4.5%, the slowest quarter since the fourth quarter of 2016. Third-quarter GDP data will be released Nov. 16.

The ringgit has also depreciated 2.9% against the dollar so far this year, but still fares better than most currencies in Asia, partly because of the central bank's supportive measures.

"The domestic economy continues to face downside risks stemming from any further escalation in trade tensions and prolonged weakness in the mining and agriculture sectors," Bank Negara Malaysia said.

Nevertheless, the bank said on balance, the Malaysian economy is expected to remain on a steady growth path in 2018 and 2019.

Private consumption will remain the main driver of growth, while public sector spending is likely to weigh on growth, it added.

Finance Minister Lim Guan Eng said Friday that Malaysia's economy is expected to grow 4.8% this year, slowing from a 5.9% expansion in 2017, before rebounding to 4.9% growth next year. The fiscal deficit is projected to widen to 3.7% of gross domestic product this year from 3.0% last year, before narrowing to 3.4% in 2019, according to Mr. Lim.

Inflation is expected to accelerate to between 2.5% and 3.5% next year from between 1.5% and 2.5% estimated for 2018, partly due to a low base effect after a sales and services tax replaced the unpopular goods and services tax in September.

"The annual average headline inflation will be low in 2018," Bank Negara Malaysia said. "Moving into 2019, headline inflation is projected to increase primarily due to higher projected global **oil prices** and the floating of domestic fuel prices."

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THE WALL STREET JOURNAL.

Markets
Postelection Stock Rally Extends Into Asia; The results of the midterms helped reduce some fears

By Ben Eisen
516 words
8 November 2018
04:06 AM
The Wall Street Journal Online
WSJO
English

Markets rallied across most of Asia on Thursday, a day after the midterm vote fueled the biggest postelection jump in U.S. stocks in more than 35 years.

What's Happening

Asian stock indexes advanced, tracking the U.S. The benchmark **S&P 500** rose 2.1% on Wednesday, the largest gain in the session after an Election Day since 1982. Some Asian indexes, including the Kospi and the Nikkei, had closed lower in the previous session after initially rising as the results unfolded. Both the South Korean and Japanese indexes ended higher Thursday, though Chinese benchmarks lost steam late in the session and finished mixed.

Major companies were broadly higher. Tencent Holdings rose 0.1% in Hong Kong trading, while Samsung Electronics rose 0.4% in South Korea, and Toyota Motor climbed 0.6% in Japan.

The upswing helps reverse some of last month's declines, when markets around the world were hit by worries about trade tensions, rising U.S. interest rates and the potential for U.S. economic growth to slow.

What It Means

The midterms helped reduce some of those fears. Market analysts say a divided Congress, in which Democrats control the House of Representatives and Republicans control the Senate, is likely to slow U.S. policy-making—meaning a smaller chance of tax cuts or other measures that could drive up U.S. borrowing costs by stimulating more robust growth and quicker inflation.

"A split Congress is the best outcome for U.S. and global equity markets," said Marko Kolanovic, a quantitative and derivatives analyst at JPMorgan Chase & Co., in a note to clients. Mr. Kolanovic and his colleagues also say the trade feud between the U.S. and China could de-escalate, though Congress has no direct role in President Trump's decision on that matter.

Freya Beamish, chief Asia economist at Pantheon Macroeconomics Ltd., said Washington is now less likely to raise tariffs on Chinese goods as planned in January.

The trade spat has rippled through markets in Asia, helping send Chinese stocks into a **bear market** and helping push the yuan to a decade low against the dollar last month.

In turn, China has stepped in as the currency nears seven per dollar, a psychologically significant level that could exacerbate weakness. China's foreign-exchange reserves fell by $34 billion in October, data showed Wednesday, signaling central-bank intervention to bolster the yuan. That was the biggest drop in reserves since December 2016.

Market observers say the dollar will weaken if Congress becomes more gridlocked, which could bolster the yuan. Ms. Beamish at Pantheon said the yuan "could still see further relief this year."

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Asia Markets Snapshot

* Japan's Nikkei 225 surged 1.8%, and South Korea's Kospi jumped 0.7%.

* The Shanghai Composite fell 0.2%, while Hong Kong's Hang Seng gained 0.3%.

* The yuan weakened slightly in offshore trading to 6.9234 per dollar.

Document WSJO000020181108eeb8001gt

THE WALL STREET JOURNAL.

Markets

Treasury Bond Auction Draws Weakest Demand in Nearly a Decade; Market is absorbing a lot of debt from both the Treasury and Fed

By Daniel Kruger
410 words
7 November 2018
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

The Treasury Department said last month it will sell $1.34 trillion of new debt in the 2018 calendar year. An earlier version of this article incorrectly stated that the debt was being sold in the current fiscal year, which runs through Sept. 2019. (Nov. 12, 2018)

The Treasury's auction Wednesday of $19 billion of 30-year bonds met the weakest demand since 2009, a sign the flood of new U.S. government debt requires higher yields to attract investors.

Bidding was weak even as the 30-year **bond yield** hovered around 3.4%, near the four-year high reached earlier this month. Investors and dealers submitted bids totaling 2.06 times the amount of debt sold at Wednesday's auction. This multiple, known as the bid-to-cover ratio, was the lowest for a 30-year bond auction since February 2009 and well below this year's average of 2.36.

Some analysts credit a surge in borrowing with helping push yields higher this year. The Treasury has sold more than $2 trillion of notes and bonds so far in 2018 to fund last year's tax cuts and an increase in government spending, increasing the supply of outstanding bonds at a time of uncertain demand. The department said last month it would sell $1.34 trillion of new debt in the 2018 calendar year, on top of the maturing bonds and notes it will roll over into new securities.

The market this year also has had to absorb the $161.7 billion of Treasury debt that the Federal Reserve has allowed to roll off its balance sheet. In October, the Fed stepped up the pace at which it is reducing its holdings of U.S. government debt to $30 billion a month.

"We're getting a lot of supply, both from the Treasury and from the Fed," said Andrew Brenner, head of global fixed income at NatAlliance Securities. "It's really having a bearing on demand."

Investors have underestimated the effect of the Fed's balance-sheet taper, and the move has spurred uncertainty because they don't know at what point the Fed will stop, Mr. Brenner said. The Fed held $3.96 trillion of Treasury and mortgage debt at the end of October, down from $4.24 trillion a year ago. Some analysts have said the holdings could fall below $3 trillion.

The yield on the 30-year bond closed Wednesday at 3.426%, compared with its recent high of 3.454% on Nov. 2.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Michael Kors Is on the Discount Rack; Investors panned the company's purchase of Versace, but a sharp stock selloff leaves plenty of upside if its strategy of bulking up works out

By Elizabeth Winkler
641 words
7 November 2018
01:56 PM
The Wall Street Journal Online
WSJO
English

In retail, living and dying by the health of a single brand or the mood of a season is a dangerous proposition. Established companies are competing not only with Amazon.com but also with a flood of venture capital-backed startups offering consumers lower prices and eroding the pricing power of incumbents. To survive, retailers need either nimbleness or size.

Michael Kors has now joined some American companies opting for the latter, fashioning themselves into houses of luxury in the vein of LVMH, the French conglomerate that owns brands from Louis Vuitton to Dom Pérignon. Owning multiple brands offsets risks, but diversification also can bring challenges.

Take Coach, which last year rebranded as "Tapestry" after acquiring Stuart Weitzman in 2015 and Kate Spade in 2017. The new company beat estimates last week when it reported fourth-quarter earnings, with the strength of its Coach and Kate Spade brands compensating for losses and execution issues at Stuart Weitzman.

Having multiple brands under one roof means that you don't need to get everything right, says Simeon Siegel, a retail analyst at Nomura Securities. "You mute and moderate the fickleness of fashion, and as you grow, you can scale."

That approach clearly carries an appeal for Michael Kors. It acquired Jimmy Choo last year and announced this fall that it is buying Versace for $2.4 billion. But absorbing brands is never as easy as the model suggests, says Mr. Siegel. Michael Kors was largely panned for overpaying for Versace. The Italian fashion brand is barely profitable. Shares tumbled, reflecting a fear that the new acquisition could destroy shareholder value.

Investors didn't find much comfort in the company's second-quarter earnings report either. On Wednesday, Michael Kors reported earnings of 91 cents a share, down from $1.32 a share a year ago, and revenue of $1.25 billion, missing estimates of $1.26 billion. Shares fell 15% in morning trading to a new one-year low.

At Michael Kors's namesake brand, where revenue was flat compared with last year, the company blamed inventory problems. It had been cutting back on excess product but then didn't have enough in certain styles that sold out. Sales at Jimmy Choo compensated somewhat, with stronger-than-expected growth. That has led the company to raise guidance for the year by 5 cents to $4.95 to $5.05 a share.

The Versace acquisition, which was only announced this quarter, wasn't reflected in the report. The company has trumpeted the synergies of the deal: Jimmy Choo and Versace occupy a similar, rarefied niche, while Michael Kors tends to be categorized as "affordable luxury," a lower notch on the opulence spectrum. It plans to increase Versace's sales to $2 billion globally from €700 million ($800 million) in 2017, adding around 100 stores. Investors remain skeptical.

The selloff since the deal was announced is now roughly equivalent to what Michael Kors paid for the acquisition. At this price, investors have insulated themselves from the risk that Versace is a disastrous move and can benefit even it is merely a so-so one. The **stock market**'s judgment was swift, but it has given buyers an increasingly rare luxury—a margin of safety.

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Analysis From the WSJ Newsroom

This Cyber Monday, Nov. 26, at 1 p.m. ET, join WSJ personal-technology journalists in a live member-exclusive call on the best deals and gadgets this holiday season. They will also answer your tech questions, which can be submitted in advance to subscribercall@wsj.com. Register here.

Document WSJO000020181107eeb7006k5

WSJ PRO CENTRAL BANKING

Economy

Fed Could Move Again to Keep Short-Term Rates in Check by End of Year; The central bank for a second time could lower its interest on excess reserves rate relative to the benchmark fed-funds target

By Michael S. Derby
793 words
7 November 2018
04:16 PM
WSJ Pro Central Banking
RSTPROCB
English

The Federal Reserve appears ready to make another tweak that will slow the rise of a key short-term interest rate by the end of the year, analysts say.

The central bank, in a move that would be largely technical in nature, could lower the interest rate it pays banks to park reserves on its books relative to the top end of its benchmark federal-funds rate.

The fed-funds rate target range now stands at 2% to 2.25%, while its interest on excess reserves, or IOER, rate is set at 2.2%. Until the Fed's June meeting, IOER was set to define the top end of the fed-funds target range.

The Fed bumped IOER down a touch in June because the fed-funds rate, which floats within the range and is set by market forces, had been grinding up near the top end of target rate range. The change in IOER aimed to push the fed-funds rate back toward the middle of the range.

The pressures that caused the Fed to act in June have returned. In recent weeks, the fed-funds rate has again been trading toward the top end of the range, and some analysts believe the Fed will act to tame this rate.

While some say the move could happen at this week's policy meeting, where no change in the fed-funds range is expected, more analysts say December's meeting is a better time, when the central bank is expected to lift the fed-funds target. They predict if the Fed moves its target rate range to between 2.25% and 2.5%, IOER will go to 2.4%.

A December tweak works best if only because it is easier to communicate.

"A stand-alone cut in the IOER relative to an unchanged target range would seem to run counter to the Fed's carefully-honed gradual-rate-hike message," forecasting firm Wrightson ICAP told clients in a message. "That would be difficult or, at least, complicated, to explain to the broader public even under the best of circumstances."

J.P. Morgan economist Michael Feroli agrees there is "a good chance" the change will happen with a December fed-funds increase.

The reasons for the upward drift in the fed-funds rate are complicated. In his September Federal Open Market Committee press conference, Fed Chairman Jerome Powell said the situation wasn't a big problem. "We think it's principally a function just of a number of things, but particularly high Treasury supply" is a notable force affecting short-term rates, he said.

In a speech late last month, Simon Potter, who leads the implementation of monetary policy at the New York Fed, pointed to technical market issues as putting upward pressure on the fed-funds rate. He said he didn't believe the level of reserves in the banking system had become scarce enough to cause the upward drift in the funds rate.

"I am confident that the Federal Reserve has the effective tools and is prepared to take measures as appropriate to ensure that short-term rates remain well-controlled and efficiently transmit the stance of policy into broader **financial markets**," Mr. Potter said. He also hinted a tweak would happen if the Fed deemed it necessary.

Changes in IOER highlight how complicated the Fed's control over interest rates has become. Before the financial crisis the Fed simply targeted the fed-funds rate and explained the stance of monetary policy in terms of this single rate.

Now, the Fed controls short-term rates by setting a high and low end for the range. The IOER rate was supposed to set the high end of the range, but now it doesn't. And while it isn't likely to have much real-world economic impact, lowering IOER relative to the top end of the range does mean in real terms short-term borrowing costs will rise at a slightly slower pace.

George Selgin, a scholar at the Cato Institute, is a skeptic of the Fed's rate-control regime, calling it Byzantine.

"Who needs Alan Greenspan" to offer obscure explanations for monetary policy, Mr. Selgin asked, referring to the former chairman of the Fed at a time when the central bank offered less transparency. With the current menu of short-term rates set by the Fed, "there's still plenty to keep it mysterious to the everyday person."

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WSJ PRO BANKRUPTCY

WSJ Pro

Sears Swap Holders on Collision Course With Bankruptcy Lender; Conflict over Sears derivatives auction follows market disruption over Hovnanian swaps bet

By Andrew Scurria
742 words
7 November 2018
06:09 PM
WSJ Pro Bankruptcy
RSTPROBK
English

When Sears Holdings Corp. collapsed into bankruptcy last month, **bearish** credit-derivatives traders thought they had a winning bet. Now their trades are threatening to go awry, the latest instance of discord between participants in the multitrillion-dollar credit protection market.

Away from the retailer's court-supervised bankruptcy, tensions are developing between hedge funds on opposite sides of insurance contracts tied to bankrupt subsidiary Sears Roebuck Acceptance Corp., according to people familiar with the matter.

Credit default swaps provide an important source of bondholder protection, allowing holders to demand payment from sellers when a corporate borrower defaults. Insurance holders are required to deliver a debt security issued by the borrower into an auction before they can collect their payouts.

But insurance buyers are struggling to come up with enough eligible SRAC securities to deliver into the auction. The scarcity of eligible SRAC debt means that credit default swap holders including Och-Ziff Capital Management Group LLC could recover fewer insurance dollars than they otherwise might, according to people familiar with the matter.

Now some insurance holders are seeking to have additional SRAC debt obligations declared eligible in order to juice returns in the auction, people familiar with the matter said. So far, the International Swaps and Derivatives Association's Determinations Committee has approved less than $300 million in eligible SRAC debt obligations, compared with more than $400 million in net outstanding credit derivatives.

It is up to the committee whether other debts can be included as so-called deliverable obligations. Increasing the number of deliverables would likely boost returns for credit protection buyers at the expense of Cyrus Capital Partners LP, a Sears creditor that has also sold credit protection on the retailer, betting it would survive longer than it did, people familiar with the matter said.

Credit default swap holders have zeroed in on $2.3 billion in SRAC debt owed to other Sears affiliates and held internally within the company, people familiar with the matter said.

Broker-dealers including Credit Suisse have tried unsuccessfully to buy these intercompany debts from Sears, potentially freeing them up for use in the auction should they be declared deliverables, according to people familiar with the matter. Credit Suisse declined to comment.

In a decision published Friday, the ISDA committee said those intercompany debts wouldn't be included in the auction "at this time," saying they lacked sufficient documentation.

Late Wednesday, the intercompany debts reappeared on a new list published by the committee as eligible deliverables.

The nascent dispute is pitting other traders against Cyrus at a critical moment for Sears. Cyrus is vying to provide the bankruptcy financing needed to keep the retailer afloat past the holiday season, The Wall Street Journal previously reported. A collapse of financing negotiations would move Sears one step closer to the liquidation it has been trying desperately to avoid.

When credit default swaps are triggered, holders are generally entitled to the face value of the insurance contract minus the market value of the borrower's least valuable securities. The less the borrower's debt is worth, the larger the insurance payouts. SRAC bonds that have already been declared as deliverables were trading at 42 cents on the dollar Wednesday, according to FactSet.

A potentially contested auction amounts to another challenge for the credit default swap market after a high-profile bet by Blackstone Group LPshook confidence in the integrity of the instruments. Blackstone's GSO Capital Partners LP engineered a default by home builder Hovnanian Enterprises in exchange for low-cost financing, fanning worries that other healthy borrowers could default by choice.

Blackstone abandoned the controversial trade in May following an uproar from traders, a scolding from regulators and a lawsuit alleging market manipulation.

Credit default swaps are particularly critical to brick-and-mortar retailers like Sears. Vendors buy credit protection in case an unforeseen default leaves them unpaid for products they have already shipped. They count on credit default swaps "to provide some semblance of insurance and downside protection," said Jeff Pierce, managing partner at Snow Park Capital Partners, a hedge fund with negative bets on Sears.

"A dispute over the credit default swaps connected to SRAC could trigger unwelcome developments for creditors across the industry," Mr. Pierce said.

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THE WALL STREET JOURNAL.

Markets

Treasurys End Choppy Session Where They Started; The 10-year yield briefly matched its 2018 high

By Sam Goldfarb
407 words
7 November 2018
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The Wall Street Journal Online
WSJO
English

U.S. government-**bond prices** ended Wednesday little changed after swinging sharply between gains and losses, as traders responded to the outcome of the U.S. midterm elections and an auction of 30-year bonds.

The yield on the benchmark U.S. **10**-**year Treasury** note settled at 3.215%, according to Tradeweb, compared with 3.214% Tuesday.

Yields, which rise when **bond prices** fall, were **volatile** overnight as traders closely followed election returns. At one point, when it appeared Republicans might unexpectedly maintain their majority in the House of Representatives, the 10-year yield briefly matched its 2018 high of 3.248%, reflecting the consensus view that continued Republican control of Congress would improve the chances of more deficit-expanding tax cuts or spending increases.

Yields fell, however, as that probability faded.

"In the end, the results were broadly as expected," said John Canavan, market analyst at Stone and McCarthy Research Associates. For now, he added, investors seem to believe that it will be harder to pass tax cuts or spending increases with parties splitting control of Congress, though it could take time to get a better read on the situation.

Thanks in part to tax-cut legislation that Republicans passed in 2017, the Treasury has estimated it will issue more than $1 trillion in debt this year, the most since 2010.

Many analysts say that the increased supply of Treasury debt has been one factor pushing yields higher this year, while another has been the Federal Reserve's commitment to steady interest-rate increases.

The Fed on Wednesday began a two-day policy meeting. Though the central bank isn't expected to raise rates, investors will pick through its statement Thursday for any hints about its plans.

After rebounding earlier in the day, prices on Treasurys fell again after there was soft demand for a $19 billion auction of 30-year Treasurys.

Investors and bond dealers submitted bids totaling 2.06 times the amount of debt sold at Wednesday's auction. This multiple, known as the bid-to-cover ratio, was the lowest for a 30-year bond auction since February 2009. It compares with bids averaging 2.36 times the amount of 30-year debt sold this year.

Daniel Kruger contributed to this article.

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THE WALL STREET JOURNAL.

Markets
Wall Street Analysts Are Now Selling More Data, Less Analysis; Research units take different tack to refine information for clients; geospatial mapping for mall trips and Googling interest in 'Luke Cage'

By Telis Demos
931 words
7 November 2018
10:30 AM
The Wall Street Journal Online
WSJO
English

Wall Street analysts are doing data differently.

Banks for years have crunched data on company earnings, price targets and other mundane metrics for clients who might use the information to make investing and trading decisions.

Now they are pulling data from social-media sentiment, geospatial mapping and other unorthodox sources. They are also increasingly making their data feeds available directly to clients, without the surrounding research notes that often go unread.

The changes are the banks' latest strategy to try to juice up interest in—and revenue from—their giant research arms that are struggling to stay relevant. Banks have long provided research as part of a bundle of services to trading clients, but now many clients are either pushing to lower their trading bills or are more likely to base their decisions on quantitative algorithms than qualitative research. Only about 21% of research emails tracked by Street Contxt, a startup that distributes and tracks Wall Street content, were even opened during the second quarter.

UBS Group AG recently spun out the data team it built for its research business into a separate unit inside the bank. Research analysts will continue to use the service, but now clients can also tap into it directly.

"People say data is the new oil, but there is a refiner needed," said Barry Hurewitz, UBS's global head of the group, called Evidence Lab. "And we're an integrated refiner of that data."

The unit houses hundreds of data experts and specialists that consume thousands of raw data sources and shape them into usable information for investors. For example, the group analyzed job reviews on the website Glassdoor for several insurers, to judge which might lose underwriters. It also tracked Google searches for the Netflix Inc. show "Marvel's Luke Cage," and found less interest in the show when it made its second season debut.

Before UBS, Mr. Hurewitz worked at Morgan Stanley, where just over a decade ago he helped start a data unit now called AlphaWise.

AlphaWise, which today employs more than 100 data scientists and other engineers, is part of Morgan Stanley's research unit. Research analysts tap it for its analytics services and nontraditional data to formulate views on the industries they cover.

In a recent note, Morgan Stanley's real-estate investment analysts cited road-network maps to determine which malls had more or less spending power from nearby potential customers, based on how long it takes to drive to the mall rather than just a simple radius. The analysts hypothesized that people would drive to a better mall, but only if it was less than five minutes further away.

The group's data resources are now increasingly shared across the firm, including with Morgan Stanley's trading desk, which employs its own data experts that work with clients.

At HSBC Holdings PLC, research analysts recently used software to read the transcripts of 20,000 corporate earnings calls to spot trends.

For example, the software could pinpoint when executives talked about business difficulties, and distinguish that from talk of "technical difficulties" with the conference call dial-in. The bank is exploring how to keep running the software to generate ongoing alerts for clients.

But some trading desks don't want to handle new kinds of data directly. One concern is verifying that the data don't contain personal information. Banks don't want to get pulled into the privacy controversies engulfing social media firms.

Research arms gained notoriety after some analysts leaked private information to clients in the 1990s, spurring a regulatory crackdown. Since then, the units have pulled other levers to try to gin up business. Analysts now often arrange meetings for clients with top executives at companies they cover. Some banks recently began collecting data on their own clients, like what research they click on and when. Banks say the information lets them better price their research products, but the tracking has rankled some clients who don't want to be watched.

Jefferies Financial Group Inc. has made itself more of a conduit between clients and data. A team on its stock-trading desk advises clients on finding, evaluating and using new data sources, and the bank sponsors conferences connecting investors and data vendors. Jefferies' parent group separately owns M Science, a major seller of alternative-data based research.

Other banks believe their edge is offering up their own data. Goldman Sachs Group Inc. has long collected data that informs its own business decisions—such as specialized measures of **volatility**—into a centralized repository. It would occasionally share some of that data with clients, typically in spreadsheets.

Now Goldman is providing more of that data to clients in a formal way, via real-time direct links through its Marquee web software. "Clients now want efficiency and access," said Stacy Selig, the bank's New York head of equity structuring.

Wall Street is also recruiting new kinds of people for these efforts. Barclays PLC over the summer hired digital media startup Buzzfeed's principal data scientist, Adam Kelleher, to lead a new data group within the bank's research unit.

It is a new step for both Barclays and Mr. Kelleher, who has a Ph.D. in physics. To become a research analyst, he had to take two exams with more than 300 questions.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

Dow Surges Nearly 550 Points; Election results remove one source of angst, as a split Congress will make radical policy changes less likely, analysts say

By Amrith Ramkumar
1,041 words
7 November 2018
05:00 PM
The Wall Street Journal Online
WSJO
English

The **Dow Jones Industrial Average** surged nearly 550 points Wednesday as U.S. stocks extended a recent rebound, advancing as a congressional power divide eased worries about swift policy changes that could hurt large companies.

Uncertainty about the elections was one factor driving October's **stock-market** rout, with some investors anxious that radical economic policy changes could hurt corporations benefiting from tax reform and an emphasis on deregulation. Democrats claiming a majority in the House of Representatives and Republicans retaining control of the Senate soothed some of those fears, analysts said, sparking a broad-based market rally.

Twenty-nine of the 30 Dow industrial stocks climbed, putting the blue-chip index 2.4% off its October record. All 11 **S&P 500** sectors posted gains, moving the benchmark 4% off its all-time high. Both indexes have risen in six of the past seven sessions and are at their highest level since Oct. 9, a quick turnaround from a brutal selloff that left the **S&P 500** and Dow teetering on the edge of correction territory two weeks ago.

While some sectors directly affected by Tuesday's results such as health care led the indexes higher, a rally in recently battered technology and internet stocks was another sign of rejuvenated investor confidence.

"We've had clients across the board call in and ask where to put their money," said Tom Stringfellow, president and chief investment officer of San Antonio-based Frost Investment Advisors. "Investors aren't making any mass movement trying to get out of the markets, but they're really looking for something to buy in this environment."

Mr. Stringfellow and other money managers say they have been directing clients to buy shares of technology, consumer discretionary and energy stocks—all sectors that had been battered by the October selloff but still present strong profit growth opportunities in the quarters ahead.

"It's still a selective market, but one that is a heck of a lot cheaper than earlier in the year," Mr. Stringfellow added.

The Dow industrials rose 545.29 points, or 2.1%, to 26180.30. The **S&P 500** climbed 58.44 points, or 2.1%, to 2813.89, also logging one of its best sessions of 2018. The tech-heavy **Nasdaq Composite** added 194.79 points, or 2.6%, to 7570.75 and notched its highest close in three weeks.

For 2018, the **Nasdaq** is now up 9.7%, while the Dow has advanced 5.9% and the S&P is up 5.2%.

Shares of Amazon.com, Google parent Alphabet, Microsoft and Netflix each added at least 3.5%.

Despite Wednesday's climb, many investors were questioning what catalysts could continue powering stocks higher, with anxiety about slowing global economic growth and rising interest rates continuing to hang over the nine-year-old **bull market**.

Few analysts expect the Federal Reserve to announce another rate increase following the conclusion of its latest two-day meeting Thursday, but the central bank is expected to raise borrowing costs again in December and several times in 2019.

Mixed trade signals also are still baffling many investors ahead of a planned meeting between President Trump and President Xi Jinping of China at the Group of 20 leaders summit in Buenos Aires later this month. And projections for slowing revenue growth from technology stocks also continue to loom large.

"It's the trend that needs to be the focus for investors to identify where things are going as the impact of the tax cuts wanes next year," said Peter Lazaroff, co-chief investment officer at Plancorp. "I don't know that we're going to get a lot of answers on these uncertainties in the next month or so."

Still, some analysts expect sectors directly affected by Tuesday's election results to continue gyrating.

The election results eased concerns that health-care policies might shift and hurt insurers, while state ballot initiatives that expanded Medicaid payments in Idaho and Nebraska also stoked investors' interest.

"One part of Trump's agenda was to repeal the Affordable Care Act. Now that there's a Democratic House, we know that's not going to happen, so health care, particularly hospitals and insurers, will do well in this scenario," said Kristina Hooper, chief global market strategist at Invesco.

In California, a proposal that would have limited how much clinics could ask customers to pay for dialysis treatment was defeated, giving way to a 10% surge in shares of DaVita, a medical-care services company.

Although U.S. crude fell for an eighth consecutive session and is near a **bear market**, energy stocks in the **S&P 500** climbed 1.6% after voters in Colorado rejected a measure to curb drilling in most of the U.S.'s seventh-largest oil-producing state.

Sellers of everything from guns to cannabis also rose on expectations that Tuesday's results won't threaten their businesses.

Many analysts are now increasingly looking to trade policy for the next event that could shift the calculus for investors hoping to protect gains or limit losses heading into the end of the year.

Cautious comments from executives about tariffs are one reason companies in the **S&P 500** that are beating earnings targets aren't seeing the typical bounce in their share prices, according to FactSet.

Benjamin Lau, chief investment officer of Irvine, Calif.-based Apriem Advisors, is wagering that a resolution to the monthslong tariff fight between the U.S. and China could reinvigorate global growth. He has been buying stocks in the technology, health-care, industrial and financial sectors.

"Getting rid of that overhang would be a major boost," he said. "That is the big unknown for a lot of companies right now."

—Michael Wursthorn and Corrie Driebusch contributed to this article.

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AMD's Cloud Payoff Will Come—Eventually; A new deal with Amazon.com provides an important foothold, though sales will take time to materialize

By Dan Gallagher
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Advanced Micro Devices has shown it has a rightful place in the cloud. The next trick will be showing it can stay there.

The chip maker announced an important new deal with Amazon.com's cloud service on Tuesday. Under the arrangement, customers of Amazon Web Services will be able to choose a handful of services that use AMD's newest line of processors. AMD has existing relationships with other big cloud-service providers including Microsoft, Oracle, Baidu and Tencent. But AWS is the undisputed leader of the public cloud industry, now generating more than $23 billion in trailing 12-month revenue compared with an estimated $8.4 billion for Microsoft's Azure.

Amazon, in other words, is an important win for AMD. It gives the chip maker a fighting chance in its quest to finally take some market share from rival Intel Corp., which has long controlled about 98% of the server-chip market. Intel's struggles with developing a new manufacturing process have delayed the next generation of its server processors until early 2020. AMD, meanwhile, will have its latest server chips on the market next year based on the newest production processes at partner Taiwan Semiconductor Manufacturing Co. Timothy Arcuri of UBS estimates AMD will account for about 17% of server chips sold by 2021.

That ultimately will be the decision of the businesses that use services like AWS. They will have to select the services run by AMD's chips which will, in turn, spark more sales of those chips, as Amazon would need to keep pace with demand. It is an uncertain outcome that will depend greatly on AMD's ability to sell its newest capabilities. Analysts have given initial high marks to the latest line of chips, which should help the company in its sales efforts.

But investors still need to be patient. AMD's **stock price** ran up prematurely when Intel's troubles became apparent three months ago, only to fall back to where they started following last month's brutal tech selloff and a disappointing third-quarter report from the company.

AMD's latest big break following the recent selloff should create conditions for gains if their chips catch on in the cloud.

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