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Corrections & Amplifications
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S&P Global Market Intelligence in December estimated that a 10% cut in the effective corporate tax rate in the U.S. could boost the earnings-growth rate of companies in the **S&P 500 index** to 23% in 2017. A Page One graphic on Wednesday about gains in the **Nasdaq Composite** Index incorrectly suggested that the figures applied to Berkshire Hathaway Inc. and that they were from Berkshire.

(See: "**Nasdaq** Soars to New Heights as Global Stocks Rally" -- WSJ April 26, 2017)

New York gallery Fort Gansevoort has postponed Ryan Neil's show Mirai, which will feature bonsai trees, to this summer or fall. An article in the May edition of WSJ. Magazine, which went to press before the gallery announced the change, said that the show would open in May 2017.

An image of the French flag was incorrectly reversed in a graphic with a World News article July 3, 2014, about U.K. aircraft carriers.

Readers can alert The Wall Street Journal to any errors in news articles by e-mailing wsjcontact@wsj.com or by calling 888-410-2667.

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The New York Times

National Desk; SECTA
Economy Grows At Slowest Rate In 3 Years: 0.7%

By NELSON D. SCHWARTZ
1,204 words
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English

Americans say they feel more optimistic about the economy since President Trump was elected. But they certainly are not acting that way, and that is shaping up to be a challenge for his administration.

Consumers pulled back sharply on spending in early 2017, the Commerce Department said on Friday, reducing the economy's quarterly growth to its lowest level in three years. In fact, the 0.7 percent annual growth rate for the period is far below the 2.5 percent pace in President Barack Obama's final three months in office, let alone Mr. Trump's 4 percent target.

The caution among consumers was particularly notable on big purchases like automobiles. Other indicators were stronger -- businesses invested at a healthy pace -- but that was not enough to offset the headwinds from feeble retail sales and falling inventories.

Through eight years of a fundamentally tepid recovery, the promise of stronger economic growth that is always just around the corner has had a waiting-for-Godot quality. Investors and Wall Street seem confident that this time, the predictions will finally come true -- hence the 11 percent surge in stocks since the election -- but some independent economists are wary.

The softness last quarter also provides crucial ammunition for the Trump administration's arguments that big tax cuts and regulatory rollbacks are necessary for the economy to grow the way it did in the 1980s and 1990s.

Tax cuts, regulatory relief, trade renegotiations and an unfettered energy sector are needed ''to overcome the dismal economy inherited by the Trump administration,'' said Commerce Secretary Wilbur Ross. ''Business and consumer sentiment is strong, but both must be released from the regulatory and tax shackles constraining economic growth.''

The first-quarter fade is also sure to be noticed by the Federal Reserve as it contemplates whether to proceed with two more interest-rate increases planned for this year.

Federal Reserve policy makers are set to meet next week, and while there is little expectation that an interest-rate increase will be announced when the meeting ends on Wednesday, the latest economic reading could sway the Fed's outlook. The monthly report on job creation is due next Friday, and a strong showing could ease some of the concern over the lack of vigor in the first quarter.

The job market has proved remarkably resilient even as quarterly growth has wobbled, and the unemployment rate sank to 4.5 percent in March, the lowest in nearly a decade.

Those seeking encouraging news about the first quarter could find it in separate reports on Friday. The Labor Department said an index reflecting labor costs had its best showing in almost a decade, indicating that falling unemployment and faster hiring is translating into better wages -- something notably absent in the recovery until recently.

Reaffirming its recent findings, the University of Michigan said its consumer sentiment index finished April with a decidedly **bullish** reading of 97, up from 87.2 just before the election.

The White House provided a statement saying the report on gross domestic product might have been influenced by seasonal factors, but "shows that we still have work to do to get the economic growth President Trump wants and expects."

And in an interview with Fox News on Friday, Mr. Trump said that, with better trade deals, the United States should be able to lift the rate of economic growth to 5 percent or more in a few years.

With personal consumption accounting for nearly 70 percent of all economic activity, however, the administration will be hard pressed to lift growth substantially if consumers remain cautious about opening their wallets.

Jason Furman, chairman of the Council of Economic Advisers under Mr. Obama, said he found the disconnect between findings of optimism and actual behavior puzzling, though he added, "It's possible it was a blip."

On the other hand, something more significant may be happening. The rising cost of necessities like health care, housing and education is crowding out discretionary spending for middle-class Americans, said Stephanie Pomboy, founder of MacroMavens, an independent economics consulting firm in New York.

And the tax cuts the administration is proposing are unlikely to reverse that trend, she added.

"Consumers aren't spending out of desire but out of obligation," she said. "And I believe that since the recession and the bursting of the housing bubble, the middle class wants to save. They don't want to get back into the position they were in after 2008."

She noted that although the Obama administration got temporary tax breaks through Congress as part of its stimulus package in 2009, tax credits and other incentives did not substantially increase consumer spending.

Ms. Pomboy was among the earliest voices warning that a burst of first-quarter momentum was unlikely, and she is similarly cautious about the rest of 2017. "There are a lot of moving parts to this report for the first quarter, but none suggest we should look for an acceleration in growth going forward," she said.

The initial weakness this year does follow a pattern of sluggish annual starts since the recovery began, when momentum has picked up in subsequent quarters.

When growth is measured year over year, rather than quarter over quarter, the latest data reveal a 1.9 percent annual growth rate, which is almost identical to the broader trend of the postrecession period.

Most economists on Wall Street are looking for a rebound over the rest of 2017, with growth rising to about 3 percent in the current quarter.

"We see ebbs and flows in consumer spending, and it's still on an upward trend," said Scott Anderson, chief economist at Bank of the West in San Francisco. Noting that consumption rose sharply in mid- to late 2016, Mr. Anderson suggested some payback was probably inevitable.

While he is more sanguine about the economy's prospects than Ms. Pomboy is, Mr. Anderson shares her skepticism about the impact White House policy will have.

"The reality, as we have seen in the first 100 days, is that it's a lot harder for the administration to achieve their policy goals and deal with Congress than they probably thought during the campaign," he said.

"Even if you are president of the United States, you have to deal with 535 individuals with different constituencies and agendas on Capitol Hill," Mr. Anderson said. "It's not like running a commercial real estate company where everyone has to march to the same drummer."

"I've never been a believer in the 'Trump bump' for this year," he added. "We're in the same economy we've been in all along."

Shoppers at a Kmart store in Hamilton Township, N.J. Consumers reduced spending sharply in the first quarter of 2017. (PHOTOGRAPH BY JOHN TAGGART FOR THE NEW YORK TIMES) (A17) CHARTS: GROSS DOMESTIC PRODUCT: Annual rate (Source: Commerce Dept.) (A1); Confident, but Hesitant: Although consumer confidence has grown, particularly since the election of Donald Trump, the number of consumers who plan to buy a major appliance or a car has changed little over the last seven years. (Source: Deutsche Bank) (A17)

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The New York Times

Business/Financial Desk; SECTB
'Trump Bump' Gives President a Win in His First 100 Days

By MICHAEL J. de la MERCED
814 words
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English

In his first 100 days as president, Donald J. Trump may have found much of his agenda stymied, like a health care overhaul and a hotly contested immigration order.

But he can at least point to the biggest **stock market** rise of any president since the 1980s.

In Mr. Trump's first 100 days, the **Standard & Poor**'**s 500**-**stockindex** has risen about 5 percent, in what supporters have called a "Trump bump."

Only George Bush enjoyed a bigger **stock market** rise, with the index gaining 7.7 percent in his first 100 days as president in 1989 amid a 15-year low in unemployment and efforts to shore up the battered savings-and-loan industry.

By comparison, in Barack Obama's first 100 days in the White House, the S.&P. rose 2.8 percent. Under George W. Bush, it fell 7.3 percent. Under Bill Clinton, it rose 0.9 percent. Under Ronald Reagan, it fell 1 percent.

Like most presidents in the modern era, Mr. Trump has both played down and embraced the significance of the 100-day period by which new White Houses have been judged since Franklin D. Roosevelt. He dismissed the 100-day milestone as a "ridiculous standard" even as his administration sought to push through a final flurry of actions meant to improve his report card.

Much of the markets' movements arises from circumstances beyond any president's control. When Mr. Obama took office in early 2009, the country was still grappling with the fallout of a global financial crisis that had mired the economy in deep recession.

And the younger Mr. Bush assumed the presidency amid the bursting of the dot-com bubble, which wiped out scores of internet stocks.

But from the moment Mr. Trump won the 2016 election, analysts and bankers predicted a bump in the S.&P., based in part on the promises of an overtly business-friendly presidency. Mr. Trump has pledged to lift regulations that he said were stymieing private enterprise, while ushering in both big tax cuts and greater infrastructure spending.

Since taking office, Mr. Trump has made good on some of those promises, lifting regulations on the financial and energy industries while appointing government officials inclined to look more favorably upon business. The White House tax proposal this week called for a drastic cut to corporate taxes.

And still, much of what has happened is because of factors beyond the administration's promises and control, according to Erik Knutzen, the multi-class asset chief investment officer at Neuberger Berman.

While Mr. Trump has asserted that he "inherited a mess" from Mr. Obama, the economy that he took over has shown some fundamental resilience: a 10th year of economic expansion, stock markets at historical highs and low interest rates.

Much of the improvement in market indexes of late, Mr. Knutzen said, came from strong corporate earnings in the first fiscal quarter of the year -- which the new administration would have had little to do with. "I think most of the movements in the markets in the last five and a half months are much more associated with improvements in global economies," he said.

On Friday, the **Standard & Poor's 500-stockindex** fell 4.57 points, or 0.2 percent, to 2,384.20. The **Dow Jonesindustrial average** gave up 40.82 points, or 0.2 percent, to 20,940.51. The **Nasdaq composite** lost 1.33 points, less than 0.1 percent, to 6,047.61.

It is unclear where the markets go from here. The Federal Reserve has signaled that it expects to continue raising interest rates in the interest of sustaining what its chairwoman, Janet Yellen, called ''a healthy economy.''

And the path forward for Mr. Trump's tax cut proposal is murky. What was unveiled on Wednesday so far holds great promises for corporate America, from slashing the business tax rate to 15 percent to a one-time tax holiday for companies to bring back trillions of dollars in profits earned overseas. Whether the White House can win support from Congress remains an open question.

Then there are questions about Mr. Trump's trade positions and foreign policy, as he signals a continued willingness to walk away from the North American Free Trade Agreement while maintaining his hard-line stance on North Korea. So far, markets have experienced less up-and-down whipsawing from uncertainty, Mr. Knutzen said. But he cautioned that this may not last.

''While that's possible, from a prudence standpoint, I think it's better to assume **volatility** will increase,'' he said.

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Friday. (Source: Reuters | By The New York Times) (B2)

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U.S. News: Trump Order Eases Offshore Drilling

By Erin Ailworth
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English

President Donald Trump signed an executive order on Friday to ease regulations on offshore drilling and eventually allow more to occur, particularly in the Arctic Ocean.

The order, which takes aim at last-minute Obama administration actions restricting drilling in the Arctic and Atlantic oceans, will likely have limited immediate impact, as a result of low **oil prices**, which make drilling in the affected areas economically unattractive. The order specifically directs Interior Secretary Ryan Zinke to consider leasing in the Chukchi and Beaufort seas, the Atlantic and other areas.

In a signing ceremony, Mr. Trump talked up the order as a way to move the U.S. toward energy independence and lift restrictions that he said have curtailed job growth.

Environmentalists decried his action as a politically motivated reversal of necessary protections for sensitive federal waters. "Some places are too precious to drill, foremost among them all the Arctic Ocean," said Jamie Williams, president of the Wilderness Society. "The Arctic Ocean itself is too fragile to develop safely for oil and gas."

Given low energy prices -- after a more than a 2 1/2-year bust, U.S. crude is trading under $50 a barrel -- it is unclear how much immediate interest oil and gas producers have in developing such expensive-to-drill areas.

But given the continued U.S. dependence on fossil fuels, companies need to plan long term to meet future energy needs, said Erik Milito, director of upstream and industry operations at the American Petroleum Institute, an oil and gas trade group.

"There could be huge potential in places like Alaska, the Atlantic, the eastern Gulf," Mr. Milito said. "While there may not be a company wanting to go out and drill tomorrow in the Atlantic, over time it's going to be important."

Mr. Trump said the order directs Mr. Zinke to reconsider "burdensome regulations" that slow job creation, including a proposed offshore air rule and a well control rule. The directive also calls for a streamlined permitting process for the privately funded collection of seismic data needed to assess potential offshore resources.

Environmentalists say the president's order will likely face legal challenges. Peter Shelley, senior counsel at the Conservation Law Foundation, said the Obama administration's moves to restrict oil and gas drilling along the East Coast and in the Atlantic had "huge support from fishing communities, from beach communities, from tourists and businesses."

Michael C. Bender contributed to this article.

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Weekend Profile: 'Godfather of Smart Beta' --- Rob Arnott doubts how some investors are using strategies he pioneered

By Aaron Kuriloff
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English

The "godfather of smart beta" is having fresh doubts about how some on Wall Street are using the increasingly popular passive-investing strategies he pioneered.

Smart-beta funds, which try to beat standard index funds' returns by allocating money based on factors like companies' dividend payments, sales, or **volatility**, attracted record inflows of $55 billion last year. According to BlackRock Inc., which operates several of the biggest smart-beta exchange-traded funds, they are headed toward $1 trillion under management globally by 2020.

Rob Arnott, an early architect of such investing tactics, says these funds' popularity makes some of the strategies expensive, undermining what made them appealing in the first place.

In a paper published earlier this month by Research Affiliates LLC, the investing firm he founded, Mr. Arnott questioned approaches including so-called momentum strategies, which buy stocks experiencing rapid price gains. The approach's benefits seldom exceed trading costs and fees, he said.

He has also built tools that he said will help investors determine which strategies are overpriced.

"You can't time markets," he said in an interview. "You can't pick tops and bottoms. But you can identify what's trading cheap relative to history and what's expensive."

His new research follows a critique of the strategies that began in February last year, in which he said a smart-beta crash was "reasonably likely."

The paper, titled "How Can 'Smart Beta' Go Horribly Wrong?," singled out low-**volatility** funds -- which are typically designed to produce market-like returns with less risk -- saying that a surge of money from performance-chasing investors had driven up valuations to unsustainable levels, reducing the prospects for their future returns.

"Our own low-vol fund is expensive," Mr. Arnott said.

Asset managers including BlackRock and Invesco Ltd.'s PowerShares have said the strategy performs well over the longer term, and noted the assets account for only a fraction of the investing universe.

John Feyerer, director of equity ETF products at PowerShares, called his firm and Research Affiliates "kindred spirits," adding "we've been partners more than a decade, but that doesn't mean we're always going to agree."

Cliff Asness, the co-founder of AQR Capital Management LLC and another early designer of smart-beta strategies, has said the valuations do matter, but aren't the only thing that matters. This month, he wrote that Mr. Arnott's warnings consisted of "repeated breathless white papers" instead of "give-and-take debate."

Mr. Arnott's critique of smart beta started as an inquiry into why some of his own strategies had underperformed for two years and investors were instead buying newly expensive approaches, such as low-**volatility** funds.

Investors poured money into low-**volatility** funds for much of last year, then dumped them as stocks surged to new records last autumn in what BNP Paribas SA research at the time described as "a brutal readjustment."

BlackRock's iShares Edge MSCI Minimum **Volatility** USA exchange-traded fund, the largest low-**volatility** ETF, rose roughly 13% from the beginning of 2016 through its peak for the year in July, outperforming the **S&P 500**'s 6.4% advance, according to FactSet. It then fell 4.2% from its July peak through year-end, while the **S&P 500** added 2.9%. The ETF is up 7% so far this year, compared with 6.5% for the **S&P 500**.

At its heights in July, stocks within the ETF traded at an average of roughly 24 times their past 12 months of earnings, more than 20% higher than the iShares Core **S&P 500** ETF, according to FactSet.

Mr. Arnott's Research Affiliates manages almost no money. Instead, it designs products -- such as mutual and exchange-traded funds -- for clients including Pacific Investment Management Co. and PowerShares. Licensing ideas and collecting fees for a living means they must offer those shops something their existing armies of investment researchers don't already provide, Mr. Arnott said.

Mr. Arnott, the son of a pastor, turned a love of computers, math and research into a globe-spanning investment advisory business.

His first target was the standard index fund. During the technology bust of the early 2000s, he was managing money at First Quadrant, cruising Pasadena, Calif., on vintage motorcycles and publishing dozens of papers on financial theory.

As the market tumbled, Mr. Arnott saw big index funds -- which typically allocate money to companies based on their market capitalization -- dragged down by losses from a relatively few large companies. So he joined those proposing to break the link between market capitalization and portfolio weighting, relying instead on factors such as price, momentum, **volatility**, or combinations of factors. Mr. Arnott's paper "Fundamental Indexation" laid the groundwork for Research Affiliates' Fundamental Index, or RAFI, series of funds with PowerShares.

Vanguard Group founder and indexing pioneer John C. Bogle called him "a brilliant academic" and "the greatest marketer I've ever met."

RAFI-branded strategies now have almost $140 billion under management around the world. Research Affiliates also licenses strategies to partners under other brand names, including roughly $36 billion for Pimco.

As smart beta spread, many credited Mr. Arnott for demonstrating the strategy's feasibility. As of March 31, the flagship PowerShares FTSE RAFI US 1000 Portfolio has outperformed the Russell 1000 by an average of almost 1 percentage point a year over its roughly dozen-year lifespan, according to PowerShares. The fund charges fees of 0.39%, or $39 on a $10,000 investment, less than most actively managed funds. It beat the index by roughly 14 percentage points in 2009, according to FactSet.

"I wish I was as sure of anything as he is of everything," Mr. Bogle said.

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Intelligent Investor: Investors Believe In Magic

By Jason Zweig
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Investors believe the darndest things.

In one recent survey, wealthy individuals said they expect their portfolios to earn a long-run average of 8.5% annually after inflation. With bonds yielding roughly 2.5%, a typical stock-and-bond portfolio would need stocks to grow at 12.5% annually to hit that overall 8.5% target. Net of fees and inflation, that would require approximately doubling the 7% annual gain that stocks have produced over the long term.

Individuals aren't the only investors who believe in the improbable. One in six institutional investors, in another survey, projected gains of more than 20% annually on their investments in venture capital -- even though such funds, on average, have underperformed the **stock market** for much of the 2000s.

Although almost nothing is impossible in the **financial markets**, these expectations are so far-fetched they border on fantasy.

The traditional explanations for believing in an investing tooth fairy who will leave money under your pillow are optimism and overconfidence: Hope springs eternal, and each of us thinks we're better than the other investors out there.

There is another reason so many investors believe in magic: We can't handle the truth.

The efficient-market hypothesis holds that stock prices fully reflect all the relevant information that is available. What if, instead, investors are so efficient at avoiding some information that it might as well not even exist? Psychologists call this behavior "information avoidance." You could also call it intentional ignorance.

"It's a motivated decision to say 'no' to learning available but unwanted information," says Jennifer Howell, a psychologist at Ohio University in Athens, Ohio, who studies the phenomenon. "People avoid information if it's going to make them feel or behave or think in a way they don't want to" -- especially any evidence that could jeopardize their belief in their competence and autonomy or could require taking difficult or prolonged action.

After all, if the information is pleasant, that positive feeling gives you more incentive to pay attention to it. Painful information can push you to ignore it.

Think of people declining to get tested for the genetic markers of a hereditary disease, or a smoker whose cigarette packs might as well have that surgeon-general warning printed in invisible ink.

Investors often act much the same way.

The behavioral economist George Loewenstein and his research colleagues have shown, using data from Vanguard Group, that investors check the value of their financial assets much less frequently, on average, in down markets -- a behavior researchers call "the ostrich effect."

Decades of research have documented that people are much less willing to sell investments that have dropped in price. To "realize" a loss means not only to make it actual, but also to become aware of it. If you don't lock in a loss by selling it, you don't have to think about it or admit you made a mistake.

Such behavior isn't always bad. Covering your eyes and ears during a market downturn can keep you from kicking yourself with regret -- and from bailing out near the bottom.

However, you can't tell whether your ideas are valid unless you let them be challenged. Investors would spare themselves embarrassment and loss by confronting information instead of hiding from it.

So, when you or your financial adviser estimate future performance, ask: What are the sources of this expected return (income, inflation, capital appreciation and so on)? How much of the total will come from each? How do those expectations compare to the long-term past results and, if they differ, by how much and why?

A survey in March and April of nearly 2,000 economists, security analysts and corporate executives found that in 30 out of 41 countries, including the U.S., these experts are calling for stocks to outperform bonds by a wider margin than they did when last surveyed in 2015.

While not impossible, anyone calling for even higher returns after years of robust gains in stock markets around the world needs to look for loopholes in his or her logic.

Finally ask: What conditions or circumstances would it take for me to be proven wrong? If your answer is "none" or "that's impossible," you have a severe case of information avoidance. The only cure for that might be the shock of losses that come at you like a bolt from the blue.

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The New York Times

COMMON SENSE
Business/Financial Desk; SECTB
Tax Cuts for Everybody, and Responsibility for Nobody

By JAMES B. STEWART
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During his campaign, Donald J. Trump embraced the cause of fiscal responsibility and accused President Barack Obama of shackling the country with a "mountain of debt."

Mr. Obama "doubled our national debt. Doubled it," Mr. Trump claimed in a speech in Virginia Beach.

Then on Wednesday, Mr. Trump unveiled the outlines of his much-anticipated tax overhaul, calling for steep tax cuts with only modest offsetting revenue increases. Economists I spoke to this week estimate it would add trillions to the national debt over the next decade.

"We've only done the rough numbers, but this looks like a tax cut of a magnitude of about $5 trillion," said Maya MacGuineas, president of the Committee for a Responsible Federal Budget, a bipartisan advocacy organization for fiscal responsibility. "That is simply unimaginable given our fiscal situation and the size of the deficit, which is already the worst since World War II."

The sense of incredulity was widely shared.

"Paul Ryan and Kevin Brady must be beside themselves in private," said Leonard E. Burman, director of the Urban-Brookings Tax Policy Center and a professor at the Maxwell School of Syracuse University , referring to the House speaker and the House Ways and Means Committee chairman. "They put in years of work on a tax reform plan that at least tried to be revenue-neutral," meaning tax cuts would be offset by closing loopholes, "and wouldn't explode the deficit."

Or as Steven M. Rosenthal, a business tax expert and senior fellow at the Urban-Brookings Tax Policy Center, put it: "Mr. Trump's plan basically is tax cuts for everyone. Real reform, with revenue neutrality, is difficult. There are winners and losers, but Trump apparently just wants winners."

Tax cuts, as opposed to tax reform, are easy, Ms. MacGuineas agreed: "Who doesn't love a tax cut, especially if no one has to pay for it? This is a free-lunch mentality."

That Mr. Trump would embrace such a cut-now, pay-later approach probably shouldn't be too much of a surprise, considering the Trump Organization 's reliance on borrowed money. "I'm the king of debt," Mr. Trump said last year on CNN . "I love debt."

Just how much Mr. Trump's plan would cost the government is hard to determine, given the sketchy details. But the conservative-leaning Tax Foundation estimates that two prospective elements -- reducing individual rates to three brackets of 35, 25 and 10 percent, and cutting the tax rate for corporations and pass-through entities (businesses that pay taxes at individual rates) to 15 percent -- would cost the Treasury $4 trillion to $6 trillion over 10 years, said Alan Cole, an economist at the foundation.

The Urban-Brookings Tax Center estimated the cost of the cuts Mr. Trump proposed during the campaign at $6.2 trillion, assuming no additional growth, and just under $6 trillion when growth is factored in.

Mr. Trump also wants to eliminate the estate tax and the alternative minimum tax, each of which would cost the Treasury hundreds of millions in revenue.

The administration's proposal was silent on some critical aspects of any tax plan, such as the treatment of capital expenditures for business. Mr. Trump has said he strongly supports immediate expensing of capital expenditures, which many economists agree would encourage growth. The Tax Foundation estimates that such a change from current depreciation schedules would cost the Treasury $2.2 trillion over 10 years.

That would raise the 10-year revenue loss to well over $8 trillion.

Mr. Trump's proposal did nod in the direction of raising revenue by calling for elimination of all deductions, save those for mortgage interest, charitable contributions and retirement savings. The major deduction not mentioned -- and evidently jettisoned -- is the one for state and local taxes. (And it's probably no coincidence that the states that would be hit hardest, like New York and California, overwhelmingly supported Hillary Clinton .)

Mr. Cole said eliminating the deduction for state and local taxes would add about $2 trillion of revenue over 10 years.

But the Trump plan didn't address other possible sources of revenue, such as eliminating the interest deduction for businesses or imposing a border tax. Both are key elements of the Republican House plan, but have drawn fierce opposition from the powerful real estate and retail lobbies.

The Treasury secretary, Steven T. Mnuchin , suggested that the plan would ''pay for itself'' by bolstering economic growth and tax receipts. But no economist I spoke to this week -- Republican or Democrat -- said growth could compensate for an increase in the deficit of anywhere near the magnitude of $4 trillion to $6 trillion.

''I want a plan that's focused on growth as much as anyone,'' said Douglas Holtz-Eakin, an economist who served as director of the Congressional Budget Office and is now president of the American Action Forum, a conservative pro-growth advocacy group. ''But these tax cuts are not going to pay for themselves. If you believe that, you're kidding yourself.''

While economists debate the impact of vast additional government borrowing on debt markets, most argue it would drive up interest rates, curbing the very growth the cuts were intended to foster. ''Borrowing trillions of dollars eventually shows up in **financial markets**,'' Mr. Burman said. ''It will almost certainly push up interest rates.''

And the effect would come at a time when the Federal Reserve is already raising interest rates, even without the impact of new federal borrowing.

''We're very vulnerable to higher rates,'' Ms. MacGuineas said. ''Every 1 percent increase in interest rates adds $160 billion a year to our existing interest payments. Interest is already the fastest-growing portion of the federal budget.''

She, too, argued that a big increase in federal borrowing would push up interest rates, undermining growth ''or even causing negative growth.''

The Urban-Brookings Tax Policy Center estimated that when additional interest payments were included, Mr. Trump's campaign tax proposals would add $7.2 trillion to the national debt by 2026 and $20.9 trillion by 2036.

''The losers are future generations,'' said Mr. Rosenthal -- as Republicans have long argued.

Given the huge impact on the deficit, no one I spoke to expects Mr. Trump's plan to be enacted without significant modifications. ''I don't think a tax cut of anywhere near this size can make it through Congress,'' Ms. MacGuineas said. ''There are varying degrees of commitment to getting our fiscal affairs under control among members of Congress, and there are some Republicans who only use the argument against Democrats. But there are others who are very serious about it.''

Mr. Holtz-Eakin agreed. ''There are many Republicans who genuinely care about deficits,'' he said. ''They recognize that you can't create permanent tax reform if you're blowing up the deficit. ''

He added: ''I think this is an opening salvo. With this president, everything is a negotiation, and this is his opening bid.''

Even that prospect is worrisome, Ms. MacGuineas said. ''These numbers are so huge, they almost lose meaning,'' she said. ''You start negotiating about adding $5 trillion to the deficit and $1 trillion starts to sound reasonable. But that shouldn't even be on the table without a plan to get the deficit under control.''

President Trump and Treasury Secretary Steven T. Mnuchin after Mr. Trump signed executive orders on a tax overhaul last week. (PHOTOGRAPH BY GABRIELLA DEMCZUK FOR THE NEW YORK TIMES) (B4)

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The New York Times

Breakingviews
Business Day; DealBook
Henry Kravis, Corporate Raider, Faces Interest in His Firm This Time

By JEFFREY GOLDFARB
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28 April 2017
03:10 PM
NYTimes.com Feed
NYTFEED
English

Some three decades after Henry Kravis was called a barbarian, he has encountered one at his own gate. Jeffrey W. Ubben, whose ValueAct Capital just disclosed an interest in Mr. Kravis's buyout shop, Kohlberg Kravis Roberts, is usually friendlier in his approach with the companies in which he invests than the term might suggest. Even so, there is a chance things could get testy.

Mason Morfit, president of Mr. Ubben's $16 billion activist investing firm, said on Thursday that he saw plenty of upside for K.K.R., whose funds own stakes in companies including First Data, GoDaddy, Toys "R" Us and Lyft. He reckons the firm's traded units are undervalued by half.

Mr. Ubben is also considered politer than many of his aggressive ilk. With an interest of less than 5 percent, he is not required to say if he plans to make suggestions about how K.K.R. should run its business differently or if it is just a passive holding. And the firm's partnership structure insulates Mr. Kravis and his colleagues from being pushed around anyway.

Bullish perspectives like Mr. Morfit's have fallen on deaf ears for a long time, though. Stephen A. Schwarzman, the chief executive of the Blackstone Group, suggested last week that if his firm's units were valued the same way as a typical **Standard & Poor**'**s 500**-**stockindex** company's shares based on dividend yield, they would be trading at $100 each instead of $30.

One reason Blackstone, K.K.R. and others aren't analyzed the way most other big public companies are, however, is that their complex structures are designed to help minimize taxes and keep founders and employees in control. Turning these partnerships into more typical corporations — something discussed off and on for years and possibly of interest to Mr. Ubben, according to a Bloomberg report — would probably invite new investors and higher valuations.

A sharply reduced business tax rate, as proposed by President Trump, could revive the idea. A company's income would be taxed at a far lower rate than the personal rate many investors pay now on the profit passed through by K.K.R. and others. The Citigroup analyst William Katz estimated last year that while K.K.R.'s earnings would fall by nearly a fifth at a 22.5 percent tax rate, the firm should also trade at a notably higher valuation.

That is no certainty, however. And once a publicly traded partnership converts, it cannot easily go back. Any discussions between Mr. Ubben and Mr. Kravis may remain cordial only for so long.

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THE WALL STREET JOURNAL.
U.S. EDITION

World News: Trump Backs Off Threat to Nafta, for Now --- President says he was prepared to end pact, but relented after calls from trade partners

By Peter Nicholas in Washington, Paul Vieira in Ottawa and Jose de Cordoba in Mexico City
802 words
28 April 2017
The Wall Street Journal
J
A8
English

President Donald Trump was prepared to end the North American Free Trade Agreement deal, which had governed trade relations for the past 23 years, with a dramatic announcement Saturday at a Pennsylvania political rally marking his 100th day in office.

As rumors spread of the possible action, Mexican President Enrique Pena Nieto called the president urging him not to pull out of the accord. "Let me think about it," Mr. Trump said. Within a half hour a call came in from Canadian Prime Minister Justin Trudeau with a similar request.

After the talks, Mr. Trump was convinced "they're serious about it and I will negotiate rather than terminate," the president said in an interview with The Wall Street Journal on Thursday.

Meanwhile, Sonny Perdue -- the agriculture secretary who took office two days earlier -- and Commerce Secretary Wilbur Ross met with Mr. Trump and showed him a map indicating the states where jobs would be lost if the pact collapsed, according to a person familiar with the matter. Many were farm and border states that voted heavily for Mr. Trump.

Those conversations, along with a flood of calls to the White House from business executives, helped steer Mr. Trump away from an idea that some of his own advisers feared was a rash and unnecessary threat to two trading partners who fully expected to renegotiate the agreement anyway.

But Mr. Trump wanted to show dramatic action on key campaign promises before he hits his 100 days in office.

Mr. Trump insists the talks will take place amicably among allies he likes and respects -- though he also reminded them that he was willing to entertain an extreme option in service of rewriting American trade policy, and insisted that he could put the option back on the table if talks don't proceed the way he would like.

At the same time, the gyrations risked weakening the U.S. position -- by unifying Canada and Mexico in their strategies to counter the U.S., irking key lawmakers he needs to back him, and exposing his inability to overcome the strong domestic support for Nafta that he has helped rally.

"I expect the administration to closely consult with Congress before such major trade-policy decisions are made," said Utah Republican Sen. Orrin Hatch, chairman of the Senate Finance Committee, which oversees trade. "Withdrawing from Nafta would have significant effects on the America economy."

"It was a trial balloon, but it didn't work," said Mexican economist Luis de la Calle, a trade expert who had been a senior negotiator on the pact. "Next time, nobody will believe it. People start to figure things out."

But Mr. Trump said in the interview that he still holds his strongest card. "We'll terminate Nafta if we're unable to make a deal, but hopefully we won't have to do that."

The Trump administration jolted markets and stoked panic among business leaders as multiple aides sent signals that officials were considering issuing an order that would begin the six-month process of having the U.S. withdraw from the three-nation trade agreement.

But by 10:30 p.m. Wednesday, the White House issued a statement saying Mr. Trump had decided "not to terminate Nafta at this time."

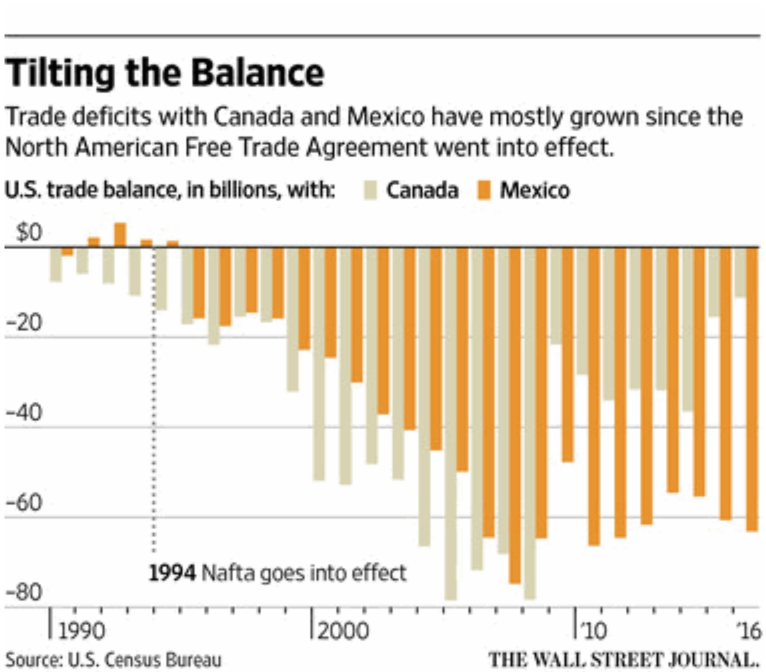
Meanwhile, a lobbyist for one big business group said he urged member companies to "have your CEOs call the highest-ranking administration officials they can reach." Tom Donohue, the veteran president of the U.S. Chamber of Commerce, made at least three calls to the White House during the afternoon, a person familiar with the matter said.

Mexican and Canadian officials, who for months have been comparing notes on how to deal with the **volatile** new leader situated between them, reached out to each other throughout Wednesday to coordinate how to approach Washington, Mexican Foreign Minister Luis Videgaray told a Mexican news program early Thursday.

The confusion this week over Nafta highlights one of the questions surrounding Mr. Trump: whether the deal-making skills he employed in the business world translate to the presidency.

In his first 100 days, it isn't so clear that his methods have paid off. He and White House aides have at times sent conflicting messages about what they intend to do.

Mr. Trump dismissed talk about a split inside his White House between aides with a nationalist or globalist orientation. "Hey, I'm a nationalist and a globalist," he said. "I'm both. And I'm the only one who makes the decision, believe me."



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THE WALL STREET JOURNAL.
U.S. EDITION

President Trump's First 100 Days: Wary Investors Dial Back the 'Trump Trade'

By Aaron Kuriloff
466 words
28 April 2017
The Wall Street Journal
J
A5
English

Markets are signaling caution after investors greeted President Donald Trump's election with enthusiasm.

Bets on higher economic growth, inflation and interest rates -- which became known as the "reflation trade" -- have eased since the election. The yield on the **10-year Treasury** note is lower than it was when Mr. Trump took office, including a decline Wednesday after the White House unveiled its tax proposal. The U.S. dollar has retreated from a 14-year high hit after the election.

Many popular postelection wagers took a hit last month after Republicans failed to repeal and replace the Affordable Care Act, highlighting the difficulties they could face advancing new legislation even while holding the White House and both houses of Congress.

As hopes for swift enactment of business-friendly tax cuts, regulatory rollbacks and infrastructure spending have waned, investors have dialed back on stocks that were expected to benefit from such shifts, like bank and industrial shares. They have poured money into companies that have generally served up better-than-average returns since the financial crisis, such as large technology companies.

Strong earnings reports from bellwether companies including McDonald's Corp. and Caterpillar Inc. helped stocks rally broadly this week, propelling the tech-heavy **Nasdaq Composite** past 6000 for the first time.

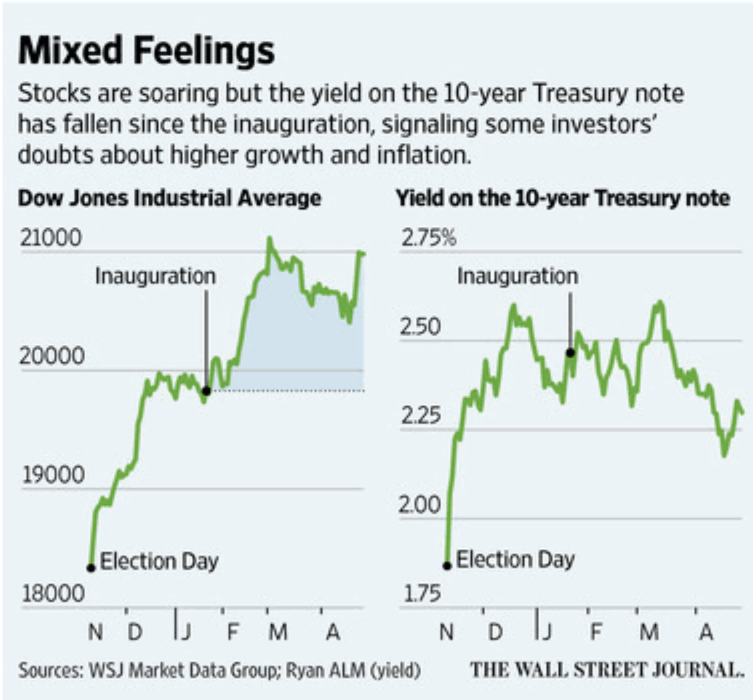
"People will ultimately look through that stuff and focus on reality, and the reality is we're on a pretty significant upswing when it comes to earnings data," said Nathan Thooft, co-head of global asset allocation at Manulife Asset Management. "On top of that, we have a very supportive economic backdrop."

Other moves have reversed course. The yield on the benchmark 10-year U.S. Treasury note remains above its Election Day level of 1.867%, yet has fallen to 2.298% Thursday from 2.461% the day before Mr. Trump was sworn in. The WSJ Dollar Index, which measures the U.S. currency against 16 others, is above where it was on Nov. 8 but has fallen more than 2% since Jan. 19.

Few money managers are ready to declare the so-called reflation trade dead. Data pointing to economic expansion in the U.S. and around the world persist. The reflation trade has tended to regain some steam on signs of progress on Mr. Trump's agenda, including in recent sessions as the White House was preparing to release general principles for tax legislation.

"I think the market's hopeful, but skeptical, and to the extent you get anything of substance, that's the icing on the cake," said Erik Davidson, chief investment officer at Wells Fargo Private Bank.

Min Zeng and Ira Iosebashvili contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

President Trump's First 100 Days: Economic Gauges Rise -- for Now

By Josh Zumbrun
882 words
28 April 2017
The Wall Street Journal
J
A5
English

Even before Donald Trump's inauguration, he had accomplished something that bedeviled his predecessor, President Barack Obama, for eight years: awakening the economy's "animal spirits."

A range of economic gauges climbed, from business and consumer confidence to the **financial markets**, as optimism surged, particularly among Republicans. The momentum was propelled by Mr. Trump's campaign promises, including repealing and replacing Mr. Obama's health care law, overhauling the tax code, rolling back regulations and jolting the economy with $1 trillion in infrastructure spending.

As his first 100 days in office draw to a close, that energy stands as Mr. Trump's main economic accomplishment. Though he has dialed back some regulations by executive order, many of the economic-policy pledges have yet to be fulfilled.

"In the meantime, the only engine for growth is going to be the private sector and its confidence in the new management team," said Bill Dunkelberg, chief economist at the National Federation of Independent Business. Going forward, "legislative progress is essential."

For over 40 years, the NFIB has surveyed small businesses to measure their economic optimism. The postelection surge propelled its optimism index to levels seen only twice before: for a stretch in 2004, after President George W. Bush enacted his second large tax cut package, and in 1983 and 1984, the era that President Ronald Reagan had proclaimed "Morning in America."

But those upswings came after major legislative victories. Scott Anderson, chief economist of the Bank of the West, describes today's sentiment surge as "blind hope that policy changes put forward by the new administration will shake up the unsatisfactory status quo."

The question many observers ask is whether the optimism marks the beginning of a new era for the economy, or whether it will prove a fleeting moment of false promise.

Mr. Trump had promised in his first 100 days to fight for the passage of 10 broad legislative measures, including the infrastructure package, middle-class tax relief and lower corporate tax rates. None of the 10 has passed Congress.

Mr. Trump proposed cutting the corporate tax rate to 15%, and lowering personal rates as well, while eliminating deductions for state and local taxes. The proposal faces a challenging road through Congress, where the plan likely would require at least some Democrats to back it.

The infrastructure plan faces hurdles, too -- how much to increase deficits to fund the investments? And Mr. Trump's proposal to ramp up military spending needs funding.

"Clearly, President Trump is taking a page right out of President Reagan's playbook, talking about tax reform, less government regulation, military spending," said KC Mathews, the chief investment officer of UMB Bank in Kansas City. "But can you use the same policy in a different part of the [economic] cycle and expect the same efficacy?"

When Mr. Reagan took office, taxes were much higher, leaving more room to cut. The national debt was much lower, meaning there was perhaps more willingness from Congress to increase government borrowing. The nation was far less polarized, too, meaning it was easier for representatives and senators of different parties to come together in legislative majorities.

Mr. Reagan later presided over large declines in inflation, which positioned the Federal Reserve to begin highly stimulative interest rate cuts, further fueling growth. This time, inflation and interest rates are low from the get-go, meaning little prospect of added economic juice, and the Fed has embarked on gradually raising rates.

For now, the optimism largely remains. The **Dow Jones Industrial Average** sat below 18000 the week before the election. It soared after the vote, crossing the 19000 threshold before the end of November, and climbing above 20000 a few days after the inauguration.

On March 1, the index closed above 21000 for the first time and remains near that level today. U.S. households collectively owned corporate equities valued at around $25 trillion last year, so the 16% increase since the election amounts on paper to between $3 trillion and $4 trillion in new wealth. If it endures, it is a meaningful increase, regardless of what happens legislatively.

But many traditional economic indicators have yet to show much movement, though 100 days is a short window to expect major changes in hard economic data. The pace of job growth has been little different than under President Obama. Retail sales dipped in February and March. Economic growth for the first quarter is widely estimated to have been weak.

While the large accomplishments promised on the campaign trail have remained elusive, the president has taken smaller steps to chip away at regulations that many in the business community had found counterproductive.

"Already, we have seen the new administration make pro-business moves, particularly regarding regulations, that have helped to keep sentiment elevated," said Chad Moutray, chief economist at the National Association of Manufacturers.

Others say that just because major economic policy changes didn't arrive as promised, they could be around the corner. "The logic would dictate that Republicans want something to take to their voters in 2018," said Gus Faucher, chief economist of PNC Bank in Pittsburgh. "That argues for tax cuts and infrastructure in 2018."

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THE WALL STREET JOURNAL.
U.S. EDITION

World News: ECB Stands Firm on Easy Money

By Tom Fairless
481 words
28 April 2017
The Wall Street Journal
J
A9
English

FRANKFURT -- The European Central Bank gave no signs it is ready to wind down its monetary stimulus despite an economic rebound in the eurozone, opting on Thursday to soothe **financial markets** ahead of the second round of France's presidential election.

The ECB's decision to stand pat comes at a tense time for the currency union, which is navigating a series of major elections as well as uncertainty in its relations with its two biggest trading partners, the U.S. and U.K.

At a news conference, ECB President Mario Draghi welcomed evidence of economic recovery but said policy makers hadn't discussed reducing their stimulus, which includes subzero interest rates and a 60 billion-euro-a-month ($65.34 billion) bond-purchase program.

Mr. Draghi also hit back at recent criticism of the ECB from Germany's finance minister, Wolfgang Schauble, who urged the central bank last week to start exiting easy-money policy.

"It's pretty ironic to hear these comments from people who supported the independence of central banks," Mr. Draghi said.

Investors were left trying to "square the circle" between the ECB's cautious stance and mounting optimism about the area's economy, said Lena Komileva, chief economist with G+ Economics in London.

The euro jumped almost half a cent against the dollar following Mr. Draghi's positive assessment of the economy, but later pared its gains as the ECB chief indicated policy would remain unchanged for now.

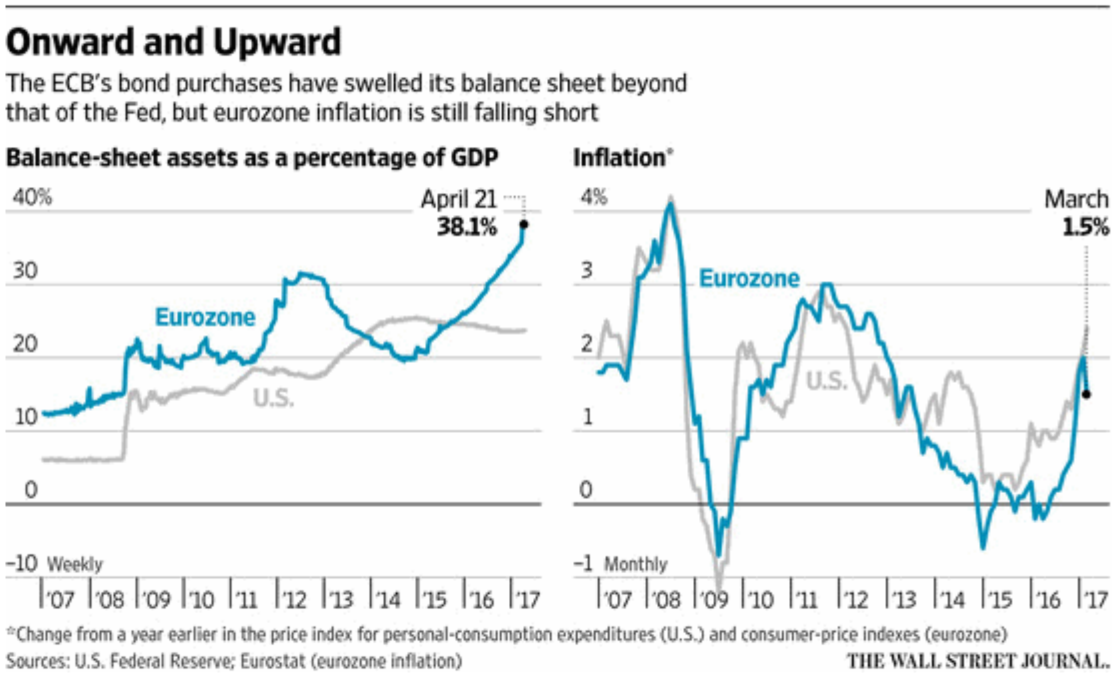
Echoing the ECB's caution, Sweden's Riksbank surprised investors earlier Thursday by extending its bond-purchase program by six months through year-end, albeit at a reduced level, despite strong growth.

As the eurozone economy strengthens, pressure has been building on the ECB to consider a change of direction, especially in the area's largest economy, Germany. Within the ECB, policy makers are divided over how quickly to start winding down their 2.3 trillion euro bond-purchase program, known as quantitative easing, which is scheduled to run at least through year-end.

But Mr. Draghi highlighted a number of potential economic threats, from the details of Brexit and President Donald Trump's economic policies to tensions in North Korea. "We shouldn't think that it's over," Mr. Draghi said of the economic fallout of Brexit. "It's quite clear that even now this uncertainty about the length and the shape [of Brexit] is producing economic consequences."

Despite the lack of action, analysts suggested that the ECB would use its next meeting, on June 8, to shift its assessment of the economy in a more positive direction.

Thursday's meeting was a "baby step" toward the end of the ECB's stimulus, said Mike Bell, global market strategist at J.P. Morgan Asset Management in London.



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THE WALL STREET JOURNAL.
U.S. EDITION

Ahead of the Tape
Trump Trade: It's Not How You Start, It's How You Finish

By Stephen Russolillo
528 words
28 April 2017
The Wall Street Journal
J
B10
English

During his nearly 100 days in office, President Donald Trump has crowed about the rising **stock market**. He has less to cheer about middling economic growth.

In fairness, he should get an incomplete for both.

The **S&P 500** has risen 5.5% since the inauguration, the fifth best rally during a president's first 100 days since 1933. Mr. Trump's 100th day in office is Saturday. By comparison, the index averages a 0.8% decline during the first 100 days for a Republican president. And the market's performance is even more impressive since November, with the **S&P 500** up 12% since Election Day.

Of course it isn't how you start a term but how you finish that matters. The **S&P 500** fell 1.1% during President Ronald Reagan's first 100 days, but it registered above-average returns over his eight years in office. The market had its biggest gains when President John F. Kennedy first took office, rising 9% during the first 100 days, but the **S&P 500**'s overall performance during his shortened tenure wasn't impressive. While Bill Clinton presided over small gains when he started, the **S&P 500** rose 15% annualized in his eight years as president, the best performance in the postwar era.

Then there is the economy. Confidence has surged in surveys since the election. As Friday's report on first-quarter gross domestic product will likely show, though, this optimism hasn't translated into actual growth.

Economists polled by The Wall Street Journal estimate GDP advanced at a 1% annual rate in the first three months of the year, down from 2.1% in the prior quarter. Forecasting firm Macroeconomic Advisers, which continuously updates its estimate, is more pessimistic, expecting 0.3% growth.

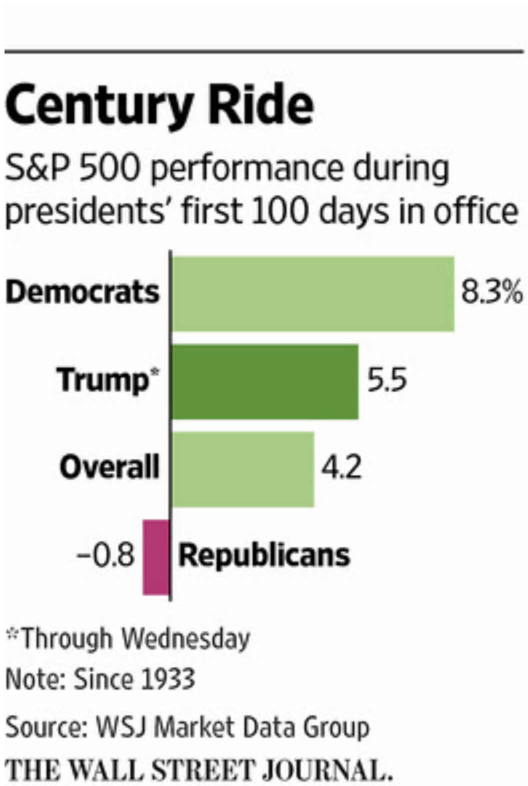
That would be the lowest in three years.

Much of this is due to weak consumer spending, which may be transitory. Delayed tax refunds hurt retail sales and a relatively warm winter prompted lower utility bills. But auto sales also have slipped, suggesting a cautious consumer. The administration's three-month hiring freeze likely also weighed on government spending.

But, as with other weak starts to recent years, growth is expected to bounce back. Macroeconomic Advisers pegs second-quarter growth at 3.8%. Data for the current quarter will start trickling in next week with reports on manufacturing, personal income and spending as well as the monthly jobs report.

Still, expected growth for the first half of the year would be nowhere near the Trump administration's 4% target. Instead, it would be closer to the roughly 2% pace that has been a hallmark of the current economic expansion during Barack Obama's tenure.

Mr. Trump, showing some defensiveness about a slow start to his legislative agenda, was correct in describing the 100-day mark as a "ridiculous standard." But then that description should extend to the **stock market**'s recent moves as a barometer of what to expect for the next four or eight years.



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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Congress Moves to Avert Shutdown --- Amid Democratic resistance, lawmakers prepare to approve one-week spending bill

By Kristina Peterson and Natalie Andrews
641 words
28 April 2017
The Wall Street Journal
J
A7
English

WASHINGTON -- Lawmakers prepared to vote Friday on a weeklong spending bill needed to avoid a government shutdown Saturday, but Democratic resistance added uncertainty and **volatility** to the day.

In a related development, Republicans signaled late Thursday that they were still short of the votes needed to revive and pass legislation to replace most of the Affordable Care Act.

House GOP leaders had been trying to corral GOP votes in hopes of passing the bill before President Donald Trump's 100th day in office on Saturday. But House Majority Leader Kevin McCarthy (R., Calif.) said Thursday night that the chamber wouldn't vote on the bill Friday or Saturday.

The developments showed the difficulty GOP leaders have faced in trying to come to terms with Democrats on a spending bill to keep the government open after Friday while also pressing forward on a health-care bill uniformly opposed by Democrats.

With the government's funding set to expire Saturday at 12:01 a.m., GOP leaders have prepared a weeklong stopgap measure that would give lawmakers more time to settle on a five-month spending bill to fund the government through the fiscal year, which ends Sept. 30.

The most contentious issues appear to have been resolved, but Democrats are still trying to block some GOP policy measures. House Democrats still have concerns about the five-month spending bill, aides said late Thursday.

Mr. McCarthy said that Republicans might have to pass the stop-gap bill without Democratic support. That could pose a risk to the bill's passage, given that Democratic votes have often been needed for government spending bills.

Some House Democrats had threatened to oppose the bill Friday if House GOP leaders also brought up their health-care bill for a vote this week. That bill would repeal much of the 2010 heath law, championed by Democrats, and replace it with conservative policy.

While GOP leaders have gotten closer to marshaling the votes needed to pass the health-care bill, a significant number of centrist Republicans remain opposed or undecided on the bill.

"If Republicans pursue this partisan path of forcing Americans to pay more for less and destabilizing our county's health-care system . . . Republicans should be prepared to pass a one-week continuing resolution on their own," House Minority Whip Steny Hoyer (D., Md.) said Thursday.

The Senate has also been expected to act before the Saturday deadline, but Sen. Chuck Schumer of New York, the chamber's Democratic leader, signaled Thursday evening that the Democrats weren't yet ready to sign off.

Negotiations on the five-month spending bill could nonetheless wrap up quickly, easing passage of the stopgap measure.

Lawmakers said they hoped to pass a spending bill next week for the rest of the fiscal year. Lawmakers from both parties said they are trying to avoid a government shutdown and that the one-week measure is needed because negotiators ran out of time to finish some narrow pieces of the five-month spending bill before the Saturday deadline.

"They were close, but not enough time to get it published, and so that's what necessitated the five-day" measure, said Rep. Steve Womack (R., Ark.), a member of the House Appropriations Committee.

The spending bill is expected to include an increase in funding for the military and border security, a measure both Republicans and Democrats have signaled they would support.

President Donald Trump placed the blame on Democrats for failing to get to a final deal, posting several tweets Thursday morning.

"I promise to rebuild our military and secure our border. Democrats want to shut down the government. Politics!" he wrote.

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THE WALL STREET JOURNAL.
U.S. EDITION

Streetwise: Investors Discount Hype Over Tax Plan

By James Mackintosh
640 words
28 April 2017
The Wall Street Journal
J
B1
English

In the immediate aftermath of the November election, investors dared to hope that the U.S. had entered a new political era. The market reaction -- or lack of it -- to Donald Trump's sketchy plan for tax cuts on Wednesday is part of a recognition that Washington remains stuck with politics as usual.

On the face of it, the tax plan is exactly what investors put so much hope in back in November. It would cut the corporate-tax rate to 15%, from the current effective rate of 28%, putting many billions of dollars into shareholders' pockets every year. The plan isn't detailed enough to be precise about the effects on the budget, but it would boost debt by trillions of dollars over the next decade, presumably juicing the economy along the way. In a sweet move for Wall Street, hedge-fund managers would get a tax cut, not the tax rise that Mr. Trump threatened during the election campaign.

The hyped-up tax plan disappointed investors not because of what it contained, but because of the prospects of it being implemented. The White House seems to have made little effort to appeal to Democrats and none at all to make the plan acceptable to Republican deficit hawks. The plan will be weakened as Congress gets its teeth into it, and the tough negotiations remain in the future.

Yet the disappointment was contained. The **S&P 500** dropped just 0.4% after the plan was revealed, a fall repeated in Europe on Thursday morning. Given that the S&P had been almost touching its record from the start of March, the fall is minor. The smaller-company Russell 2000 index -- which should be a big beneficiary of any corporate-tax cut -- fell by less, while typically in a falling market it drops faster. The dollar pulled back about 0.3% after the announcement against a basket of major developed currencies, well within the bounds of normal daily swings.

The tax plan fits the pattern of pronouncements during Mr. Trump's first 98 days: The president has forgotten Teddy Roosevelt's advice to speak softly and carry a big stick, and is doing precisely the opposite. Reality hasn't lived up to the hype in foreign policy, trade, health care, currency policy or, in part thanks to poor drafting and ornery judges, immigration.

None of this means Mr. Trump's policy agenda is dead, or that he will continue to overpromise and underdeliver. The problem is that trade and diplomacy are where Mr. Trump has the least constraints from Congress and the courts, and it is his promises on trade and diplomacy that scare investors the most.

Investors' concern about Mr. Trump using his executive powers was on show in Wednesday's trading. Leaks that the White House was preparing an executive order ditching the North American Free Trade Agreement knocked 1.7% off the value of the Mexican peso in minutes, hurt U.S. stocks and pushed down Treasury yields. The drop in the peso was particularly significant, although entirely reversed later in the day when Mr. Trump reassured Mexico and Canada that the U.S. wouldn't pull out.

Business as usual in Washington means drawn-out negotiations and compromises, and the policy reality rarely matches the political rhetoric. But it is still entirely reasonable to expect something to emerge, later and smaller than investors first hoped, but still significant.

For now, it looks as though markets have adjusted their expectations, and are discounting Mr. Trump's hype. The risk of investor disappointment in the months ahead has been reduced, just so long as something passes on tax and Mr. Trump resists the urge to act aggressively where he can.

Document J000000020170428ed4s00025

The New York Times

National Desk; SECTA
Trump Tells Foreign Leaders That Nafta Can Stay for Now

By MARK LANDLER and BINYAMIN APPELBAUM; Michael D. Shear contributed reporting.
1,368 words
27 April 2017
The New York Times
NYTF
Late Edition - Final
14
English

WASHINGTON -- President Trump told the leaders of Mexico and Canada on Wednesday that he would not immediately move to terminate the North American Free Trade Agreement , only hours after an administration official said he was likely to sign an order that would begin the process of pulling the United States out of the deal.

In what the White House described as "pleasant and productive" evening phone calls with President Enrique Peña Nieto of Mexico and Prime Minister Justin Trudeau of Canada, Mr. Trump said he would quickly start the process of renegotiating Nafta -- not abandon it, as he said he would do during the 2016 presidential campaign if he could not rework the deal to his satisfaction.

"It is my privilege to bring NAFTA up-to-date through renegotiation," Mr. Trump said in a statement issued by the White House at 10:33 p.m. "I believe that the end result will make all three countries stronger and better."

The announcement appeared to be an example of Mr. Trump's deal-making in real time. It followed a day in which officials signaled that he was laying the groundwork to pull out of Nafta -- a move intended to increase pressure on Congress to authorize new negotiations, and on Canada and Mexico to accede to American demands.

It was not clear whether the president would still sign an executive action to authorize renegotiation of Nafta, which he once called the worst trade deal ever signed by the United States. Washington must give Canada and Mexico six months' notice before exiting the trade agreement, which came into force in 1994. Any action to that effect would start the clock.

But the prospect of the United States' pulling out obviously alarmed the Canadian and Mexican leaders and prompted their calls to the White House.

The Mexican peso plummeted in trading after news broke at midday on Wednesday that the White House had drafted an executive order withdrawing the United States from Nafta. Mr. Trudeau called Mr. Trump twice, on Tuesday and Wednesday, to discuss the sudden rupture in the trade relationship between the United States and Canada.

On Tuesday, the Trump administration announced that it would impose a tariff on Canadian softwood lumber, in retaliation for what it said was unfair treatment of American dairy farmers.

The president has repeatedly derided Nafta, describing it last week as "very, very bad" for the country, companies and workers, and he promised during his campaign that he would remove the United States from it if he could not negotiate improvements.

The White House wants Congress to authorize those negotiations under legislation that would allow expedited approval of the reworked agreement, but talks between administration officials and congressional Republicans have moved slowly.

While some of Mr. Trump's senior advisers, notably Stephen K. Bannon and the economist Peter Navarro, are eager to take strong steps on trade policy, another group -- which includes Gary D. Cohn , the head of the National Economic Council -- has argued for a more cautious approach, concerned that larger steps could cause economic disruptions.

Lately, Mr. Trump has taken the stronger line, moving to reshape America's economic relationships with foreign nations. The Nafta order would come on the heels of the announcement of the new tariffs on Canadian lumber and reviews of whether steel and aluminum imports are undermining national security.

''Nafta 's been very, very bad for our country,'' Mr. Trump said last week. ''It's been very, very bad for our companies and for our workers, and we're going to make some very big changes, or we are going to get rid of Nafta once and for all.''

Walking away from Nafta would disrupt the economies of the United States, Canada and Mexico, and strain broader relations among the countries. Over the last two decades, their economies have become increasingly intertwined. The volume of trade has multiplied, and the manufacture of many goods, notably cars, involves multiple border crossings and factories in all three nations.

If the United States actually pulled out, experts said, trade with Canada would probably still be subject to a similar agreement between the two countries that took effect in the late 1980s and served as a model for Nafta. The Trump administration, however, could seek to withdraw from that agreement as well.

The shift in the rules governing trade with Mexico would be more significant. The two countries both take part in the World Trade Organization , but that allows much higher tariffs. Mexico, for instance, could impose a 37 percent tariff on American corn. The disruptions to manufacturing could also come at a hefty cost to consumers: Caroline Freund , a fellow at the Peterson Institute for International Economics , has estimated that the cost of a pickup truck might increase by $3,000.

Monica de Bolle, a senior fellow at the Peterson Institute, said: ''It would be a very disruptive shock that would impact everybody. It would impact growth; it would impact companies and supply chains; it would impact workers; it would impact voters in Trump states. It's just crazy to imagine that they would go that route.''

The suggestion of withdrawal, reported by Politico on Wednesday, raised anxieties in **financial markets**. The peso fell more than 2 percent against the dollar, and the Canadian dollar fell about 0.3 percent.

''Scrapping Nafta would be a disastrously bad idea,'' Senator Ben Sasse, Republican of Nebraska, said in a statement. ''Yes, there are places where our agreements could be modernized, but here's the bottom line: Trade lowers prices for American consumers, and it expands markets for American goods. Risking trade wars is reckless, not wise.''

Both Mexican and Canadian officials have said repeatedly that they are ready to negotiate changes to the trade agreement. Written in the early 1990s, it is outdated in key respects: Its drafters, for example, did not foresee the rise of the internet.

''Canada is ready to come to the table at any time,'' Alex Lawrence, a spokesman for the Canadian foreign minister, Chrystia Freeland, told Reuters on Wednesday.

In fact, the Obama administration negotiated changes to the deal as part of the Trans-Pacific Partnership, a broader agreement that would have supplanted Nafta. Mr. Trump withdrew from that agreement as one of his first official acts.

The Trump administration provided an indication of its own priorities in a letter circulated among members of Congress last month. While proposing some significant changes, such as strengthening the available penalties for breaches of the rules, it suggested that the administration was not seeking to alter the basic structure of the agreement, prompting relief both north and south of the United States.

The administration must send a final version of that letter to Congress to start another clock: a 90-day waiting period before negotiations. Starting both clocks would allow the White House to begin negotiations with Mexico and Canada while holding in hand the threat of walking away from the table.

It is not clear whom that would hurt most. Mr. Trump has repeatedly denounced trade deficits as a major contributor to what he sees as the nation's broken economy.

But trade among the three North American nations is relatively balanced, particularly in comparison with trade between the United States and China.

The United States actually ran a trade surplus with Canada in 2015 and during the first three quarters of 2016, according to the most recent data available from the Commerce Department. American sales of goods and services to Canada exceeded purchases of goods and services from Canada, on average, by $1 billion a month.

The United States does run a monthly deficit of about $4 billion with Mexico, but even that is a small fraction of the roughly $28 billion monthly deficit with China.

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A construction site in Villa de Reyes, Mexico, in January, after Ford canceled plans for a plant. A U.S. withdrawal from Nafta could allow Mexico to raise tariffs. (PHOTOGRAPH BY REBECCA BLACKWELL/ASSOCIATED PRESS)

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The New York Times

Common Sense
Business Day; Economy
Economists Fear Trump's Tax Plan Only Heightens a 'Mountain of Debt'

By JAMES B. STEWART
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During his campaign, Donald J. Trump embraced the cause of fiscal responsibility and accused President Barack Obama of shackling the country with a "mountain of debt."

Mr. Obama "doubled our national debt . Doubled it," Mr. Trump claimed in a speech in Virginia Beach.

Then on Wednesday, Mr. Trump unveiled the outlines of his much-anticipated tax overhaul, calling for steep tax cuts with only modest offsetting revenue increases. Economists I spoke to this week estimate it would add trillions to the national debt over the next decade.

"We've only done the rough numbers, but this looks like a tax cut of a magnitude of about $5 trillion," said Maya MacGuineas, president of the Committee for a Responsible Federal Budget, an advocacy organization for fiscal responsibility whose chairman is former Gov. Mitch Daniels of Indiana, a Republican. "That is simply unimaginable given our fiscal situation and the size of the deficit, which is already the worst since World War II."

The sense of incredulity was widely shared.

"Paul Ryan and Kevin Brady must be beside themselves in private," said Leonard E. Burman, director of the Urban-Brookings Tax Policy Center and a professor at the Maxwell School of Syracuse University, referring to the House speaker and the House Ways and Means Committee chairman. "They put in years of work on a tax reform plan that at least tried to be revenue-neutral," meaning tax cuts would be offset by closing loopholes, "and wouldn't explode the deficit."

Or as Steven M. Rosenthal, a business tax expert and senior fellow at the Urban-Brookings Tax Policy Center, put it: "Mr. Trump's plan basically is tax cuts for everyone. Real reform, with revenue neutrality, is difficult. There are winners and losers, but Trump apparently just wants winners."

Tax cuts, as opposed to tax reform, are easy, Ms. MacGuineas agreed: "Who doesn't love a tax cut, especially if no one has to pay for it? This is a free-lunch mentality."

That Mr. Trump would embrace such a cut-now, pay-later approach probably shouldn't be too much of a surprise, considering the Trump Organization 's reliance on borrowed money. "I'm the king of debt," Mr. Trump said last year on CNN . "I love debt."

Just how much Mr. Trump's plan would cost the government is hard to determine, given the sketchy details. But the conservative-leaning Tax Foundation estimates that two prospective elements — reducing individual rates to three brackets of 35, 25 and 10 percent, and cutting the tax rate for corporations and pass-through entities (businesses that pay taxes at individual rates) to 15 percent — would cost the Treasury $4 trillion to $6 trillion over 10 years, said Alan Cole, an economist at the foundation.

The Urban-Brookings Tax Center estimated the cost of the cuts Mr. Trump proposed during the campaign at $6.2 trillion, assuming no additional growth, and just under $6 trillion when growth is factored in.

Mr. Trump also wants to eliminate the estate tax and the alternative minimum tax , each of which would cost the Treasury hundreds of millions in revenue.

The administration's proposal was silent on some critical aspects of any tax plan, such as the treatment of capital expenditures for business. Mr. Trump has said he strongly supports immediate expensing of capital expenditures, which many economists agree would encourage growth. The Tax Foundation estimates that such a change from current depreciation schedules would cost the Treasury $2.2 trillion over 10 years.

That would raise the 10-year revenue loss to well over $8 trillion.

Mr. Trump's proposal did nod in the direction of raising revenue by calling for elimination of all deductions, save those for mortgage interest, charitable contributions and retirement savings. The major deduction not mentioned — and evidently jettisoned — is the one for state and local taxes. (And it's probably no coincidence that the states that would be hit hardest, like New York and California, overwhelmingly supported Hillary Clinton .)

Mr. Cole said eliminating the deduction for state and local taxes would add about $2 trillion of revenue over 10 years.

But the Trump plan didn't address other possible sources of revenue, such as eliminating the interest deduction for businesses or imposing a border tax. Both are key elements of the Republican House plan, but have drawn fierce opposition from the powerful real estate and retail lobbies.

The Treasury secretary, Steven T. Mnuchin , suggested that the plan would "pay for itself" by bolstering economic growth and tax receipts. But no economist I spoke to this week — Republican or Democrat — said growth could compensate for an increase in the deficit of anywhere near the magnitude of $4 trillion to $6 trillion.

"I want a plan that's focused on growth as much as anyone," said Douglas Holtz-Eakin, an economist who served as director of the Congressional Budget Office and is now president of the American Action Forum , a conservative pro-growth advocacy group. "But these tax cuts are not going to pay for themselves. If you believe that, you're kidding yourself."

While economists debate the impact of vast additional government borrowing on debt markets, most argue it would drive up interest rates, curbing the very growth the cuts were intended to foster. "Borrowing trillions of dollars eventually shows up in **financial markets**," Mr. Burman said. "It will almost certainly push up interest rates."

And the effect would come at a time when the Federal Reserve is already raising interest rates, even without the impact of new federal borrowing.

"We're very vulnerable to higher rates," Ms. MacGuineas said. "Every 1 percent increase in interest rates adds $160 billion a year to our existing interest payments. Interest is already the fastest-growing portion of the federal budget ."

She, too, argued that a big increase in federal borrowing would push up interest rates, undermining growth "or even causing negative growth."

The Urban-Brookings Tax Policy Center estimated that when additional interest payments were included, Mr. Trump's campaign tax proposals would add $7.2 trillion to the national debt by 2026 and $20.9 trillion by 2036.

"The losers are future generations," said Mr. Rosenthal — as Republicans have long argued.

Given the huge impact on the deficit, no one I spoke to expects Mr. Trump's plan to be enacted without significant modifications. "I don't think a tax cut of anywhere near this size can make it through Congress," Ms. MacGuineas said. "There are varying degrees of commitment to getting our fiscal affairs under control among members of Congress, and there are some Republicans who only use the argument against Democrats. But there are others who are very serious about it."

Mr. Holtz-Eakin agreed. "There are many Republicans who genuinely care about deficits," he said. "They recognize that you can't create permanent tax reform if you're blowing up the deficit. "

He added: "I think this is an opening salvo. With this president, everything is a negotiation, and this is his opening bid."

Even that prospect is worrisome, Ms. MacGuineas said. "These numbers are so huge, they almost lose meaning," she said. "You start negotiating about adding $5 trillion to the deficit and $1 trillion starts to sound reasonable. But that shouldn't even be on the table without a plan to get the deficit under control."

* White House Proposes Slashing Tax Rates, Significantly Aiding Wealthy

* The 7 Key Elements of the White House Tax Plan

* Curb the Use of Overseas Tax Havens? Yes! But How?

* Trump's Industry, Real Estate, Poses Hurdle to Tax Overhaul

President Trump and Treasury Secretary Steven T. Mnuchin leaving the Treasury Building after Mr. Trump signed executive orders on a tax overhaul last week. | Gabriella Demczuk for The New York Times

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THE WALL STREET JOURNAL.
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Balancing Lost Tax Revenue the Reagan Way

By Martin Feldstein
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27 April 2017
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A17
English

Treasury Secretary Steven Mnuchin calls the Trump administration's tax proposal "the largest tax reform in the history of our country." The plan would slash corporate tax rates from 35% to 15% and roll back increases in individual rates that occurred under Presidents Clinton and Obama.

The announcement represents a first step toward a White House budget proposal that combines the president's fiscal plans with reforms to defense spending and domestic policies including ObamaCare. If such a budget is passed, it would stimulate business investment, boost productivity and improve real wages. It would also reverse the decline in military preparedness by raising defense outlays from a projected 2.6% of gross domestic product back to at least 4%.

The challenge will be to do all of this without increasing long-run fiscal problems. The federal government's debt has already more than doubled in the past decade, reaching upward of 75% of GDP. The Congressional Budget Office projects that the debt will grow to more than 100% of GDP in the next 15 years even without a reduction in tax revenue or an increase in defense outlays.

Higher projected budget deficits could raise long-term interest rates, potentially triggering failures in the fragile **financial markets** and a serious economic downturn. The markets' current fragility reflects overpriced assets -- the S&P price/earnings ratio is now 70% above its historical average -- after a decade of excessively low long-term interest rates engineered by the Federal Reserve.

Republicans expect to pass their tax plan through the Senate's reconciliation process, but there are strings attached. If the bill causes deficits beyond the decadelong forecast horizon, a sunset rule kicks in and ends the tax cuts in the 10th year. To prevent this, congressional Republicans propose to balance revenue losses from the personal tax changes by eliminating all tax deductions other than those for charitable contributions and mortgage interest. That means the new revenue would come from the one-third of taxpayers who itemize deductions, households that tend to have higher incomes, supporting Mr. Mnuchin's promise that the tax plan will not be a gift to the rich.

In addition to cutting corporate rates, President Trump proposes a similar tax cut for partnerships and other unincorporated pass-through businesses. House Republicans have also promised to allow American companies to repatriate after-tax profits earned abroad without penalty.

Preventing the business tax cuts from increasing the budget deficit will not be easy. The corporate tax raises revenue equal to about 2% of GDP. Cutting the rate in half will increase the annual deficit by about 1% of GDP, or nearly $200 billion. Faster economic growth due to increased investment would bring in some extra tax revenue, but probably only about $50 billion per year.

Congressional Republicans propose to offset the other $150 billion by enacting their border-adjustment tax: a 20% levy on imports combined with a 20% subsidy for exports. That should raise about $120 billion or so a year, enough to offset most of the net cost of the corporate tax cut.

Textbook economics implies that a border-adjustment tax, or BAT, would push up the value of the dollar, reducing the price of imports by enough to offset the 20% tax. Americans would therefore see no change in the prices they pay for imported goods. The stronger dollar would also have no effect on the net prices American exporters receive for goods sold overseas. A BAT is thus a pure revenue raiser, with the tax falling on foreign firms that export to the U.S.

But the dollar's value may not rise as much as theory implies, so American importers and retailers are lobbying against a BAT while major exporters are lobbying for it. Without the BAT, however, the corporate rate cut would add more than $1 trillion to the national debt during the coming decade, weakening the favorable effects of tax reform on capital formation and threatening higher interest rates.

There is no way to shrink the deficit other than by slowing the growth of Medicaid, Medicare and Social Security. Outlays for these programs are now 10.4% of GDP and projected under current law to rise to 12.9% over a decade. ObamaCare's insurance subsidies and Medicaid expansion now cost the federal government more than $200 billion a year. Reform could contribute significantly to reducing the deficit, although not by enough to balance out everything Mr. Trump is proposing.

The bipartisan Social Security legislation enacted during the Reagan administration provides a useful history lesson for how to offset deficit increases. The 1983 law raised the age of eligibility for full Social Security benefits from 65 to 67 while still allowing actuarially equivalent benefits at earlier ages. The increased age was phased in gradually and began only after a substantial delay.

In the intervening decades life expectancy at 67 has increased by three years. Repeating the Reagan reform by gradually raising the age for full benefits from 67 to 70 for those now under the age of 55 would reduce the annual cost of Social Security by about 15%, or 1% of GDP. Together with reforms of federal health-care spending, that should be enough to close the budget gap created by tax reform and increased defense outlays.

Raising the age for full Social Security benefits would also prevent the crisis in the program that is projected to occur in 2029. That's when the Social Security trust fund will be exhausted, requiring either an immediate 30% cut in benefits or a sharp tax increase. A gradual rise in the age for full benefits would be the best way to prevent that crisis as well as to reduce the projected fiscal deficit.

Mr. Feldstein, chairman of the Council of Economic Advisers under President Reagan, is a professor at Harvard and a member of the Journal's board of contributors.

(See related letter: "Letters to the Editor: Raising the Social Security Age Unduly Burdens Many" -- WSJ May 3, 2017)

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Hedge Fund Chief Shorts the Malls

By Serena Ng and Esther Fung
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BURLINGTON, N.J. -- As a youth Eric Yip spent weekends working in a small shop at the bustling Burlington Center Mall, where his parents sold housewares and rock band T-shirts. That has given Mr. Yip the insight to make one of the most talked-about trades on Wall Street: a "short" wagering that many malls across America are doomed.

These days, Burlington Center is a silent place. Of around 100 stores, only about a dozen remain open. Macy's and J.C. Penney are gone, leaving Sears as the last anchor tenant. Vacant properties surround a dry fountain whose centerpiece, a life-size bronze elephant, used to spout water onto its back.

The mall's ghostly presence has spurred a financial wager that Mr. Yip, now a New York hedge-fund manager, is pitching to investors many times his size. Starting in late 2015, he began visiting shopping centers across the U.S. to take their vital signs. Concluding that dozens faced a fate akin to Burlington Center's, as internet shopping becomes more dominant, he placed a **bearish** bet on an obscure index linked to the performance of bonds that are backed by commercial mortgages.

So far, so good. A slice of the index, which Wall Street calls the "CMBX 6," has tumbled 6.3% since the start of this year, according to IHS Markit. The decline is good news for anyone shorting the index, or betting on it to fall, as he is.

Mr. Yip's hedge fund, Alder Hill Management LP, gained 8% in the first quarter of 2017, said people familiar with its performance, fueled in part by the **bearish** bets on two index slices.

Mr. Yip has been pitching his idea to other investors. Earlier this year, he circulated a 58-page report that mapped out a dire outlook for regional shopping centers and said more than two dozen whose debt was reflected in the index were likely to default. He presented his thesis to a group of investment firms at a lunch in Midtown Manhattan.

The daring trade, potential payoff and Mr. Yip's aggressive marketing have drawn comparisons to the way a few canny traders and hedge funds bet against an index tied to subprime mortgage bonds during the housing bubble a decade ago. That wager proved lucrative when housing went into a deep swoon and thousands of homeowners defaulted.

Mr. Yip said investors could make huge profits if, for instance, Sears Holdings Corp. were to file for bankruptcy, which his report called "likely just a matter of timing." The closure of a sea of Sears stores could lead some other retailers to break their mall leases, he said, ultimately leaving struggling malls for dead.

Sears Holdings says it isn't in peril. Howard Riefs, a spokesman, said the company has sold assets and taken other steps to "improve [its] operational performance and financial flexibility." Sears closed 150 of its approximately 1,430 Sears and Kmart stores so far this year.

Corvex Management LP, Aurelius Capital Partners LP and Gratia Capital LLC have all made negative bets on the index similar to Mr. Yip's, according to people familiar with the funds. The volume of outstanding bets on the index has swelled by more than $2 billion since Mr. Yip began shopping his trade around.

While many people are **bearish** on the future of malls, there's little consensus about how an investor might successfully bet against them.

Any downturn in commercial real-estate debt is thought unlikely to be as brutal as the housing meltdown, partly because most of the bonds are backed not just by malls but by a wide variety of properties, including hotels and office buildings.

The index Mr. Yip is betting against has a higher concentration of shopping centers than similar financial instruments, but still only around 40 of the roughly 1,500 loans underpinning the index's performance are mall debt. Debt of weaker malls makes up less than 15% of the index, according to Bank of America Merrill Lynch.

Many of the mall-based loans would have to default, and their properties be liquidated, before investors with **bearish** bets could collect a windfall. Skeptics say mall owners have tools at their disposal to improve their properties before they spiral into default.

"The CMBX is a very blunt tool" for betting against malls, said Alan Todd, head of commercial mortgage research at Bank of America Merrill Lynch. While retailers are downsizing at a faster clip, not every mall will be similarly affected, and the time between store closures and ultimate mall failures can vary significantly, he added.

Investment giants AllianceBernstein LP and Pacific Investment Management Co., or Pimco, have taken the opposite side of the mall-debt trade, with **bullish** positions on the CMBX 6, according to people familiar with their positions.

"We think the negative view is overstated," said Brian Phillips, who oversees commercial real estate investments at AllianceBernstein.

Mr. Yip, 42 years old, declined to be interviewed. He confirmed some facts about his background through a spokesman.

Born in Hong Kong to a working-class family, he moved at age 5 with his parents to a New Jersey suburb of Philadelphia. His parents took over a shop called East in the Burlington Center Mall, selling candles, novelty items and imported goods. They closed the store in the 1990s after the local economy faltered, then later opened three shops in the region, including one back in the Burlington mall. Mr. Yip worked part time folding khakis at Banana Republic while in college, working in two of the region's biggest shopping centers.

By the mid-2000s, all of his parents' stores had closed after mall traffic declined and shoppers gravitated to more-popular retail centers.

After studying accounting at Villanova and getting some credit training at a bank, Mr. Yip worked as an analyst for the billionaire investors Carl Icahn and David Tepper. Mr. Tepper declined to comment, and Mr. Icahn didn't reply to a comment request.

In 2014 Mr. Yip started Alder Hill, with Mr. Tepper as an investor. It had a rough start. For the year 2015, Alder Hill recorded a loss of 13.6%. Last year, it had a gain of just under 7%.

The exact size of Mr. Yip's bet isn't known. It makes up more than half the assets of Alder Hill Management, which manages about $200 million, said people familiar with his fund.

When Mr. Yip cast a critical eye on regional malls' debt in 2015, the CMBX 6 index was trading near its full value, implying a very low probability of defaults.

Mr. Yip visited malls in Connecticut, Louisiana and elsewhere while on work trips and vacations, sometime taking his family along with him.

He would walk three times around each shopping center, studying its mix of stores and chatting with store owners, workers and shoppers.

He noticed some malls seemed poorly maintained and outdated, with a high concentration of mom-and-pop shops that, he figured, probably weren't paying much in rent. Locally owned stores such as these have less staying power than stores that are part of national retail chains.

Many of the malls also faced stiff competition from trendier, more upscale shopping areas nearby that were still healthy. Mr. Yip identified 26 malls in the index that he considered high-risk. Sears was an anchor in 19 of them, and most also counted J.C. Penney Co. and Macy's Inc. as tenants.

Three malls he singled out were owned by CBL & Associates Properties Inc., a Tennessee-based firm. Its Arbor Place Mall in Douglasville, Ga., has lots of small, local retailers and competes in "over-retailed" Atlanta, his report said.

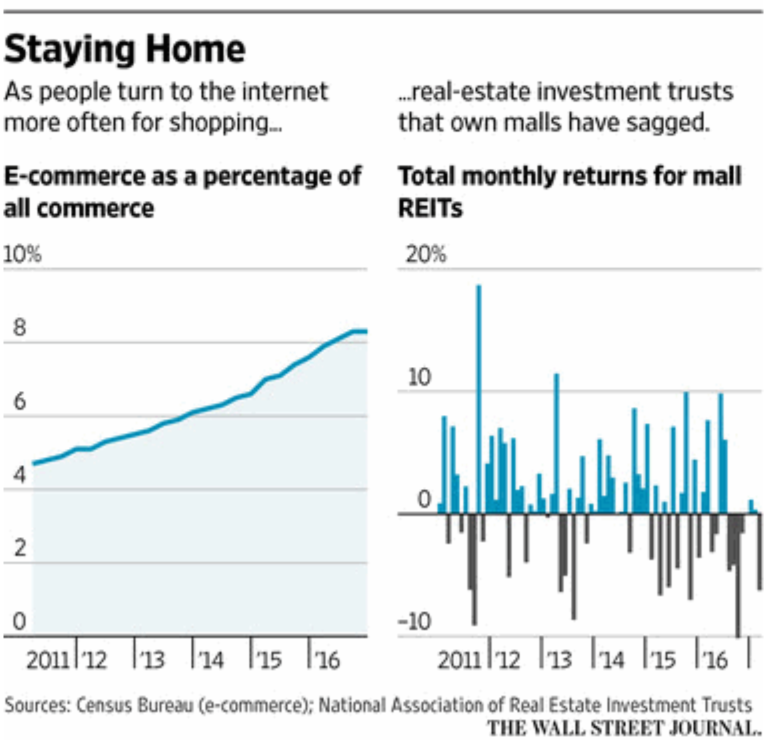
CBL said the malls he cited are doing well and their loans are expected to be repaid. It said at Arbor Place Mall, national retailers occupy most of the stores. There are "downright inaccuracies" in Mr. Yip's report, said CBL's chief executive, Stephen Lebovitz.

Burlington Center Mall isn't part of the CMBX index. It doesn't have any debt for the index to reflect. The New Jersey mall is owned by a private-equity firm, Moonbeam Capital Investments LLC, that specializes in distressed assets.

Moonbeam thinks it has a way for Burlington Center to work out. The firm has plans to turn it into a mixed-use retail and small-business park.

The space once occupied by the Yip family's store sits empty.

Rob Copeland contributed to this article.



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The Trump Tax Plan: Wall Street Impact

By WSJ Staff
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27 April 2017
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President Donald Trump unveiled a proposal to cut corporate taxes and reduce the top tax rate on pass-through businesses, including many owner-operated companies, to 15% from 39.6%.

Here's what the change would mean for Wall Street:

Earnings

The tax plan could potentially provide a big lift to corporate earnings for publicly traded companies.

Every one-percentage-point cut in the effective tax rate -- what companies actually pay -- could increase expected earnings for **S&P 500** companies by $1.34 a share, according to calculations by S&P Global Market Intelligence. That might breathe new life into a long **stock-market** rally. Many investors have become worried that stocks are starting to look expensive, and tax cuts "would alleviate much of the concern about valuations," said Bruce Bittles, chief investment strategist at Robert W. Baird.

-- Aaron Kuriloff

Dollar

Dollar bulls are cautiously optimistic about the tax plan. Even though an outline released Wednesday lacked elements that were expected to boost the dollar directly, some still believe the plan would be broadly positive for the dollar. A big corporate-tax cut could boost the dollar by heating up the nation's economy, investors said. Stronger growth could lead the Fed to raise rates at a faster pace, making the dollar more attractive to yield-seeking investors.

-- Ira Iosebashvili

Foreign earnings

The White House's plan for a territorial tax system could be a boon to companies with large international operations.

U.S. companies would pay little or no tax on future foreign earnings under the proposed territorial system. The current rules tax all corporate profits regardless of where they are earned.

Together with other tax overhauls, a territorial system could boost earnings for multinational companies.

Bank of America Merrill Lynch estimated earlier in the year that if the U.S. moved to a territorial tax system of no longer taxing foreign profits and the statutory tax rate were lowered to 20% from 35%, **S&P 500** companies would see their per-share earnings rise 12% in 2018, all else equal.

-- Ben Eisen

Master-limited partnerships

Master-limited partnerships stand to benefit under the Trump tax plan because investors holding these publicly traded shares could get a lower tax bill. MLPs, which are often associated with oil-and-gas companies, pay periodic distributions to their shareholders. They don't pay any corporate-income taxes themselves.

Shareholders of MLPs pay taxes on the income they receive at a rate of up to 39.6%, though they can defer paying taxes until they sell their shares. Because MLPs are pass-through businesses, shareholders' tax rate could fall to 15% under the tax proposal.

-- Corrie Driebusch

Comparing Tax Plans

How Trump's proposal compares to House Speaker Paul Ryan's earlier plan

	CURRENT LAW	TRUMP PLAN	RYAN PLAN	WHAT IT MEANS
One-time tax on stockpiled foreign profits	Not applicable	**No rate set**	**8.75%: cash; 3.5%: other assets**	This is a one-time pot of money.
Tax rate on partnerships and other 'pass through' business income	Taxed as individual income up to 39.6%	**15%**	**25%**	Either plan requires rules to prevent gaming the system.
Estate tax	$5.49 million per-person exemption; 40% top rate	**Repeal**	**Repeal**	Republicans agree but this is a barrier to Democratic cooperation.
Border adjustment	Not applicable	**Silent**	**Tax imports; exemption for exports**	This is a major point of contention.
Business breaks	Capital expenses deducted over time; interest deductible	**Some support for writing off capital investments**	**Immediate capital writeoffs; no interest deduction**	The administration is concerned about how limits on business interest affect real estate and utility companies.
Itemized deductions	Mortgage, charity and state and local taxes deductible	**Both plans would preserve mortgage and charitable deductions, but repeal state and local tax deductions**		Repealing state and local deductions would cause blowback in New York and other states.
Alternative minimum tax	Parallel tax system on high-income people	**Repeal**	**Repeal**	This reduces complexity but could open avenues for tax avoidance.
Corporate tax rate	35%	**15%**	**20%**	Mr. Trump's plan adds about $500 billion to the price tag over a decade.
Individual tax rates	39.6%, 35%, 33%, 28%, 25%, 15%, 10%	**35% 25% 10%**	**33% 25% 12%**	The administration hasn't said where the income thresholds would be.

Sources: Tax Policy Center; Trump and Ryan tax plans

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Heard on the Street
Tax Cut: Don't Forget the Deficit

By Justin Lahart
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27 April 2017
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B12
English

[Financial Analysis and Commentary]

President Donald Trump doesn't seem to be paying much mind to what his tax plan could do to the budget deficit, but investors should.

The White House on Wednesday outlined what Treasury Secretary Steven Mnuchin billed as "the biggest tax cut" in U.S. history. The plan would drop the corporate tax rate to 15%, cut taxes on U.S. companies' foreign profits and sharply lower the taxes that millions of small businesses pay.

Not only are the cuts more aggressive than in the blueprint House Republicans laid out last year, but it includes fewer offsets meant to help pay for the tax reductions.

Gone, for example, is the tax on imports House Republicans proposed, and that had retailers up in arms. Instead, the administration is largely depending on a presumption that a faster-growing economy will raise tax revenue, effectively paying for the cuts.

Even under so-called dynamic scoring, which takes improved economic growth under lower taxes into account, it is doubtful many tax experts would view Mr. Trump's plan as deficit-neutral. A bigger budget deficit would be in the offing.

For investors trying to determine a potential tax bill's timing, scope and probability of passing, the unveiling of Mr. Trump's plan provides little clarity. Even many basic details have yet to be filled in. Mr. Trump's cabinet is understaffed and lacks many people with legislative experience. Furthermore, a renewed focus on health-care reform may mean any move on taxes will have to wait.

But the plan does provide some insight into the contours of what an eventual tax cut might look like, even if it ends up being more modest than what Mr. Trump has proposed.

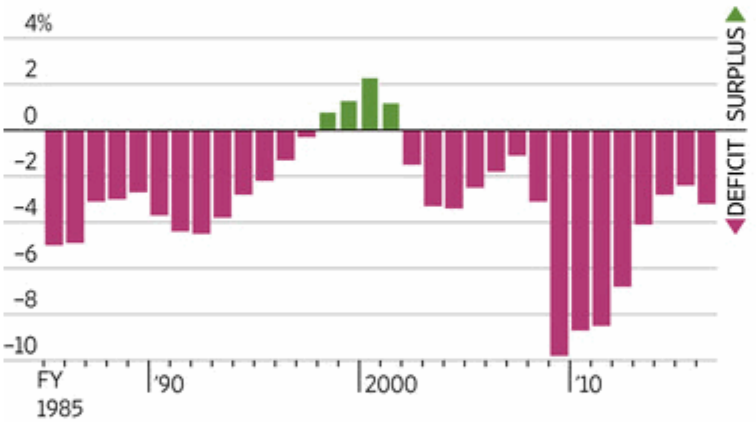
On the **stock-market** side, nearly everyone comes out a winner. Domestically focused companies such as retailers and construction firms, which have among the highest effective tax rates, get a nice break. And many companies that do a substantial amount of business overseas (and tend to have lower effective rates) get to bring money earned overseas back home at a lower cost. So earnings would be higher.

The bond market would find less to love. Larger budget deficits would increase Treasury issuance. And, insofar as the plan might boost growth, it could prompt the Federal Reserve to raise rates more quickly and begin reducing the size of its Treasury holdings sooner. The combination of more Treasurys on the market and tighter monetary policy would push long-term rates higher. That could be bad for the bond market -- and cut equities' attractiveness.

There is no such thing as free lunch and no such thing as a free tax cut, either.

In the Red

Federal budget surplus/deficit as a share of gross domestic product



Source: Congressional Budget Office THE WALL STREET JOURNAL.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Indexes Waver as White House Outlines Tax Cut Plan

By THE ASSOCIATED PRESS
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27 April 2017
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English

Stock indexes wobbled between modest gains and losses Wednesday as the White House unveiled the broad outlines of its plan to cut tax rates but left many of the details to be announced.

Expectations of a big tax cut, with looser regulation of business, have been among the main drivers of the **stock market**'s surge since the November election. On Wednesday, Trump administration officials said they hoped to reduce the top corporate tax rate to 15 percent, from 35 percent.

But many specifics still must be negotiated, such as the degree to which such a cut would affect the budget deficit, and they will need to be hammered out with Congress. That left investors questioning how much the benefits would flow to corporate profits.

"Tax reform will be good, but a lot of that has already been priced into the market," said G. David MacEwen, co-chief investment officer for American Century Investments.

The **Standard & Poor**'**s 500**-**stockindex** slipped by 1.16 points, or less than 0.1 percent, to close at 2,387.45. It briefly exceeded 2,395.96, its record close, only to lose its gains in the last minutes of trading.

The **Dow Jonesindustrial average** fell 21.03 points, or 0.1 percent, to 20,975.09, and the **Nasdaq composite** index slipped 0.27 of a point, to 6,025.23. Stocks of smaller companies did better, with the Russell 2000 index rising 8.35 points, or 0.6 percent, to 1,419.43.

Any corporate tax cut would help business profits. The **S**.**&P**. **500** has surged 11.6 percent since Election Day, leading some investors to worry that stocks have grown too expensive, with prices climbing faster than corporate profits.

Mr. MacEwen said several elements of the tax proposal would be beneficial, including how foreign profits would be treated, but any legislation that is ultimately approved could fall short of market expectations.

Businesses' results for the first quarter have largely been better than expected. Analysts expect this to be the strongest quarter of growth in years.

Edwards Lifesciences had the largest gain in the **S**.**&P**. **500** on Wednesday after reporting stronger revenue and profit for the latest quarter than analysts had expected. The company also raised its profit forecast for the year. Its stock jumped $10.38, or 10.5 percent, to $109.30.

Wynn Resorts rose $6.97, or 5.9 percent, to $125.19, after the company reported revenue and profits that topped expectations.

United States Steel posted a loss for the first quarter and cut its profit forecast for the year. Its stock sank $8.33, or 26.8 percent, to $22.78.

Government **bond prices** rose. The yield on the **10**-**year Treasury** note slipped to 2.30 percent, from 2.33 percent late Tuesday.

In European stock markets, the CAC 40 in France rose 0.2 percent, the FTSE 100 in London added 0.2 percent, and the DAX in Germany was close to flat.

Benchmark crude oil futures for June delivery rose 6 cents to settle at $49.62 a barrel in New York. Brent crude, which is used to price international oil, fell 28 cents, to $51.82. Spot gold fell $3.50, to $1,262.10 an ounce.

The euro slipped to $1.0905, from $1.0937 late Tuesday, while the dollar rose to 111.03 Japanese yen, from 111.09 yen. The British pound rose to $1.285, from $1.283.

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Wednesday. (Source: Reuters | By The New York Times); 5-Year Treasury Notes: High yields at auction. (Source: Treasury Department)

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The New York Times

Business/Financial Desk; SECT
Morning Agenda: A Blueprint for Tax Cuts

By AMIE TSANG
592 words
27 April 2017
The New York Times
NYTF
The New York Times on the Web
English

President Trump intends to reveal his tax plan on Wednesday. Here's what we know so far:

The 15 percent business tax rate will apply not just to corporations, but also to companies that pay taxes through the personal income tax code -- including mom-and-pop businesses (and Mr. Trump's own real estate empire) -- according to people briefed on the proposal.

There will be a bigger standard deduction for individuals -- a modest cut for middle-income people that would also simplify the process of filing tax returns. But this is problematic for home builders and real estate agents, who worry about it diminishing the importance of mortgage interest deduction.

What's not included?

As of Tuesday, there was no $1 trillion infrastructure program, two of the people briefed on the proposal said.

There was also no border adjustment tax to offset the cost of the tax cuts.

The final plans remained in flux as late as midafternoon Tuesday.

The biggest unknown? How will it be paid for. The plan puts off the closing of loopholes and other tax increases that could limit the impact on the budget deficit.

The prospect of the corporate tax rate cut has bolstered investor enthusiasm.

Stocks have surged, also helped by strong earnings reports from blue-chip companies and the results of the French election. Technology giants like Apple, Facebook and Amazon have shown robust growth, too, lifting the **Nasdaq** index past 6,000 for the first time on Tuesday.

But the business world has its concerns.

The government's initial report on the economy's first-quarter performance is due on Friday and it is expected to be weak. And even if the tax overhaul goes through Congress and corporate profits boom, it doesn't necessarily mean economic performance will improve.

''It's more about closing loopholes than reducing rates because if you just go to 15 percent, you're going to leave a large hole in the federal budget,'' said Diane Swonk, a veteran independent economist in Chicago, warning that long-term prospects would be undermined if they were not accompanied by policies leading to faster economic growth.

Credit Suisse Opts for Capital Raise

Credit Suisse says it plans to raise about $4 billion of fresh capital and has ditched its proposal to sell part of its Swiss unit, after the Swiss bank reported profit that was better than expected.

The lender had been trying to shift its focus to the steadier business of managing money for wealthy clients and away from more **volatile** investment banking after steep losses.

Credit Suisse made a profit of 596 million Swiss francs, or about $599 million, in the first quarter, compared to a loss of 302 million francs a year earlier.

"A straight capital increase is less dilutive than the I.P.O.," Tidjane Thiam, the chief executive, said in an interview with Bloomberg, referring to the plan for the Swiss unit.

Coming Up

"Fresh blood is needed to ensure that the board has sufficient independence. The narrow vote puts incredible pressure on some directors to reconsider their membership. I hope that by this time next year, we have a new slate."

-- Brandon Rees, the deputy director of the A.F.L.-C.I.O.'s investment office, which holds 1.6 million Wells Fargo shares. The board of directors of Wells Fargo was re-elected on Tuesday, but the support from shareholders was remarkably tepid.

Follow Amie Tsang on Twitter @amietsang .

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THE WALL STREET JOURNAL.
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The Trump Tax Plan: Companies Dig Into Details of Proposal

By Theo Francis and Richard Rubin
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A4
English

Now that the Trump administration has made its broad-brush tax proposal, companies are likely to line up in support -- and start sweating the details.

For many companies, and especially large ones, those details may prove far more important than the headline proposal to cut the top business-income tax rate to 15% from 35%.

And their priorities may well conflict. Big tech firms, drugmakers and multinational manufacturers, among others, like a measure slashing taxes on foreign profits by imposing a "territorial" tax system. Wal-Mart Stores Inc. and other retailers, among those that stand to gain the most from the rate cut, are eager to head off a congressional border-adjustment proposal to tax imports -- an idea on which the Trump plan is silent. Oil-and-gas companies hope to preserve rules speeding up deductions for drilling expenses. Pipeline companies and utilities fear losing valuable interest deductions.

The stakes are high and some measures are almost universally popular among big companies -- even if the priority order may differ from firm to firm.

Bank of America Merrill Lynch estimated earlier in the year that **S&P 500** companies would see their per-share earnings increase 12% in 2018, all else equal, if the U.S. moved to a territorial tax system of no longer taxing foreign profits and also lowered the statutory tax rate to 20%, 5 percentage points higher than the administration's proposal.

On its own, the broad outline put forward on Wednesday is unlikely to ruffle many corporate feathers, says Robert Willens, a New York City tax consultant. "Everyone would benefit," Mr. Willens said. "Some a little more than others, but not enough to warrant a battle between companies or industries."

That could well change, however, as the White House and congressional Republicans seek to hammer out the details, and in particular determine how tax cuts will be paid for. Passing a tax bill without Democratic support would require that the bill avoid increasing budget deficits beyond what is typically a 10-year window. That means tough trade-offs, making tax-rule changes temporary, or both.

And some key elements of the administration's business-tax plan remain unclear. House Republicans have proposed ending deductions for business-interest payments, and would let firms write off capital expenses immediately, instead of over time as is generally now the case.

Mr. Trump's proposal doesn't directly address either point. Treasury Secretary Steven Mnuchin said the administration favors some form of immediate write-off but didn't commit to any details. He also recognized that real-estate and utility companies, among others, are worried about losing the interest deduction.

"We want to make sure that we don't do anything that creates uncertainty in the economy," Mr. Mnuchin said.

Big industrial firms are among the companies rooting for Mr. Trump's proposal to implement a territorial tax system, in which the U.S. only taxes profits generated in the country, leaving overseas profits untouched except by those countries. Currently, the U.S. is unusual in taxing firms' overseas profits if the proceeds are brought to the U.S., a system that has encouraged U.S. companies to book profits in low-tax foreign jurisdictions and leave them there. (Companies typically must pay the difference between what they already paid in foreign tax jurisdictions and the full U.S. tax bill for the repatriated profits.)

About one in five companies in the Russell 1000 index generate a majority of their sales outside the U.S., and more than half receive at least some revenue from abroad, according to Bespoke Investment Group data. U.S. firms hold about $2.6 trillion overseas, the nonpartisan congressional Joint Committee on Taxation estimates.

Ben Eisen contributed to this article.

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The New York Times

U.S.; Politics
Trump Tells Foreign Leaders That Nafta Can Stay for Now

By MARK LANDLER and BINYAMIN APPELBAUM
1,382 words
26 April 2017
03:45 PM
NYTimes.com Feed
NYTFEED
English

WASHINGTON — President Trump told the leaders of Mexico and Canada on Wednesday that he would not immediately move to terminate the North American Free Trade Agreement , only hours after administration officials said he was likely to sign an order pulling the United States out of the deal.

In what the White House described as "pleasant and productive" evening phone calls with President Enrique Peña Nieto of Mexico and Prime Minister Justin Trudeau of Canada, Mr. Trump said he would quickly start the process of renegotiating Nafta — not abandon it, as he promised during the 2016 presidential campaign.

"It is my privilege to bring NAFTA up-to-date through renegotiation," Mr. Trump said in a statement issued by the White House at 10:33 p.m. "I believe that the end result will make all three countries stronger and better."

The announcement appeared to be an example of Mr. Trump's deal-making in real time. It followed a day in which officials signaled that he was laying the groundwork to pull out of Nafta — a move intended to increase pressure on Congress to authorize new negotiations, and on Canada and Mexico to accede to American demands.

It was not clear whether the president would still sign an executive action to authorize renegotiation of Nafta, which he once called the worst trade deal ever signed by the United States. Washington must give Canada and Mexico six months' notice before exiting the trade agreement, which came into force in 1994. Any action to that effect would start the clock.

But the prospect of the United States' pulling out obviously alarmed the Canadian and Mexican leaders and prompted their calls to the White House.

The Mexican peso plummeted in trading after news broke at midday on Wednesday that the White House had drafted an executive order withdrawing the United States from Nafta. Mr. Trudeau called Mr. Trump twice, on Tuesday and Wednesday, to discuss the sudden rupture in the trade relationship between the United States and Canada.

On Tuesday, the Trump administration announced that it would impose a tariff on Canadian softwood lumber, in retaliation for what it said was unfair treatment of American dairy farmers.

The president has repeatedly derided Nafta, describing it last week as "very, very bad" for the country, companies and workers, and he promised during his campaign that he would remove the United States from it if he could not negotiate improvements.

The White House wants Congress to authorize those negotiations under legislation that would allow expedited approval of the reworked agreement, but talks between administration officials and congressional Republicans have moved slowly.

While some of Mr. Trump's senior advisers, notably Stephen K. Bannon and the economist Peter Navarro, are eager to take strong steps on trade policy, another group — which includes Gary D. Cohn , the head of the National Economic Council — has argued for a more cautious approach, concerned that larger steps could cause economic disruptions.

Lately, Mr. Trump has taken the stronger line, moving to reshape America's economic relationships with foreign nations. The Nafta order would come on the heels of the announcement of the new tariffs on Canadian lumber and reviews of whether steel and aluminum imports are undermining national security.

"Nafta 's been very, very bad for our country," Mr. Trump said last week . "It's been very, very bad for our companies and for our workers, and we're going to make some very big changes, or we are going to get rid of Nafta once and for all."

Walking away from Nafta would disrupt the economies of the United States, Canada and Mexico, and strain broader relations among the countries. Over the last two decades, their economies have become increasingly intertwined. The volume of trade has multiplied, and the manufacture of many goods, notably cars, involves multiple border crossings and factories in all three nations.

If the United States actually pulled out, experts said, trade with Canada would probably still be subject to a similar agreement between the two countries that took effect in the late 1980s and served as a model for Nafta. The Trump administration, however, could seek to withdraw from that agreement as well.

The shift in the rules governing trade with Mexico would be more significant. The two countries both take part in the World Trade Organization , but that allows much higher tariffs. Mexico, for instance, could impose a 37 percent tariff on American corn. The disruptions to manufacturing could also come at a hefty cost to consumers: Caroline Freund , a fellow at the Peterson Institute for International Economics , has estimated that the cost of a pickup truck might increase by $3,000.

Monica de Bolle, a senior fellow at the Peterson Institute, said: "It would be a very disruptive shock that would impact everybody. It would impact growth; it would impact companies and supply chains; it would impact workers; it would impact voters in Trump states. It's just crazy to imagine that they would go that route."

The suggestion of withdrawal, reported by Politico on Wednesday, raised anxieties in **financial markets**. The peso fell more than 2 percent against the dollar, and the Canadian dollar fell about 0.3 percent.

"Scrapping Nafta would be a disastrously bad idea," Senator Ben Sasse, Republican of Nebraska, said in a statement. "Yes, there are places where our agreements could be modernized, but here's the bottom line: Trade lowers prices for American consumers, and it expands markets for American goods. Risking trade wars is reckless, not wise."

Both Mexican and Canadian officials have said repeatedly that they are ready to negotiate changes to the trade agreement. Written in the early 1990s, it is outdated in key respects: Its drafters, for example, did not foresee the rise of the internet.

"Canada is ready to come to the table at any time," Alex Lawrence, a spokesman for the Canadian foreign minister, Chrystia Freeland, told Reuters on Wednesday.

In fact, the Obama administration negotiated changes to the deal as part of the Trans-Pacific Partnership, a broader agreement that would have supplanted Nafta. Mr. Trump withdrew from that agreement as one of his first official acts.

The Trump administration provided an indication of its own priorities in a letter circulated among members of Congress last month. While proposing some significant changes, such as strengthening the available penalties for breaches of the rules, it suggested that the administration was not seeking to alter the basic structure of the agreement, prompting relief both north and south of the United States.

The administration must send a final version of that letter to Congress to start another clock: a 90-day waiting period before negotiations. Starting both clocks would allow the White House to begin negotiations with Mexico and Canada while holding in hand the threat of walking away from the table.

It is not clear whom that would hurt most. Mr. Trump has repeatedly denounced trade deficits as a major contributor to what he sees as the nation's broken economy.

But trade among the three North American nations is relatively balanced, particularly in comparison with trade between the United States and China.

The United States actually ran a trade surplus with Canada in 2015 and during the first three quarters of 2016, according to the most recent data available from the Commerce Department. American sales of goods and services to Canada exceeded purchases of goods and services from Canada, on average, by $1 billion a month.

The United States does run a monthly deficit of about $4 billion with Mexico, but even that is a small fraction of the roughly $28 billion monthly deficit with China.

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Michael D. Shear contributed reporting.

* Mexico Welcomes Possible U.S. Shift on Nafta, but Mistrust of Trump Persists

* After Calling Nafta 'Worst Trade Deal,' Trump Appears to Soften Stance

* Renegotiate Nafta? Mexicans Say Get On With It

* Will Trump Go After Nafta With Tweezers or a Hammer?

Unfinished buildings at a site where Ford had planned a factory in Villa de Reyes, near San Luis Potosi, Mexico. | Pedro Pardo/Agence France-Presse — Getty Images

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THE WALL STREET JOURNAL.
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The Shattered Arguments for a New Glass-Steagall

By William M. Isaac and Richard M. Kovacevich
715 words
26 April 2017
The Wall Street Journal
J
A17
English

Gary Cohn may not be the first White House official you'd expect to favor reinstating Glass-Steagall, the Depression-era law that split commercial banks from investment banks. Yet Mr. Cohn, the former Goldman Sachs president who now leads the National Economic Council, urged just that in a private meeting with lawmakers, according to Bloomberg News. This is deeply disappointing, particularly coming from an administration that seeks to stimulate growth by removing the government shackles that suppress competition and burden markets.

The 1999 repeal of Glass-Steagall was unfairly blamed in the aftermath of the 2008 financial crisis. Some people -- apparently Mr. Cohn among them -- mistakenly believe that investment banking is so risky that it should be once again kept separate from commercial banking. The truth is exactly the opposite: Traditional investment banking entails very little risk. The danger is stand-alone investment banks that are not diversified enough to survive a shock.

Traditional investment banks primarily underwrite debt and equity for corporations; provide advice on mergers, acquisitions and divestitures; buy and sell securities for institutions; and help clients hedge their risks. These activities involve almost no risk on the investment banks' own books. In contrast, commercial banks extend credit to people and businesses and retain a good deal of both the credit risk and the interest-rate risk. The repeal of Glass-Steagall allowed these banks to diversify their risks and revenues by providing fee-based investment services.

Banks are at risk of failure when they become too concentrated by geography, industry or product line. Risk needs to be diversified so that no one mistake can bring down the entire institution. Even firms like Citigroup and Bank of America that made a series of mistakes in the 2008 crisis survived because they were diversified. Investment banks that were not properly diversified did not survive: Bear Stearns, Lehman Brothers, Merrill Lynch.

The major perpetrators of the 2008 financial crisis were 20 or so institutions that had originated, securitized and distributed exotic subprime mortgages with toxic features. About 10 investment banks packaged mortgages made by savings-and-loan associations such as Countrywide, Washington Mutual and Indy Mac, and by state-chartered mortgage brokers -- many of which committed outright fraud. These S&Ls were the remnants of an industry that had cost taxpayers some $150 billion during the 1980s and early 1990s. Notably absent from this array of culprits were large commercial banks, with an exception or two.

Unfortunately, regulators failed to see or act on the growing problems until they had escalated into a full-scale financial crisis. The Securities and Exchange Commission failed to enforce adequate capital and liquidity requirements on investment banks, including Bear Stearns and Lehman Brothers, which had trillion-dollar balance sheets funded by **volatile** and expensive short-term wholesale funds.

As a consequence of the crisis, the offending investment banks and S&Ls were sold, liquidated or converted into regulated banking companies. The financial system has stabilized at historically high capital levels and the economy is growing again (albeit much too slowly).

Today there are no major stand-alone investment banks engaged in high-risk trading for their own accounts. After much turmoil and hundreds of billions of dollars in losses, they are finally gone. Investment banking now either is part of the regulated commercial-banking industry or is conducted in small boutique firms that are not highly leveraged. A separate hedge-fund industry exists for private investors interested in proprietary trading, private equity, exotic securitizations, and other high-risk businesses.

This is a positive change for the safety and soundness of the financial system. Yet almost unbelievably, there are calls to restore Glass-Steagall, re-create stand-alone investment banks, and allow them to operate once again outside the regulated banking system. The administration and Congress should not even consider putting America's economy at risk that way again.

Mr. Isaac, former chairman of the Federal Deposit Insurance Corp., is a consultant to financial institutions. Mr. Kovacevich is a retired chairman and CEO of Wells Fargo & Co.

(See related letters: "Letters to the Editor: Maybe the Glass-Steagall Was Largely Full" -- WSJ May 2, 2017)

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THE WALL STREET JOURNAL.
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Nasdaq Soars to New Heights as Global Stocks Rally

273 words
26 April 2017
The Wall Street Journal
J
A1
English

Corrections & Amplifications

S&P Global Market Intelligence in December estimated that a 10% cut in the effective corporate tax rate in the U.S. could boost the earnings-growth rate of companies in the S&P 500 index to 23% in 2017. A Page One graphic on Wednesday about gains in the Nasdaq Composite Index incorrectly suggested that the figures applied to Berkshire Hathaway Inc. and that they were from Berkshire.

(WSJ April 29, 2017)

(END)

Markets rallied around the globe Tuesday, capped by the Nasdaq index topping the 6000 level for the first time. What's driving the change?

Renewed Confidence in the EU

Sunday's election result in France pushed shares across the globe higher Monday and Tuesday. Confidence in European banks has improved, and volatility indexes continued to decline Tuesday. For now, investors are suggesting the worst has been avoided. The next looming issue: the fate of Italy's politics.

Tax Cuts Could Help Earnings

While investors wait for more details on President Donald Trump's tax plans, analysts eagerly speculate about the benefits of lower rates for corporate earnings.

One prime example: A 15% corporate tax rate would increase Berkshire Hathaway Inc.'s book value by 13%, or $36 billion.

A 10% tax cut could boost 2017 earnings per share for 2017 by 23%, the firm found at the time.

Global Knock-On Effects

The equities rally swept the globe Tuesday. The benchmark MSCI International World Price Index hit its all-time high and is up about 7.5% on the year.

Five Stocks Behind Nasdaq

The Nasdaq showed those earnings expectations in play, though it is worth noting: Just five stocks -- Apple Inc., Facebook Inc., Amazon.com Inc., Microsoft Corp. and Alphabet Inc. -- account for 41% of the index's advance in 2017.

Caterpillar Inc. and McDonald's Corp. led gains in the Dow Jones Industrial Average, together contributing more than 100 points to the index's 232-point jump after the blue-chip companies reported upbeat earnings.

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Equities: This Isn't Your Father's, or Anyone Else's, Nasdaq Index Anymore

By Ben Eisen
238 words
26 April 2017
The Wall Street Journal
J
B15
English

Corrections & Amplifications

Historical data for price-to-earnings multiples for the **Nasdaq Composite** for an Equities article and graphic on Wednesday aboutthe index were provided by Thomson Reuters Datastream. The article and graphic incorrectly said the source was Thomson Datastream.

(WSJ April 28, 2017)

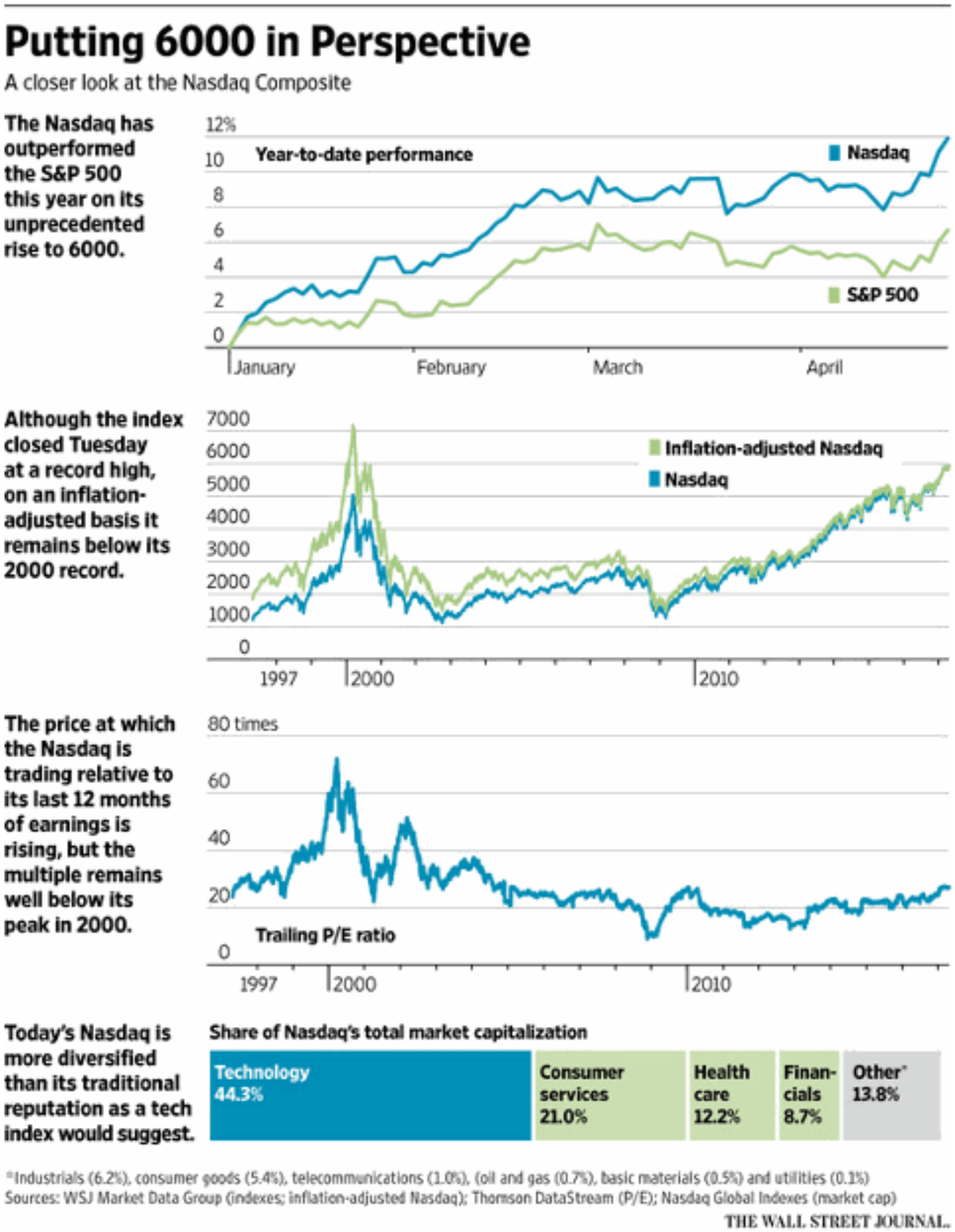
(END)

Once known as the benchmark that tracked young technology companies, the **Nasdaq Composite** Index is now more diversified than it often gets credit for. That's one reason investors aren't too concerned about a tech bubble as the index passed 6000 for the first time ever on Tuesday.

Sure, the most heavily weighted companies in the index are still the tech giants you would expect, such as Apple Inc. and Microsoft Corp. But tech makes up only 44% of the index, versus about 60% when the dot-com boom imploded early in the last decade. The index has diversified into other sectors, particularly consumer firms.

And amid the dot-com boom of 1999 and 2000, the index was full of companies that had gone public recently in a bid to cash in on investors' appetite for tech shares. Many of those companies had no earnings. Others, including many more-established **Nasdaq**-traded firms, had only modest earnings relative to their share prices.

Accordingly, the price/earnings ratio exceeded 70 as the index peaked in 2000, a condition that traders and analysts agreed set the stage for what would become a historic rout. These days, it is trading at about 27.5 times the earnings of the past 12 months, according to Thomson DataStream.



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International New York Times

upshot
The Low-Inflation World May Be Sticking Around Longer Than Expected; Economic Trends

By NEIL IRWIN
998 words
26 April 2017
International New York Times
INHT
English

There is a worldwide glut that includes oil wells, steel plants and eager would-be workers, and it will take more than a United States presidential election and a few months of solid global growth to fix it.

That, in a sentence, is the reality that haunts the world economy a third of the way through 2017.

For years, low inflation across most of the advanced world was part of a vicious cycle featuring onerous debt burdens and low growth. Major central banks struggled to lift inflation to the 2 percent annual rate they aim for.

Finally, after an uptick in **oil prices** in 2016 and an abrupt shift in sentiment after Donald J. Trump's election in November, it looked as if the world economy might be getting jolted out of that cycle. Some called it the Trumpflation effect. But it now seems that proclamations of victory were premature, and that the low-inflation world will be with us for at least a while longer.

In the eurozone, inflation reached 2 percent in the year ended in February for the first time since 2013. In the United States, a key inflation measure favored by the Federal Reserve passed over that 2 percent level for the first time in five years.

It appeared more of the same was on the way — or at least that was the future that global investors started to account for. **Bond prices** last summer suggested consumer prices in the United States were expected to rise only 1.4 percent annually over the next five years; that soared to 1.96 percent in late January.

But now that assessment has partly reversed, with the same measure having fallen to 1.85 percent inflation expected over the next half-decade. Measures of core inflation, which excludes **volatile** food and energy, have basically been stable for months. The one the Fed watches most closely, the year-over-year change in the price index for personal consumption expenditures, has been at 1.75 percent for three straight months.

A big part of what has changed is that it looks clearer that the rise in inflation over the winter was driven by a one-time recovery in **oil prices** from lows in early 2016.

Oil prices have stabilized — a barrel of West Texas Intermediate crude has hovered between about $48 and $54 since the start of December, up from as low as $26 in February 2016. There are few signs that oil will keep feeding a rise in overall prices in the months ahead.

Beyond oil patches, the underlying global dynamics are pushing in the direction of lower prices. There appears to be more worldwide capacity for major commodities like steel and aluminum than there is demand, in part because of China's sheltering of state-run enterprises from the vicissitudes of the marketplace. The integration of highly populous countries like China and India into the world economy continues apace, creating what may be a glut of workers.

Essentially, all the factors that have created downward pressure on prices throughout the 21st century continue to do so, regardless of what President Trump does or doesn't do.

Moreover, some of the Trump administration plans that seemed to point toward higher inflation and higher interest rates are looking like vaporware. A large-scale infrastructure investment program, for example, could push both interest rates and inflation higher in the United States. But so far the administration's focus on infrastructure has not translated to specific policy ideas.

The combination of powerful long-term forces and policy gridlock in Washington means that we probably won't see some magical moment when the low-inflation monster has been vanquished. Rather, the world is going to have to keep climbing out the hard way.

"We have turned the corner on low inflation," said Joseph Gagnon, a senior fellow at the Peterson Institute for International Economics, describing that as his baseline expectation. "But future increases will be gradual and not without occasional setbacks. There are significant risks in both directions."

If the Trump administration delivers a bigger fiscal boost than is now priced into markets, that could fuel higher inflation; an unexpected spike in commodity prices would do the same. Geopolitical instability, such as open conflict with North Korea, could work in the opposite direction and push the world economy back toward deflation.

But absent something surprising, it looks as if the most likely course is a lengthy grinding process: The global demand for goods and services slowly rises until the supply glut gradually gives way to tighter labor markets, and the world economy becomes constrained by its industrial capacity.

That is already well underway in the United States, with its 4.5 percent unemployment rate and rising wages. If the economy works the way the textbooks say it should, that should feed back into higher incomes, higher consumer demand and higher prices in the months ahead.

It's a reminder that many of the biggest forces in the economy don't announce themselves with an election or a central banker's announcement, but through shifts in the underlying forces that make the global economy tick. And those don't change overnight.

The Upshot provides news, analysis and graphics about politics, policy and everyday life. Follow us on Facebook and Twitter. Sign up for our newsletter.

PHOTOS: An oil exploration and production company in Midland, Tex. A glut of oil wells is one reason inflation has stayed stubbornly low. (B1); **Oil prices** have stabilized since December, but there are few signs that oil will lift overall inflation. (PHOTOGRAPHS BY ILANA PANICH-LINSMAN FOR THE NEW YORK TIMES) (B2)

* The Big Question for the U.S. Economy: How Much Room Is There to Grow?

* What the President Could Learn From Professional Economists

* Supply-Side Economics, but for Liberals

* The Economy May Be Stuck in a Near-Zero World

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THE WALL STREET JOURNAL.
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Heard on the Street
A Divide on Stocks and Economy

By Justin Lahart
395 words
26 April 2017
The Wall Street Journal
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English

[Financial Analysis and Commentary]

Americans' divisions over the policies of President Donald Trump may not be weighing on stocks, but the economy could be another matter.

Mr. Trump is completing his first 100 days in office with the lowest job-approval rating for a new president in the history of Wall Street Journal/NBC News polling. Even so, he continues to receive high ratings from his fellow Republicans. It is a phenomenon that extends into people's assessment of the economy. The University of Michigan's continuing survey of consumers shows that Americans' outlook has improved since the election, but that has been largely driven by Republican optimism. Democrats are deeply pessimistic about where the economy is headed.

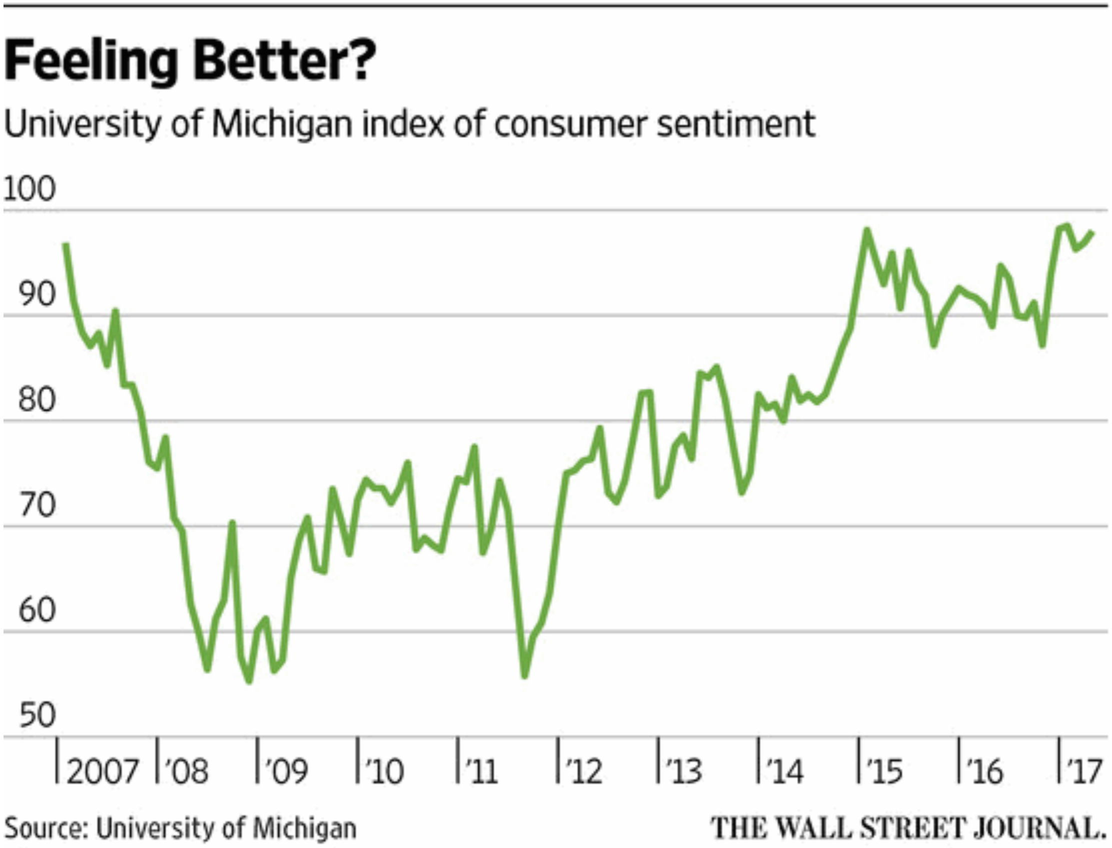
But with stock indexes dancing at or near records, investors seem indivisibly **bullish** on the economy's trajectory. Part of the reason for that might be that investors skew more Republican than the average American. Another might be that when there are deep disagreements in the **stock market**, **bearish** investors often retreat rather than fight.

Betting against stocks is more difficult and costly than betting on them. That can leave the bulls in charge of the market.

When it comes to consumer spending, however, there may be a different dynamic at work. First, the spending of the on-average poorer and younger people who identify as Democrats may be more responsive to shifts in confidence than Republicans. Economists at the Federal Reserve Bank of Chicago, for example, have found that drops in sentiment appear to affect poorer households' spending more than richer households' spending. Presumably, that is because the poor hold fewer assets to help cushion the blows of a bad economy.

But even if the roles were reversed, the pessimists might exert more of an influence than the optimists. Because worries about future financial losses tend to motivate people more than hopes for future gains, the pessimists have more of an incentive to step up precautionary saving than the optimists do to step up spending.

If so, the overall rise in confidence measures may be illusory, with the division between economics optimists and pessimists amounting to no more than a wash. **Bullish** investors could one day wake up to realize that **stock-market** valuations have left the economy behind.



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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Rising Company Profits Lift Share Prices

By THE ASSOCIATED PRESS
580 words
26 April 2017
The New York Times
NYTF
Late Edition - Final
2
English

Profits are climbing for companies, and so are stock prices.

More big businesses joined the earnings parade Tuesday, saying their profits were even larger in the first three months of the year than analysts had expected, including Caterpillar and McDonald's. The encouraging reports pushed Wall Street indexes to their second straight day of big gains, placing them close to or firmly in record territory.

The **Standard & Poor's 500**-**stockindex** rose 14.46 points, or 0.6 percent, to 2,388.61. The **Dow Jonesindustrial average** rose 232.23 points, or 1.1 percent, to 20,996.12. The **Nasdaq composite** index rose 41.67, or 0.7 percent, to 6,025.49, its first move above 6,000 points.

"Earnings have come through quite nicely so far," said Ernest E. Cecilia, chief investment officer at Bryn Mawr Trust. "They're beating forecasts, the numbers have been quite good, and this is now the second consecutive quarter that's happened."

Caterpillar soared $7.63, or 7.9 percent, to $104.42 after reporting stronger revenue and profits for the first quarter than analysts had expected. It also raised its forecast for full-year results.

And it was not the only big industrial company to cite signs of optimism among customers. 3M said sales improved in all its markets around the world, while reporting stronger quarterly earnings than expected.

Such encouraging talk about the economy's strength raises hopes that revenues and profits can keep rising, which could allay concerns about stocks being expensive.

McDonald's jumped $7.47, or 5.6 percent, to $141.70 after surprising investors with better-than-expected results. New menu items helped McDonald's improve sales at its United States restaurants.

Ryder System was among the relatively few stocks to fall on Tuesday. It lost $11.00, or 13.9 percent, to $68.28 after weaker-than-expected rental demand led to lower quarterly results than analysts had forecast.

Global markets added to big gains made on Monday, when markets soared after results from the first round of France's presidential election raised expectations that the European Union and the euro currency will remain intact.

In Europe, the CAC 40 in France rose 0.2 percent and reached its highest close since 2008. The DAX in Germany rose 0.1 percent, and the FTSE 100 in London rose 0.2 percent. In Asia, the Nikkei 225 index in Japan climbed 1.1 percent, the Kospi in South Korea gained 1.1 percent and the Hang Seng in Hong Kong jumped 1.3 percent.

The price of gold fell $10.20 to settle at $1,265.60 per ounce.

Benchmark crude oil rose 33 cents to $49.56 per barrel. Brent crude, which is used to price international oils, rose 50 cents to $52.10 per barrel.

The euro rose to $1.0937 from $1.0867 Monday. The dollar rose to 111.09 Japanese yen from 109.7, and the British pound rose to $1.2830 from $1.2789.

Interest rates continued to climb from the low they set in the middle of the month. The yield on the **10**-**year Treasury** rose to 2.33 percent from 2.27 percent late Monday.

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

Document NYTF000020170426ed4q0005a

The New York Times

Business/Financial Desk; SECT
Nasdaq Hits 6,000 as Markets Rise on Tax Overhaul Optimism

By LANDON THOMAS Jr.
737 words
26 April 2017
The New York Times
NYTF
The New York Times on the Web
English

Propelled by the skyrocketing returns of large technology stocks, the **Nasdaq composite** index pushed past the 6,000 level for the first time in its history.

The sharp move was driven by a confluence of positive news developments, including a market-friendly outcome in the first round of France's presidential election over the weekend and reports that President Trump will put forward a plan to slash corporate taxes to 15 percent.

Since Mr. Trump's surprise victory last year, all the major stock indexes in the United States have been on a roll, with the **Dow Jonesindustrial average** blowing past 20,000 this year and broader indexes such as the **Standard & Poor**'**s500 index** also hitting highs on a regular basis.

But it has been the technology-laden index of 100 **Nasdaq** stocks that has delivered the far superior performance, rising 14 percent this year -- more than twice the gains of the Dow and **S**.**&P**. **500**.

For the day, the **Nasdaq** closed at 6,025.49, up 0.7 percent for the day.

Driving this performance has been the persistent run-up in stocks such as Apple, Facebook, Google and Amazon, which together now comprise about a third of the index, as measured by QQQ, the $43 billion exchange traded fund that tracks **Nasdaq** stocks.

Apple, Amazon and Facebook are up over 20 percent for the year, with Google having increased by 12 percent.

The Dow closed at 20,996.12, up 232.23 points, or 1.12 percent, while the broader **S**.**&P**. **500** ended at 2,388.61, up 14.46 points, or 0.61 percent.

To a degree, the run-up brings to mind past episodes of **stock market** booms and busts that were driven by investors piling into faddish technology stocks, such as the so called go-go years in the late 1960s and, more recently, the dot-com bubble that collapsed in 2000.

Analysts have pointed out, though, that compared with past manias -- in particular the dot-com bubble -- the recent surge in technology stocks stands on firmer ground.

''In 2000, the price-to-earnings ratio for **Nasdaq** was 170 -- today it is trading at 26 times,'' said Charlie Bilello, the director of research at Pension Partners, an investment advisory firm, referring to a common gauge for measuring stock valuations. ''That is not cheap, but it's not crazy. We are definitely not at the level where the average guy quits his job to trade stocks.''

That may be true, but there is no doubt that the explosion in size of these stocks has taken many market participants by surprise, even if it is accepted that their corporate fundamentals are superior.

Since the financial crisis, these four stocks -- Apple, Facebook, Google and Amazon -- have been at the heart of the United States **stock market** rally and now have all reached sizes -- between $400 billion and $700 billion -- that in terms of value compare with the gross domestic product of many countries of note.

And in a market that has been driven by large sums of money flowing into passive funds that track the largest companies in the largest **stock market** indexes, these stocks have flown higher than most.

Indeed, the booming returns of these index-heavy stocks has been a cause of intense frustration for portfolio managers and hedge funds who charge their investors steep fees to uncover hidden gems in the **stock market**.

That is because unless they have a large part of their portfolio in fast growing (and richly valued) stocks like Amazon, Facebook and Apple, they are going to lag their benchmarks and lose money to cheaper exchange traded funds that track these indexes and provide maximum exposure to these stocks.

This was one of the main reasons that the fund giant BlackRock decided last month to revamp its actively managed stock unit, a move that favored an investment style focusing on machines and models over stock pickers trying to chase the likes of Amazon and Apple.

''The mega cap growth stocks in **Nasdaq** have had a strong start to 2017, and many active managers have been underweight,'' said Todd Rosenbluth, an exchange traded fund specialist at CFRA Research. ''People underestimate the fact that large companies continue to get larger. And the answer is -- yes they can.''

Document NYTF000020170426ed4q00048

The New York Times

National Desk; SECTA
Trump Rides a Market Wave, but Business Looks for Results

By NELSON D. SCHWARTZ, PATRICIA COHEN and LANDON THOMAS Jr.; Clifford Krauss contributed reporting.
1,509 words
26 April 2017
The New York Times
NYTF
Late Edition - Final
1
English

The investor enthusiasm that began with President Trump's unexpected victory in November has burst out anew on Wall Street, even as Washington remains gridlocked and evidence of any real pickup in the economy is scarce.

Stocks have surged 5 percent since Mr. Trump took office on Jan. 20. And that is on top of the 6 percent rally that followed his win in November.

The cause for bullishness on Tuesday was Mr. Trump's new call to cut the corporate tax rate to 15 percent, from 35 percent -- deficits, perhaps, be damned.

''C.E.O.s are pragmatists,'' said Bill George, a Harvard Business School professor who formerly ran Medtronic, the giant medical-device maker. ''If you cut my taxes and ease up on regulations, then I will like you. The bigger question is, can he get anything done?''

The market impact of the Trump presidency is based so far on prospects -- with details and congressional dynamics left to be sorted out -- rather than accomplishments.

But plenty of other factors are providing a tailwind for traders, including unexpectedly strong earnings reports from blue-chip companies like Caterpillar and McDonald's and the receding chances that French voters will turn their backs on Europe.

Technology giants like Apple, Facebook and Amazon have shown robust growth, lifting the **Nasdaq** index past 6,000 for the first time on Tuesday, a 26 percent gain from a year ago.

Blair Effron, a founder of Centerview Partners, a prominent independent investment bank on Wall Street, said he believed that beyond any immediate policy shift in Washington, investors had taken their cue from signs of healthier growth globally.

''Europe and emerging markets are doing better,'' Mr. Effron said, ''and there is an underpinning of global stability and growth that are having much more of an impact than people think.''

Not all the signals domestically are coming in strong, however. The government's initial report on the economy's first-quarter performance is due Friday, and it is expected to be weak.

And even if Mr. Trump manages to get Congress to pass a tax overhaul, and corporate profits then boom, that will not necessarily translate into better overall economic performance, warned Diane Swonk, a veteran independent economist in Chicago.

''We have to distinguish between pro-profit and pro-growth policies,'' she said. ''A pro-profit approach increases the share of the pie going to corporate earnings and shareholders. Pro-growth policies increase the size of the pie.''

So far, Ms. Swonk said, the Trump administration seems to favor the former. And while Wall Street will always reward rising corporate profits with higher share prices in the short term, the country's long-term prospects will be undermined if that trend is not accompanied by policies that lead to faster economic growth.

"It's easy to cut taxes, but reform is harder," Ms. Swonk said. "It's more about closing loopholes than reducing rates because if you just go to 15 percent, you're going to leave a large hole in the federal budget."

While the prospects for a tax overhaul are murky on Capitol Hill, especially in light of the failure of House Republicans in March to agree on a replacement for President Barack Obama's signature health care law, executives say they are encouraged by the business-friendly stance of the White House.

Bruce Van Saun, chief executive of Citizens Financial Group, said he was initially concerned by Mr. Trump's pronouncements on trade and immigration when he took office in January.

"I feel better because in the first 100 days, the president's tone on those issues has moderated," Mr. Van Saun said.

At the same time, executive actions, like requiring government agencies to roll back two existing regulations for every new one, have also played well with business leaders, especially in the financial services industry.

"That's caused some of the regulatory apparatus to pause and appreciate there is a new sheriff in town and the rules of the game are changing," said Mr. Van Saun, who took over at Citizens, a regional banking chain based in Rhode Island, after more than two decades on Wall Street.

What is more, Mr. Van Saun added, "the commitment to the positive elements of the platform -- lower taxes, less regulation and pro-energy policies -- continues to be there."

Energy industry executives are hoping that Mr. Trump will deliver on his promises to reduce regulation in their sector and open up new areas for drilling and development.

"If you watch what he does as opposed to the noise around him, so far so good," said Charif Souki, chairman of Houston-based Tellurian and a leading industry spokesman for increasing natural gas exports from the United States.

Scott Sheffield, executive chairman of Pioneer Natural Resources, a major oil and gas independent, echoed Mr. Souki's cautiously optimistic assessment of President Trump.

"I think generally he's doing well," Mr. Sheffield said. "I think the Republicans have to get together and get something done."

To be sure, Mr. Trump has spent more time listening to business leaders in the first few months of his presidency than actually delivering on what they want.

"In the first 100 days of his presidency, Trump has given more attention to C.E.O.s than Obama did in eight years," said Mr. George, who is not a supporter of Mr. Trump. "What he does is a whole different story. But they do feel like he's listening, and there's a lot of ego gratification in having the president listen to you."

If the president cannot deliver, or the economy fails to pick up speed, investors may be setting themselves up for a fall, warned Torsten Slok, chief international economist for Deutsche Bank.

"Expectations for the future are wild," Mr. Slok said. "There is quite a disconnect between what the data suggests and where the **stock market** is trading."

Still, even if it looks frothy, the euphoria is not approaching tech-bubble levels circa 2000.

"In 2000, the price-to-earnings ratio for **Nasdaq** was 170; today it is trading at 26 times," Charlie Bilello, the director of research at the investment advisory firm Pension Partners, said, referring to a common gauge for measuring stock valuations. "That is not cheap, but it's not crazy. We are definitely not at the level where the average guy quits his job to trade stocks."

That may be true, but there is no doubt that the explosion in the market value of these companies has taken many investment professionals by surprise, even if most investors agree that their corporate fundamentals are solid.

Since the financial crisis of 2008, four stocks -- Apple, Facebook, Google and Amazon -- have been at the heart of the United States **stock market** rally. They have now all reached sizes -- $400 billion to $800 billion -- that in terms of value compare with the gross domestic product of many countries.

With the rollback of the health care law put off and big infrastructure spending plans still up in the air, bulls and bears alike on Wall Street and in corporate boardrooms will be focused on the prospects for a tax overhaul in the coming months.

But within the business community itself, there are sharp differences between industries that stand to gain and those that stand to lose as the tax code is redrawn.

A low overall corporate tax rate would be great but would not be worth giving up provisions like the mortgage interest deduction or homeowners' ability to write off state and local taxes, said William E. Brown, the president of the National Association of Realtors.

At the same time, smaller manufacturers and others worry that they might still be subject to a nearly 40 percent rate even if larger corporations use their political clout to guarantee a hefty cut.

Suku V. Radia, the chief executive of Bankers Trust, Iowa's largest independently owned bank, said he was eager to learn more details, like the impact of a major tax cut on the budget deficit.

''It is obviously a significant drop from where we are currently, and I'd like to at least be able to better understand what do we do to make up for it,'' he said. ''What is the loss of revenues going to be, and how are we trying to fill the gap?''

Whatever details come out of the White House, getting a tax bill passed will be anything but easy.

''I don't think there is such a thing as 'tax simplification,''' Mr. Radia said. ''It's inherently complicated.''

CHART: Winners and Losers Under Trump: Since President Trump was inaugurated, stocks have posted a gain of 5 percent over all, but the success has not spread evenly across industries. Technology stocks have grown at twice the overall rate, and the energy and telecom sectors have declined. (Source: Reuters) (A18)

Document NYTF000020170426ed4q0003j

THE WALL STREET JOURNAL.
U.S. EDITION

Nasdaq Tops 6000 for First Time --- Apple, Facebook, Amazon, Microsoft, Alphabet contribute 41% of 2017 gain

By Akane Otani
463 words
26 April 2017
The Wall Street Journal
J
B1
English

The **Nasdaq Composite** Index raced past 6000, the latest sign that technology companies have become a driving force in the recent **stock-market** rally.

The index hit the milestone 17 years after it reached 5000 during the dot-com era, in a broad rally Tuesday that was turbocharged by earnings from bellwether companies including Caterpillar Inc., McDonald's Corp. and biotechnology giant Biogen Inc. The **Nasdaq** climbed 41.67 points, or 0.7%, to 6025.49.

Surging technology shares have helped the index outperform its peers so far this year. The top five contributors to the **Nasdaq**'s 2017 gains -- Apple Inc., Facebook Inc., Amazon.com Inc., Microsoft Corp. and Alphabet Inc. -- account for 41% of the index's advance, according to **stock-market** research firm Birinyi Associates.

Such gains have partly come at the expense of the bank and industrial shares that powered the postelection rally. Tech stocks have become a way to bet on U.S. economic growth while reducing reliance on anticipated U.S. policy changes like tax cuts, deregulation and infrastructure spending, many investors and analysts say.

Technology shares in the **S&P 500** have risen roughly 14% so far this year, compared with 2.5% for financials and 6.7% for the broader **S&P 500**. The **Nasdaq Composite** is up 12% year to date.

Fund managers bumped up overweight positions in the tech sector to the second-highest level in Bank of America Merrill Lynch data going back to 2008, the bank said in March.

"If the economy is going to heat up, you want to be in an area that can keep up," said Robert Pavlik, chief market strategist and senior portfolio manager at Boston Private Wealth.

Tech companies in the **S&P 500** are on track to post 14% growth in earnings for the first quarter from the year-earlier period, according to reported results and analyst estimates on FactSet, compared with the 10% growth rate expected for the broader **S&P 500**.

Apple shares have risen 25% for the year on signs of renewed momentum at the firm. Apple in May is expected to report quarterly earnings of $2.02 a share, according to FactSet, up from $1.90 a share a year earlier.

Class A shares of Facebook have gained 27% in 2017, with analysts estimating the company will report quarterly earnings of $1.12 a share in May, according to FactSet, supported by data pointing to sustained growth in its advertising revenue. The firm had reported earnings of 52 cents a share a year earlier.

Amazon, Google's Alphabet and Intel Corp. are scheduled to report results on Thursday.

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THE WALL STREET JOURNAL.
U.S. EDITION

Growth Can Solve the Debt Dilemma

By Stephen Moore
764 words
26 April 2017
The Wall Street Journal
J
A17
English

The Congressional Budget Office's latest report on the nation's fiscal future is full of doom and gloom. The national debt will double in the next 30 years to 150% of gross domestic product -- which is Greece territory. Interest payments may become the largest budget line, eclipsing national defense. Federal spending is expected to soar over 20 years from 22% of GDP to 28%. Never outside of wartime has Washington's burden been so heavy on the economy.

But the report's most troubling forecast, by far, is for decades of sluggish economic growth. The CBO projects that America will limp along at an average 1.9% annual growth over the next 30 years. This is a sharp downgrade from historical performance. Between 1974 and 2001, average growth was 3.3%. An extra percentage point makes a world of difference. If weak growth persists, there is almost no combination of plausible spending cuts and tax increases that will get Washington anywhere near a balanced budget.

But consider what happens to the CBO's numbers assuming 3% annual growth. By 2040 the economy would expand not to $29.9 trillion, but to $38.3 trillion, according to an analysis by Research Affiliates, a California investment firm. That's an additional output of $8.4 trillion -- roughly the entire annual production today of every state west of the Mississippi River.

By 2047, the economy would grow to $47.1 trillion, almost $13 trillion more than the CBO's baseline estimate. That would spin off new tax revenue to Washington of about $2.5 trillion each year. That money ought to be more than enough to pay all the bills and cover most of the unfunded costs of Social Security and Medicare. The old saying is right: The most powerful force in the universe is compound interest.

Growth of 3% would stop the debt-to-GDP ratio from skyrocketing. Instead it would start to fall almost immediately, eventually to about 50%, because the economy would be so much larger. Congress and the White House ought to understand that what matters most for heading off a fiscal crisis is making sure that the economy grows faster than the government. No other debt-reduction policy -- certainly not a tax increase -- comes close to having the fiscal effect that sustained prosperity does.

A good example is the late 1990s, the only time in recent years that Washington balanced its budget. Surpluses were the result of good policy: A 16-year economic surge allowed revenues to catch up to expenditures. A booming **stock market**, aided by a cut in the capital-gains tax, brought in unexpected revenue. Spending was restrained under President Clinton and a Republican Congress.

Many blue-chip economists agree with the CBO that a growth rate of about 2% is the best that America can achieve. They believe that growth in productivity and the country's workforce is too slow to recapture the glory days.

But the right policies can counter these trends. Productivity should surge with improvements in robotics, artificial intelligence and automation. Self-driving cars could cut transportation costs dramatically in coming years. Washington could facilitate this renaissance by giving companies an incentive to invest. The Tax Foundation predicted last year that the House Republican tax reform alone would raise wages by 8%, GDP by 9% and capital investment by 28%. If this is even close to being right, pass the tax cut now and stop obsessing about whether it is paid for within the short-term budget window.

The demographic problem is a greater challenge, with the baby boomers retiring. But according to my calculations at least seven million Americans in their prime working years -- 18 to 65 -- would be on the job today if labor-force participation had not dropped since 2000. A strong economy, paired with welfare reforms, could draw millions back to work. And immigration is America's natural demographic safety valve. Letting in more legal immigrants -- especially those with skills and special talents -- may not happen under President Trump, but it can and should eventually.

This isn't a call for budget complacency. Congress should cap spending and flatten the payout formulas for entitlement programs But there's simply no way to fix the long-term fiscal problems with 1.9% growth, no matter how sharp the budget knife. What America needs is real and sustained growth.

Mr. Moore is an economic consultant at Freedom Works and a senior economic analyst at CNN.

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THE WALL STREET JOURNAL.
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Analysis: Wary Tech Is Booming In the Land Of Trump

By Greg Ip
809 words
26 April 2017
The Wall Street Journal
J
B1
English

Silicon Valley wasn't a happy place when Donald Trump was elected president. Tech companies have thrived on international trade and immigration and see Mr. Trump as hostile to both. While the digital economy is concentrated in liberal, coastal enclaves, Mr. Trump draws his most intense support from the old-economy states of the upper Midwest.

Yet as the **Nasdaq Composite** Index's first-ever close above 6000 demonstrates, technology has flourished more under Mr. Trump than any other industry, save banking. Six of the top contributors by market value to this year's rise in the **Nasdaq** are based in California, where Hillary Clinton won by 30 percentage points. Two are based in Washington, which Mrs. Clinton won by 16 points. Five of the seven largest contributors by market value to the 12% rise in the **S&P 500 index** since the election are listed on **Nasdaq**.

There are two takeaways from this. The first is that Mr. Trump has been much less negative for tech than his rhetoric implied. U.S. tech companies are disproportionately exposed to foreign markets and would have been among the first casualties of a trade war. But Mr. Trump has so far restricted his protectionist actions to narrowly focused industries rather than entire countries, and a trade war looks increasingly unlikely.

The Trump administration has increased deportations of illegal immigrants. But when it tightened the criteria for granting H-1B visas to temporary professional workers, it effectively favored Silicon Valley giants over outsourcing companies, many based in India.

Companies such as Apple Inc. with large stashes of foreign profits would gain big if Mr. Trump cuts the tax rate on such profits. And his antiregulatory appointees are less likely to impose onerous privacy protections on the likes of Google.

"If you're an information firm, your odds of getting your business model cramped by the federal government are down significantly," says Rob Atkinson, president of the Information Technology and Innovation Foundation, which is backed by tech companies.

The second takeaway is that powerful, underlying economic trends have elevated the fortunes of Silicon Valley's giants and punished the old-economy industries of the Midwest, and these trends are largely impervious to politics.

For example, retailers have announced the closure of almost 3,000 stores this year through April 6.

The causes include overbuilding, shrinking populations in many smaller cities and, most important, the shift to online shopping.

This isn't necessarily a net negative for the country; Amazon.com Inc. is creating thousands of jobs outside its hometown of Seattle. In January, it said it would open an air cargo hub in northern Kentucky employing more than 2,000. But the **stock market**'s message is that the future of retail is the convenience and value of online, a business model that Amazon has perfected and others are still scrambling to match. Brick-and-mortar retailing may be in irreversible decline.

Tesla Inc.'s market value of $50 billion exceeds Ford Motor Co. even though Tesla loses money and Ford is profitable and sells roughly 10 times as many cars. Mr. Trump's administration may roll back the higher fuel-economy standards that Barack Obama's administration had mandated. In theory, that should benefit Ford and General Motors Co. and hurt Tesla.

But investors in Tesla are motivated less by Tesla's business today than whatever businesses founder Elon Musk enters in the future. They believe as long as the world is moving toward renewable energy, autonomous driving and batteries, Tesla will take market share from legacy companies. Most of corporate America assumes action on global warming is inevitable regardless of who is president.

Ford and GM seem to buy the premise of Tesla bulls: They are pouring billions of dollars into alternative fuels and driverless-car technology, yet may be forced to prop up low-margin businesses because Mr. Trump will punish them for outsourcing it.

Of course, this investment thesis is as much hope as reality. Amazon needs to get a lot of things right to justify trading at more than 100 times estimated earnings. Tesla is burning through cash. The markets for Apple's core products have become saturated, and Alphabet Inc., parent of Google, still makes the vast majority of its profit from ads.

And despite a pleasant get-to-know-you session last December, Mr. Trump and the tech community still regard each other warily. He hasn't converted to globalization, and his heart, as well as his base, remains the old economy, as his early salvos against softwood lumber and steel demonstrate.

Investing in **Nasdaq** companies has always required more than the usual appetite for risk. Mr. Trump's presidency certainly hasn't changed that.

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THE WALL STREET JOURNAL.
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Heard on the Street
High Hopes For Big Tech Lift Nasdaq

By Dan Gallagher
293 words
26 April 2017
The Wall Street Journal
J
B16
English

[Financial Analysis and Commentary]

Tech investors have been throwing a party, but some new faces aren't feeling welcome.

The **Nasdaq Composite** crested the 6000 mark Tuesday to set a milestone. It signifies a notable comeback for a sector that fared a bit poorly last year, especially following the U.S. presidential election. The **Nasdaq** is now up nearly 12% in the year to date, nearly double the returns of the **Dow Jones Industrial Average** and **S&P 500**. Megacap tech stocks including Apple, Amazon.com and Facebook have been key drivers, with each gaining more than 20% since the start of the year.

That contrasts with a somewhat bleaker picture for the swelling ranks of tech startups hoping to break into the markets at some point. As the number of richly valued private tech companies has risen, investors looking for exits face a challenge. Venture capitalists have already begun curbing investments in tech startups.

That isn't a sign that tech investors are avoiding risk, but the **Nasdaq**'s recent run shows a clear preference for scale that goes with that risk. Amazon is an expensive stock at 129 times forward earnings. It is also gobbling up share in both retail and cloud services while delivering double-digit-percentage growth, despite its big size.

That makes the **Nasdaq** at 6000 now look more stable than the **Nasdaq** at 5000 back in the dot-com bubble. But it isn't exactly cheap either at a 25% premium to the **S&P 500** as a multiple of forward earnings. That is a growing bet that big tech companies can continue to defy the law of gravity.

Document J000000020170426ed4q00012

THE WALL STREET JOURNAL.
U.S. EDITION

Business News: Tyson Foods to Acquire Sandwich Maker for $4.2 Billion

By Jacob Bunge
277 words
26 April 2017
The Wall Street Journal
J
B3
English

Tyson Foods Inc. agreed Tuesday to acquire sandwich maker AdvancePierre Foods Holdings Inc. in a $4.2 billion deal that would broaden the giant meat processor's range of prepared foods.

The all-cash deal would expand Tyson's reach in sandwiches to include cheese-steaks, peanut butter and jelly, and other offerings that AdvancePierre markets. The deal expands on Tyson's ambitions in branded and prepared foods that tend to carry fatter and more stable profits than commodity meatpacking.

Tyson Chief Executive Tom Hayes said the partnership would create "opportunities for growth faster and greater than the companies could do separately."

The deal values AdvancePierre at $40.25 a share, which Tyson said is a 31.8% premium to AdvancePierre's unaffected **stock price**. Both companies' boards have approved the deal they expect to close by July. Oaktree Capital Management LP, which manages funds owning about 42% of AdvancePierre's shares, supports the offer, the companies said.

Tyson shares fell less than 1% to $65.13 on Tuesday, while AdvancePierre's stock rose 10% to $40.48.

Tyson has spent heavily in recent years to expand its retail and food-service offerings. In 2014, Tyson spent $7.7 billion to acquire Hillshire Brands Co. for its suite of meat brands including Jimmy Dean sausages.

Absorbing Cincinnati-based AdvancePierre would allow $200 million in costs to be trimmed from the combined company within three years, Tyson officials estimate.

AdvancePierre last year earned $136 million on $1.6 billion in sales, more than tripling its 2015 profit.

Document J000000020170426ed4q0000g

THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Higher Rates Hit Student Refinance

By AnnaMaria Andriotis
563 words
26 April 2017
The Wall Street Journal
J
B14
English

Interest-rate savings on student-loan refinancings are shrinking as short-term rates have started to rise, according to a report.

Refinancing student loans has taken off in the past five years as financial-technology lenders, led by Social Finance Inc., or SoFi, have been offering to replace borrowers' federal student loans with new loans at lower interest rates.

Until recent years, rates on many federal student loans weren't based on market rates but a higher uniform rate set by the government.

Now, the savings are declining for some of the most creditworthy borrowers. Those with the highest credit scores who refinanced early this year received an interest rate that on average was about 2.2 percentage points lower than the rate on their original loan, according to LendKey Technologies Inc., which tracks student loans at credit unions and community banks. In 2014 and 2015, the average interest-rate savings exceeded 3 percentage points.

Rates on private student loans are usually pegged to the one-month or three-month London interbank offered rate, which have been moving up in recent months with the Federal Reserve's short-term interest-rate target.

Meanwhile, interest rates on new federal student loans are down. Unsubsidized Stafford loans given to undergraduate students for the current academic year have a fixed rate of 3.76%, compared with 4.66% two years before and 6.8% four years prior.

The decline in federal student-loan pricing largely resulted from a repricing strategy implemented by the federal government starting for the 2013-14 academic year. Since then, federal student-loan rates have been based on a rate from the last **10-year Treasury** auction that occurs each May. Between 2006 and this change, federalstudent-loan rates had been set in advance by federal law.

Still, refinancing can result in significant savings for many borrowers. That includes those who still have older federal student loans at high rates. Borrowers who signed up for private student loans to attend college that have high rates could also benefit if their credit scores have since improved.

LendKey says student-loan refinances topped $200 million in 2016 for the institutions on its platform, up 80% from a year earlier. It says the savings borrowers receive remain substantial, adding that the decline in savings is likely due to the small number of borrowers in some of its credit-scorebrackets.

The drop in savings among certain credit scores, however, points to a broader issue for the student-loan refinance industry. Sustaining growth for these lenders has been largely based on how long they can offer rate savings that are large enough to give consumers the incentive to refinance. Those savings, for many borrowers, also need to be big enough to offset the fact that they are giving up federal repayment protections, such as loan forgiveness, when they switch from federal to private loans.

SoFi's chief executive, Mike Cagney, has warned that the growth period in student-loan refinancings is limited as rates move up. He said that lenders who enter the market just to focus on student-loan refinances aren't pursuing a good strategy. SoFi has in recent years expanded to other loans, including mortgages and personal loans, pitching those products to its student-loan borrowers.

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THE WALL STREET JOURNAL.
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Equities: French Vote Results Spur Markets --- Euro, stocks rally after first round of election eases fears about the future of the eurozone

By Mike Bird
614 words
25 April 2017
The Wall Street Journal
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B11
English

The euro, French government bonds and European stocks rose sharply after centrist candidate Emmanuel Macron won the most votes in the first round of France's presidential election, a reaction that may herald a broader realignment of European markets recently plagued by concerns over political risk.

Mr. Macron is the overwhelming favorite to win May 7's runoff against second-place finisher Marine Le Pen, whose antieuro stance had concerned investors.

As European trading ended Monday, the euro was up around 1.2% at $1.085, after touching five-month highs of $1.0935 overnight. The differential between yields on French government debt and German government bonds, seen as a haven investment, narrowed from 0.64 percentage point Friday to as little as 0.42 percentage point Monday, the narrowest spread this year. The French CAC-40 **stock-market** index surged 4.1%, driving the broader Stoxx Europe 600 up 2.1%. Germany's DAX advanced 3.4% to a record, and the U.K.'s FTSE 100 rose 2.1%.

Some investors believe this relief rally will continue, with an increased appetite for the euro and European stocks as electoral worries fade and the Continent's improving economy comes further into focus. The increased appetite for riskier investments such as stocks is expected to hurt bonds, which have benefited from haven buying and a huge European Central Bank bond-buying program that some analysts believe will be scaled back this year.

"The balance of discourse was just so skewed against the euro," said Geoffrey Yu, head of the U.K. investment office at UBS Wealth Management. "As we move away from the politics, we think the euro is going higher. It's still quite cheap at these levels relative to long-term averages."

In the U.S., stocks also jumped after France's election results. The **Dow Jones Industrial Average** rose 216.13 points, or 1.1%, to 20763.89. The **S&P 500** rose 1.1%, and the **Nasdaq Composite** climbed 1.2% to a record.

Political risks, particularly around the French election, have been investors' biggest concern for European markets this year, especially after the surprise results of last year's U.K. vote to leave the European Union and the U.S. presidential election and after Italians rejected attempts at political overhaul. Investors had put money into safer investments, including bonds and German government debt, and often avoided Europe's weaker southern economies.

German bonds fell sharply Monday. The yield on 10-year bunds rose to 0.35% from around 0.245% on Friday. Yields move inversely to prices. The price of gold, another haven that has benefited from concern over political risk, fell 0.9% to $1,275.80 a troy ounce.

French government bonds rallied alongside those of Italy, Spain and Portugal, the three European markets that typically tumble when investors are concerned about the risks of a breakup of the eurozone.

Investors had been concerned by the prospect of a strong showing by Ms. Le Pen, the far-right leader of the National Front, or by the far-left candidate Jean-Luc Melenchon. Ms. Le Pen wants to pull France out of the currency union, and Mr. Melenchon had advocated scrapping some of its core fiscal rules, positions that would spell trouble for the euro and French government bonds.

But most analysts and polls expect Mr. Macron to win comfortably on May 7.

Jon Sindreu, Emese Bartha and Noemie Bisserbe contributed to this article.

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THE WALL STREET JOURNAL.
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The Future of Finance (A Special Report) --- Where Financial Regulation Goes From Here: A closer look at the two main competing visions -- and what they mean for consumers, institutions and the economy

By Ryan Tracy and Andrew Ackerman
2,133 words
25 April 2017
The Wall Street Journal
J
R1
English

The 2008 financial crisis was a global economic catastrophe that triggered years of new regulations designed to prevent another meltdown. Now that tide of rules is cresting, with officials across the globe talking about pulling back regulations instead of adding new ones. The defenders of the current regime are fighting to save it.

At the heart of the debate are opposing philosophies about free markets, regulation and the role of government. After 2008, the Obama administration in the U.S. pursued an aggressive rule-making path, injecting the government further into bank boardrooms, loan-underwriting decisions and conversations about retirement advice -- all in the name of protecting citizens from a financial crisis and risky financial products.

With Republicans in control of the White House and Congress, the U.S. is seeing a resurgence of a different philosophy, one that favors freer markets and is skeptical of Washington's recent approach to overseeing Wall Street. The government, these critics say, has repeatedly overreached in trying to prevent another crisis. It should take stock of all the work that has been done since the crisis -- and consider rolling back many rules that critics say aren't working as intended or weren't needed in the first place.

As the debate rages on, here's a closer look at the two competing visions for financial regulation.

REIN IN THE BANKS:

The Need for Discipline

Advocates who support active financial oversight favor an approach that can be summed up this way: Let the markets work, but within significant regulatory constraints to protect society from excesses.

Left to their own devices, financiers can cause a lot of trouble, advocates say. Big banks have incentives to seek short-term profits without regard for the long-term consequences of their actions -- and the 2008 crisis provided an example of just how much damage they can do if they succumb to those incentives.

Financial firms and consumers lent or borrowed too much, and regulators failed to act on warning signs before this excessive risk-taking spiraled out of control. Worst of all, the government bailed out some firms because it determined they were "too big to fail" without the financial system imploding. The result was a panic so sweeping, it dried up credit for Main Street and threatened the entire economy.

Regulatory hawks concede that government housing policies may have played some role in inflating the housing bubble but say it wasn't central to the meltdown. Lack of oversight was. So, they argue, the government has an obligation to protect the economy from risky behavior -- by banning those behaviors entirely or adopting policies that act like a tax on it, making it less attractive in the short term. Financial firms and their customers may have less freedom under these rules, but these advocates say that the effects of those restrictions pale in comparison to the cost of a huge financial crisis.

The 2010 Dodd-Frank law, approved by a Democratic Congress and signed by Democratic President Barack Obama, expanded the government's power to react to what it viewed as emerging risks in **financial markets**. Firms considered "systemically important" to the economy now face tougher rules and more intrusive oversight than smaller competitors. A new regulatory committee can designate any firm for these tougher rules.

The idea is that if these firms pose an outsize risk, they should pay for it though higher regulation, even if those rules are complex. Federal Reserve Chairwoman Janet Yellen has said huge banks must "bear the costs that their failure would impose on others." If the firms don't like the regulation, so be it, these policy makers say: They can shrink or split themselves apart.

Tougher rules have meant that regulators take a far more active role in the continuing management of large firms, and to some extent smaller ones as well. The pro-regulation advocates acknowledge that such involvement might be uncomfortable, but say it's a lot better than burdening taxpayers in the event of future bailouts.

Take the case of dividends. Large banks can no longer decide on their own to raise the dividend they pay to shareholders. They must get permission from the Federal Reserve first as part of their annual stress tests. The Fed justified the restrictions by pointing out that in the lead-up to the 2008 crisis, big banks paid out capital via dividends, then months later needed capital from taxpayers to stay alive. These restrictions are just one example of the myriad extra rules firms must now keep in mind as they make day-to-day business decisions.

In another case, when financial firms started ramping up a practice bank examiners considered dangerous -- "leveraged loans" to companies already deep in debt -- regulators at the Fed and the Office of the Comptroller of the Currency responded with prescriptive lending standards that they relentlessly enforced. Critics say the regulators should have let firms make their own lending decisions, but the Fed and Office of the Comptroller say that when a type of lending poses a risk to the broader economy, they have an obligation to try to nip it in the bud.

Backers of an expanded regulatory regime also believe the government has an important role in setting standards for the sale of financial products to limit fraud and deception. Lenders must document a borrower's ability to repay a mortgage loan, for instance. Under another Obama-era rule, financial advisers must take their clients' best interest into account when giving advice about investing for retirement.

Supporters of this approach acknowledge that it will restrict financial firms from doing certain kinds of transactions, but say it still leaves them plenty of room to operative and innovate. They just won't be able to operate quite so freely as to do considerable potential harm to their customers and the public. They also say more needs to be done to improve financial oversight, such as addressing the continued purgatory of Fannie Mae and Freddie Mac, the mortgage firms that are still under government control, and looking for ways to ease the burden of enhanced regulation on community banks.

Those who support a hard line on regulation agree with critics that regulators won't be able to stop every crisis. But they believe disasters would be more likely if regulators didn't act strongly when they see budding risks.

"Wall Street Reform isn't perfect," former Treasury Secretary Jacob Lew wrote in an academic journal in December. But he added: "It would be a grave mistake if technical refinements were to give way to a dismantling of the new forward-looking, flexible approach to regulating the financial sector that Wall Street Reform established."

LET THE MARKET WORK:

Complex Regulations Do More Harm Than Good

Proponents of freer **financial markets** say the government should let the banks and markets function with limited constraints from bureaucrats. In their view, post-financial-crisis regulations have harmed the broader economy through expensive and unduly restrictive red tape.

Government interference in any industry or market produces unintended consequences, because bureaucrats and regulators don't have the knowledge that people working in the field do, regulatory critics say. That leads to problems and distortions when the government tries to push an industry to do something to achieve a political goal that's unrealistic.

The housing bubble was a particularly disastrous example of this kind of meddling, the critics believe. They argue that the government pushed a goal of boosting homeownership through policies that essentially forced banks to take on risky borrowers. Fannie Mae and Freddie Mac lowered their standards, further signaling that lenders should take on low-quality borrowers.

Regulatory critics think the way to head off severe crises is to have fewer rules, not more. Have the government set simple guidelines about what financial firms are allowed to do, and then let the markets decide the rest. Executives will have a natural incentive not to go overboard because they won't have the government to back them up if they make mistakes -- and if they do things that may harm consumers, they will lose business.

Ultimately, this side argues, the market does a better job of rewarding good ideas and behavior -- and punishing bad -- than the government ever could. Regulators, meanwhile, aren't infallible, and could just as easily miss a future crisis as they missed the last one, deregulation boosters say.

So they strongly favor easing post-crisis financial regulations, including the 2010 Dodd-Frank financial law, which they say will end a period they see as unduly restrictive.

For instance, the so-called Volcker rule bans banks from most trading or speculating unless they are doing so on customers' behalf. Proponents say the rule is designed to rein in reckless risk-taking at taxpayer-insured banks, but conservative critics complain that it is unduly burdensome to comply with, and deprives banks of legitimate moneymaking opportunities. They also say it has harmed liquidity -- the ability to easily buy or sell -- in certain **financial markets**.

Critics have also argued against the post-crisis rules for trading financial instruments known as swaps. In the lead-up to the crisis, these vehicles acted as a form of insurance against defaults on all sorts of debts. Dodd-Frank supporters in Congress argued that the market for swaps was kept opaque, and mandated that banks report swaps, among a series of sweeping changes. But Republican critics say regulators needlessly limited the methods by which banks are allowed to execute such trades. The limited flexibility has sent trading of these instruments overseas and away from U.S. markets, these critics say, fragmenting markets in potentially harmful ways.

A plan on the table -- from Rep. Jeb Hensarling (R., Texas), who heads the powerful House Financial Services Committee -- would reverse course on Dodd-Frank. It would scrap most of the law's provisions and exempt big financial institutions from many rules as long as they maintain higher capital levels, measured in a simple calculation. Mr. Hensarling says this approach would curb excessive risk-taking by banks, because they would fund loans with a larger share of investor equity instead of riskier forms of funding. And that, in turn, would mean banks wouldn't have to rely on the government to assess and head off financial risks, returning the management of financial firms to their executives.

"This approach not only helps unleash greater opportunities for small businesses, innovators and job creators, it also stops investors from betting with taxpayer money," Mr. Hensarling said in a speech last fall.

Some policy makers, who maintain regulators are too slow to embrace innovations, see other benefits from lightened rules. Chris Giancarlo, the top U.S. derivatives regulator, has been especially vocal about the need for Washington to fully embrace financial-technology firms. His concern is that rules created for an analog world haven't kept pace with -- and may stifle -- digital innovation. For instance, financial-services firms should be encouraged to experiment with new digital strategies rather than be constrained by numerous rules. Proponents of stricter rules also say those rules should accommodate innovation.

Advocates for loosened regulations also say fewer rules would benefit borrowers. For one thing, they argue, postcrisis Washington has forced banks to be overly conservative in their lending decisions, which hurts consumers. For instance, in the name of protecting borrowers from bad practices by so-called predatory lenders, people with less-than-pristine credit histories have trouble obtaining home loans from banks.

Along similar lines, advocates want to curb the powers of the Consumer Financial Protection Bureau, an agency created under Dodd-Frank to police consumer-finance markets. The bureau's defenders say the mortgage crisis showed U.S. consumers needed a new financial cop. But critics say restraining the bureau would lead to more lending and availability of credit.

Yet another priority: a repeal of stricter standards for brokers who provide retirement advice. The rules, they say, are overly complex and will reduce access to advice for investors with lower-balance accounts.

The investment-advice rule unduly restricts options for retirement savers, Gary Cohn, a top economic adviser to President Donald Trump, said in a February interview. It "is like putting only healthy food on the menu," he said, "because unhealthy food tastes good but you still shouldn't eat it because you might die younger."

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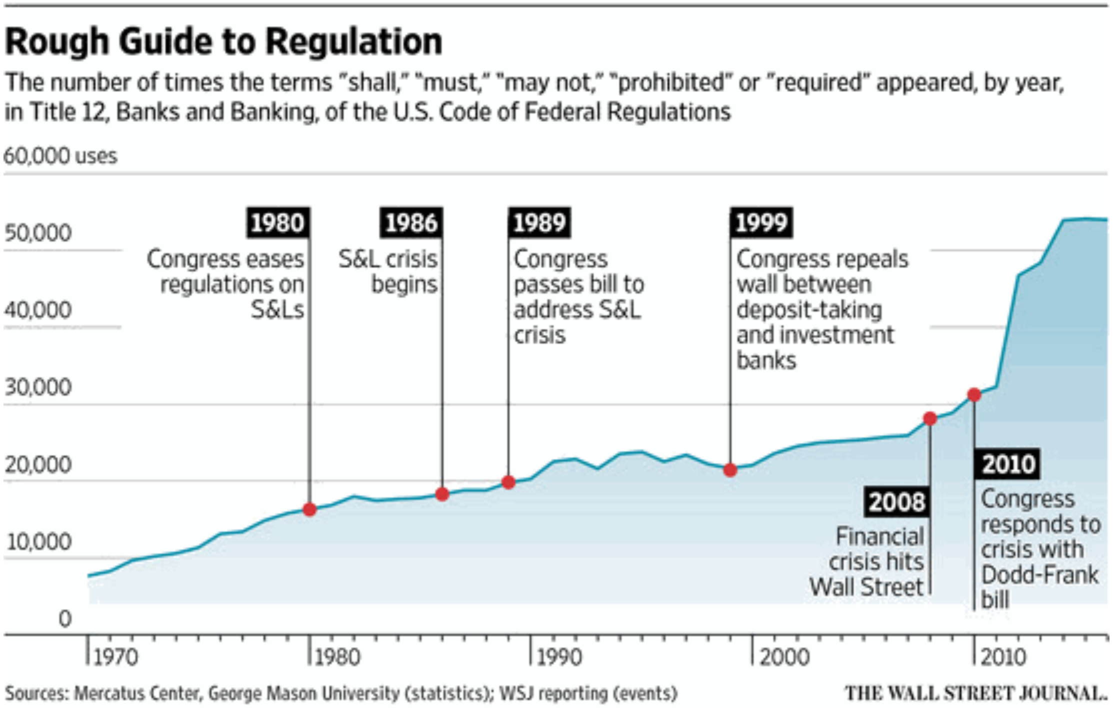

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The Future of Finance (A Special Report) --- Central Banks Ponder Whether To Trim Assets: They've built up their portfolios since the financial crisis; Now comes the even trickier part

By Tom Fairless
1,229 words
25 April 2017
The Wall Street Journal
J
R10
English

FRANKFURT -- Major central banks stocked up on trillions of dollars of government bonds and other assets since the financial crisis to support lending and growth, pushing their balance sheets to unprecedented levels.

With advanced economies now recovering, policy makers have started to phase out their most aggressive stimulus measures. A big question hanging over **financial markets**: What will central banks do with their massive securities portfolios?

Any move to shrink their balance sheets has risks, economists say, and a misstep could endanger the economic recovery. But keeping a big balance sheet may be risky, too.

The Federal Reserve's balance sheet has roughly quintupled to $4.5 trillion, or around a quarter of U.S. gross domestic product, from about 7% before the crisis. The Bank of England's balance sheet has undergone a similar expansion. The value of assets held by the European Central Bank has more than doubled to around 36% of GDP. For the Bank of Japan, the balance sheet and the size of the nation's economy are roughly equal.

The Fed started raising interest rates more than a year ago, but has yet to elaborate plans for its portfolio of U.S. Treasury and mortgage-backed securities. Fed officials cleared up one big question at their March policy meeting, agreeing they would likely begin shrinking the balance sheet later this year, according to minutes released April 5.

But how fast the Fed moves, and how far, remained undecided, the minutes showed. Some economists say the Fed and other central banks might hold on to much of their portfolios for decades.

"I doubt whether the big increase in balance sheets will be fully reversed at all," says David Miles, a former Bank of England policy maker who is now a professor at Imperial College in London.

Unlike with interest-rate hikes, the effects of selling assets are uncertain. When former Fed Chairman Ben Bernanke indicated in 2013 that the central bank might slow its bond purchases, that sent long-term interest rates sharply higher.

On the other hand, large central-bank balance sheets have often been correlated with high levels of inflation, although that relationship weakened in recent decades, according to a 2014 paper whose authors include Niall Ferguson, a professor of history at Harvard University.

Central banks might also have to report losses -- which accrue to taxpayers -- if the value of their massive portfolios falls. Those assets have so far been spinning off large profits for central banks, but that could change if interest rates start to rise rapidly. The resulting political pressures might call into question their independence and undermine their ability to fight inflation.

The last time the Fed's balance sheet was so large, in the wake of World War II, the U.S. central bank didn't actively run it down. Instead, it allowed its balance sheet to shrink as a share of GDP over some 30 years, as the economy grew.

"If the Fed keeps its balance sheet at the current dollar size, the ratio of the balance sheet as a multiple of GDP will be reduced over time, as happened after the previous episode," says Athanasios Orphanides, a former European Central Bank policy maker who now teaches at the Massachusetts Institute of Technology.

Here are four reasons why central banks are right to be cautious -- and may ultimately unwind their balance sheets only to a limited extent.

1. Central-bank balance sheets may not be that big after all.

According to Mr. Ferguson and his colleagues, central-bank balance sheets aren't that large by historical standards, despite the recent rise. The academics studied the balance sheets of 12 central banks in advanced economies and found that they typically fluctuated between 10% and 20% of GDP.

"Relative to the size of the financial sector, central-bank balance sheets had shrunk dramatically in the three decades preceding the global financial crisis," the academics wrote.

Any decision by a central bank to actively reduce its holdings would also be historically unusual: Central banks have rarely reduced the size of their balance sheets in nominal terms.

2. Assets are still needed to support the financial sector and demand for currency.

The lower bound of the balance sheet is determined by the public's demand for currency -- and that demand is growing globally, though mostly for dollars. In the U.S., currency in circulation has risen to around $1.5 trillion from $800 billion before the crisis, Mr. Bernanke noted in a recent blog post. Fed staff estimate that will grow to $2.5 trillion or more over the next decade.

Financial institutions are also holding much higher levels of reserves with central banks than before the crisis, partly as a result of new regulations aimed at strengthening the financial sector.

Given higher demand for currency and reserves, Mr. Bernanke argues that the "optimal" size of the Fed's balance sheet may reach $4 trillion or more over the next decade -- not far off its current size.

Former Fed board member Jeremy Stein thinks a big central-bank balance sheet might help bolster the stability of the financial system. Before 2008, corporations raised short-term debt from private firms. But those debt markets froze over during the financial crisis, forcing central banks to step in. Rather than return to the old system, Mr. Stein says the Fed could take on the role of supplying short-term assets, which would require it to keep a sizable balance sheet.

3. Owning more assets gives central banks more flexibility.

A large balance sheet could serve as an additional policy tool for central banks, even when interest rates are above zero.

For instance, the Fed could sell some of its mortgage-backed securities to push up mortgage rates and curb any excesses in the housing market, says Benjamin Friedman, professor of political economy at Harvard University. Such a tool might have been useful going into the financial crisis, when the Fed refused to rein in the housing bubble using short-term interest rates, which it regarded as a blunt instrument for the purpose.

4. A reduction in central-bank assets could prove costly for governments.

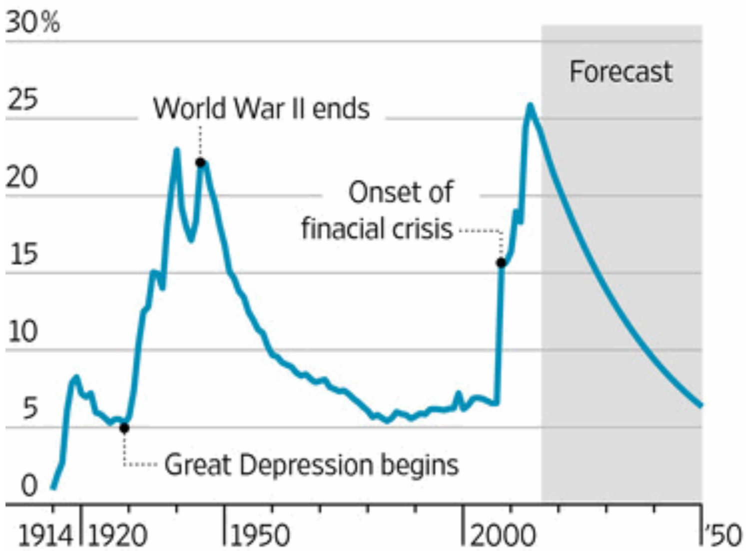
The profits that the Fed remits to the Treasury have soared in recent years to around $100 billion annually, juiced by returns on the Fed's securities portfolio. Other central banks have found it similarly lucrative to stock up on interest-paying securities using newly printed money. If the Fed were to sell most of its assets, the Treasury would miss out on around $900 billion over the course of a decade, compared with a scenario where the Fed holds on to its securities, says Dean Baker, co-director of the Center for Economic and Policy Research.

In other regions, central banks might be more willing to pare their balance sheets aggressively. In Europe, for instance, corporations rely more on banks than on **financial markets** for funding, reducing the need for central banks to step into those markets.

Mr. Fairless is a reporter for The Wall Street Journal in Frankfurt. He can be reached at tom.fairless@wsj.com.

Long-Term Approach

Federal Reserve assets as a percentage of GDP. After World War II, the Fed dealt with a previous high by letting economic growth bring the figure down slowly. Forecasts for 2016 to 2050 are based on keeping the Fed balance sheet at its current size as real GDP grows about 2% a year.



Source: Federal Reserve Bank of St. Louis; International Monetary Fund; Athanasios Orphanides

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The New York Times

Business/Financial Desk; SECTB
As Le Pen Falls Short, Euro Sighs With Relief

By PETER S. GOODMAN
1,612 words
25 April 2017
The New York Times
NYTF
Late Edition - Final
1
English

LONDON -- The euro has avoided another existential crisis that might have wreaked havoc on Europe and the global economy. That was the conclusion investors divined from the first round of voting in the French presidential election, prompting exuberant buying on markets around the world on Monday.

Those in control of money looked beyond the fact that Marine Le Pen, a far-right candidate bearing intense hostility to the euro, claimed a spot in the second round of balloting on May 7. Instead, they focused on polls showing that she was likely to be defeated, and by a lopsided margin, at the hands of her sole remaining opponent -- Emmanuel Macron, a pro-European figure trusted by business leaders.

For markets anxious about the prospect of a Le Pen presidency, it was as if a fire-breathing dragon hovering over the kingdom had been slain.

Stocks on French exchanges surged to a nine-year high as a wave of relief washed over the commercial realm. The value of the euro climbed nearly 2 percent against the dollar before yielding some of those gains. The gap between interest paid on French sovereign debt and rock-solid German government bonds narrowed, an indication that investors were seeing diminishing risks. The optimism spread to the United States, with American stocks up more than 1 percent and investors selling off safe havens like Treasury bonds.

The manic swings of the markets -- first spooked by the possibility of a Le Pen presidency, then ecstatic over the apparent unlikelihood of that possibility -- attest to the gnawing fear that the euro could still succumb to whatever blow history delivers next. The euro confronts a chronic shortage of faith in its ability to persevere, along with a surplus of threats to its existence.

In recent years, the euro has survived enough Greek tragedy to fill an Aeschylus trilogy and has had sufficient brushes with Italian banks for an opera. It has endured a global financial shock, years of regional economic stagnation and no end of cross-border political accusations.

As Ms. Le Pen appeared to see her electoral fortunes expand in recent months, the markets construed yet another direct threat to the euro's sustainability.

Ms. Le Pen, the leader of the National Front party, has long disdained the euro as a threat to prosperity. She has pledged to convert French debt into a new national currency, an undertaking that could begin the euro's downfall. And she has vowed to renegotiate France's relationship with the European Union, threatening to upend the project of European integration that has prevailed on the Continent as an antidote to the brutalities of World War II.

Her strength in polls in recent weeks prompted investors to demand greater returns on French government debt, a sign that the odds of default -- however minute -- were multiplying. Investors had been aggressively purchasing options that offered protection against a precipitous plunge in the value of the euro.

Few gave credence to the prospect that Ms. Le Pen could actually deliver on her radical promises. Even if she were to shock pollsters and win, her party would almost certainly fall well short of claiming a majority in the French Parliament after legislative elections in June. She would be relegated to figurehead status, with governing handled by a prime minister selected by the party in command.

Still, concern in the markets underscored the fundamental defects that have long compromised the euro. It is a structurally flawed currency, one adopted by 19 nations -- known collectively as the eurozone -- that operate without a unified political organization.

Many argue that the euro was doomed from inception. It was conceived more as an idealistic reach for European cooperation than as a reasoned plan to manage a currency. The assumption was that shared money would spur greater European political integration.

Instead, the euro has devolved into a major source of political acrimony across the Continent.

In countries with their own money, bad economic times typically prompt governments to spend more to generate jobs and spur growth. Their currencies fall in value, making their goods cheaper on world markets and aiding exports.

But countries in the eurozone cannot fully avail themselves of those benefits. The currency comes with rules limiting the size of budget deficits. Faced with hard times, governments using the euro have been forced to intensify the hurt on ordinary people by cutting pensions and other public outlays.

The Nobel laureate economist Joseph E. Stiglitz has indicted the euro as a leading source of economic inequality that has divided European nations into two stark classes -- creditor and debtor.

As Cyprus, Greece, Italy, Portugal and Spain have slid into debt crises in recent years, they have accused Germany of self-serving inflexibility in demanding strict adherence to debt limits while refusing to transfer wealth to those in trouble. Germany and other northern countries have accused their southern brethren of failing to carry out changes -- like making it easier to fire workers -- that would make them more competitive.

The crises have time and again exposed the structural flaws of the eurozone, and its tendency to generate more recrimination than action.

''You have a basic situation in the eurozone now where it's like a half-built house,'' said Jacob F. Kirkegaard, a senior fellow at the Peterson Institute for International Economics in Washington. ''As long as that persists, a large number of investors are going to have existential doubts about the euro.''

The latest alarm was being set off by France, one of the euro's charter members, and a pillar of the European Union. This was playing out against a backdrop of destabilizing events that once seemed impossible -- the election of Donald J. Trump in the United States and the vote in Britain to abandon the European Union, also known as Brexit.

Ms. Le Pen has moderated her positions recently as her election has gained plausibility, but her hostility for the European Union and the euro are well known. ''I want to destroy the E.U.,'' she told the German newsmagazine Spiegel in a 2014 interview. ''The E.U. is deeply harmful, it is an antidemocratic monster. I want to prevent it from becoming fatter, from continuing to breathe, from grabbing everything with its paws.''

In the same interview, she confirmed her desire to yank France free of the euro.

''If we don't all leave the euro behind, it will explode,'' she said.

Ms. Le Pen has since muted talk of renouncing the euro in favor of adding a parallel currency, the franc. But the threatened act of redenominating French debt would almost certainly lead to a downgrade of France's credit rating, bringing severe market consequences, said Mujtaba Rahman, managing director for Europe at the Eurasia Group, a risk consultancy based in London.

Mr. Rahman traced a potentially calamitous string of events that could play out after a victory by Ms. Le Pen. Even before parliamentary elections, she could appoint a temporary government while serving notice that France intended to renegotiate the terms of its membership with the European Union.

''Her room for maneuver is greater than people believe,'' Mr. Rahman said. ''She will have interpreted her election as a massive mandate. It flows from Brexit, it flows from Trump, and she'll try to get as much of her agenda done while she is unrestrained.''

Even if she is stymied by political backlash, she could cause a **volatile** reaction in **financial markets**. Around the globe, central banks, sovereign wealth funds and asset managers hold some 700 billion euros (about $760 billion) in French government debt. A Le Pen presidency could scare them into unloading some of it, increasing borrowing costs for the French government and the business world.

French banks could see consumers pull euros out of their accounts to be saved elsewhere. If that became a bank run, the consequences could become global, given that France's four largest banks are deeply intertwined in the international financial system.

Most analysts dismiss such talk as apocalyptic. The French Parliament and Constitution would severely constrain a President Le Pen. Investors would grasp that. Still, in the run-up to the first round, the costs of protecting assets against government default grew in Italy, as well as in France.

The fear was that if Ms. Le Pen were to win the presidency, the risks would proliferate. That would increase the costs of borrowing for businesses and households in Italy, Spain and Portugal, impeding job creation and economic activity, while perhaps forcing governments to cut services.

That could generate public anger, stoking the fires of populism as Italy goes to the polls early next year. Enhanced electoral prospects in Italy for the Five Star Movement, which favors scuttling the euro, could result.

In short, a victory by Ms. Le Pen would add momentum to Europe's crisis of confidence. It would inject greater dysfunction into European institutions, rendering them even less capable of alleviating economic troubles. And more strife has in recent times has translated into more support for the populist movements seeking to dismantle those institutions.

''It would be devastating for the eurozone and the E.U. if she won,'' Mr. Kirkegaard said. ''It would certainly paralyze the eurozone in terms of almost anything for at least five years.''

But on Monday, as stock markets exulted and the euro climbed, that possibility had seemingly been rendered hypothetical.

The euro -- perpetually afflicted by doubt -- had dodged the latest immediate threat to its permanence.

Follow Peter S. Goodman on Twitter @petersgoodman.

CHART: Rising Euro, Losing Value (Source: Reuters) (B4)

Document NYTF000020170425ed4p0004j

THE WALL STREET JOURNAL.
U.S. EDITION

A Better Idea for Bankrupt Big Banks

By Stephen E. Hessler
649 words
25 April 2017
The Wall Street Journal
J
A17
English

The most significant Wall Street reform in nearly a decade may soon become law. Last Friday President Trump directed Treasury Secretary Steven Mnuchin to review Title II of the 2010 Dodd-Frank Act, which gives the federal government authority to wind down involuntarily failing financial institutions. Treasury is to issue a report that considers whether changing the U.S. Bankruptcy Code "would be a superior method of resolution for financial companies" while preventing bailouts.

Congress is already moving in that direction. The Financial Institution Bankruptcy Act passed the House earlier this month with wide bipartisan support. FIBA would amend the Bankruptcy Code to streamline Chapter 11 cases of "systemically important financial institutions," or SIFIs, while minimizing disruptions to the rest of the economy. By endorsing FIBA, Treasury could bring the administration a key legislative victory.

Traditional Chapter 11 cases, which facilitate the restructuring of corporations, have many benefits, including fundamental reliance on the rule of law. But for SIFIs, Chapter 11 could be made faster and more nimble to prevent bank runs. FIBA builds upon existing Bankruptcy Code protections but would work more quickly, leave operating subsidiaries outside Chapter 11, and assign Bankruptcy Court judges preselected by the chief justice for their expertise in **financial markets**.

FIBA would enable a quick separation of "good" and "bad" SIFI assets through the rapid postpetition transfer of the good assets to a newly formed bridge company that is not in bankruptcy. The bridge company would be capitalized by leaving behind unsecured debt, and creditors would pursue their claims in the Chapter 11 case. Any repayment would come in the form of equity in the bridge company or proceeds from the liquidation of bad assets. FIBA would allow a failing SIFI to fix itself in a predictable, rules-based open-court proceeding, and permit counterparties to transact without interruption -- while making it possible to create a new, fully capitalized entity that credibly provides most if not all of the same financial services.

Importantly, FIBA would allow for the reorganization of SIFIs with the safeguards of well-settled Chapter 11 precedent and practice, and with the transparency and fairness that come with judicial supervision. Every decision about filing, asset transfer and value distribution would be subject to Bankruptcy Court approval. That is in stark contrast to the opaque process of Title II, which gives unprecedented discretionary power to the Federal Deposit Insurance Corp. to render critical judgments without explanation or even a record or forum for disputes.

Moreover, Title II actually makes risky lender behavior more likely. Dodd-Frank authorizes the FDIC to treat similarly situated creditors dissimilarly -- which means the federal government could pick and choose winners and losers according to political priorities. Moral hazard results when investors are assured of outsize profits if an investment succeeds, but the government shields them from outsize harm if it fails. FIBA would require that parties with the same legal rights receive the same economic treatment.

Prior Senate versions of these reforms also included a provision to repeal Title II, which FIBA does not. But debate over Title II should not impede the prospects for FIBA's prompt enactment. FIBA is worth passing even if Title II endures. And a related benefit is that FIBA would enhance insolvency planning under Title I of Dodd-Frank. Some of the "living wills" submitted by SIFIs have been rejected by the Federal Reserve and FDIC. FIBA could make them feasible.

The best way to resolve failing SIFIs is with clear and established rules administered by an impartial tribunal. The Senate and Mr. Trump would be well-served to follow the House's lead and shepherd FIBA into law.

Mr. Hessler is a restructuring partner at Kirkland & Ellis LLP and has testified before the House Judiciary Committee in favor of FIBA.

Document J000000020170425ed4p0001k

THE WALL STREET JOURNAL.
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The Future of Finance (A Special Report) --- Regulators Get a Better Picture of Risk, Literally: Researchers can now draw simple images that reveal much about systemic weak spots

By Paul J. Davies
1,271 words
25 April 2017
The Wall Street Journal
J
R2
English

Kimmo Soramaki has seen something strange happening in U.S. house prices. The math behind his findings is fiendishly complex, but he can show the results to anyone in seconds.

Mr. Soramaki is a specialist in a kind of financial mapmaking: He takes a complex analysis of the relations between financial institutions or markets, and by weeding out some information and focusing on the most significant links, he can create simple treelike images that reveal something -- in this case, that housing prices have become increasingly correlated -- that might otherwise go unnoticed.

This type of analysis is part of a growing area of research that is changing how regulators and banks manage financial risk. Network analytics such as that used by Mr. Soramaki, as well as new modeling approaches, allow researchers to show how thousands or millions of iterations of apparently simple financial exchanges or actions together can create a far more complex and at times unstable financial system than traditional economic theory might suggest.

Already, such approaches are being used in bank stress-testing and to spot weaknesses in global markets. Some envision the technology eventually could be used to build a dashboard of the global financial system that regulators could monitor to spot crises before they hit.

Andy Haldane, chief economist at the Bank of England, fantasized in a 2014 speech about sitting in the financial equivalent of the bridge of the Starship Enterprise, from which regulators could test and watch for impending disasters, then intervene when necessary. The world isn't there yet -- and some argue it might not be desirable even if it were possible -- but the theories and computer models behind this vision already are being tested.

Mr. Soramaki's company, Financial Network Analytics, is helping the Colombian central bank build a systemic-risk tool using data on payments that flow through the financial system. Institutions such as the Bank of England and the U.S. Office of Financial Research, meanwhile, have been working to build their own network models of banks, money managers and clearinghouses to study how shocks such as a bank failure or the Swiss central bank's abandoning its currency link to the dollar propagate through the financial system. In recent years, they have begun publishing the results of this work.

Mr. Soramaki created the map of home prices to demonstrate his technology. On the map, which shifts and changes over the period from 2000 to the present, U.S. states are depicted as dots, linked to one another by lines. The shorter the line, the greater the similarity in house-price movements in those two states.

On a map showing the data for 2000, the dots are small and mostly far apart, and the "tree" appears very spread out. From roughly 2004 to 2008, as the housing bubble builds and then enters the crisis, the dots grow in size and turn from green to red, moving closer together and forming clusters, as price changes across the country become larger and more similar. As the links get shorter, so does the tree, signifying greater correlation. But what is really surprising is what has happened since the 2008 crisis: Changes in home values across states are more alike today than ever before.

"In the U.S. housing market, correlations have continued to rise even after the collapse of the bubble: The tree span has continued to shrink," says Mr. Soramaki, who worked at the Bank of Finland and the New York Federal Reserve before starting his company in 2013.

"Visual network analysis improves our answer to existing questions, but can also expose questions we didn't know we had," he says. His work can't explain why this is happening; it can simply show that it is, highlighting an unexpected risk -- in this case that everyone could start losing money on real estate at the same time -- that would likely otherwise go unnoticed.

Other researchers are working on models that could someday be used to monitor **financial markets**. J. Doyne Farmer, an American scientist now at Oxford University's Institute for New Economic Thinking, is helping the Bank of England develop agent-based models to better understand how markets and other complex financial systems behave.

The models simulate how agents -- people, companies, institutional investors, etc. -- act and interact in markets and financial systems. Such programs have produced outcomes that more closely resemble what happens in the real world than do the predictions of classical economics.

Prof. Farmer thinks that in five to 10 years' time, such models could be used to make market and economic forecasts in much the same way we can now predict the weather. "The economy is more difficult -- we don't know the laws of physics for the economy -- but on first principles we don't really understand clouds either," he says.

Yet with enough data from the past, meteorologists can make reliable forecasts. Similarly, enough historical data about activity in **financial markets** could help make better models of the future. The problem is, people can adapt and change their behavior in a way that water molecules can't. "Clouds don't think," Prof. Farmer says.

Still, he believes that a lot of what happens in markets or economics comes down to accounting rules and legal contracts that are quite mechanical, so much of it is predictable and stable.

Many of the techniques and ideas in this field have come from other disciplines, including biology and engineering. Mr. Soramaki's correlation trees, for example, are adapted from a method for mapping genomes. This cross-fertilization began in New Mexico at the Santa Fe Institute in the late 1980s, and it has led to an entire field of study known as complexity economics.

Even before the financial crisis, regulators were starting to take note. Now, private companies are investing in this research, aiming to develop products for the finance industry.

Alexander Denev, the head of quantitative research at data company IHS Markit, says there is still uncertainty about the answers that such tools produce. One problem is that there isn't enough high-quality data. Another issue is selecting which model to use and even how to define what constitutes systemic risk. In stress-testing, U.S. and U.K. regulators require banks to use more than one model as a cross-check. But Mr. Denev says they ought to be using multiple models, even thousands, to show the variety of potential outcomes under different starting assumptions.

"This is where computing power and machine learning come in," he says, and the private sector tends to have more of that than regulators and central banks.

All of this could feed into a futuristic dashboard, but that leads to questions about how much influence regulators should have. "Dashboards lead to human insights, human insights lead to decisions, but no automatic rules should be used to circumvent the human part," Mr. Denev says.

Mark Flood, a research principal at the Office of Financial Research, says regulators shouldn't be in control of the financial system. "We need a gap between the regulator and the free market," he says. "You don't want the police driving everyone's car. You want them setting the speed limits and checking for drunken drivers."

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Equities: The Rise of Indexing Powers S&P Global --- Rating firm criticized during financial crisis now rides high, helped by passive investing

By Ben Eisen and Alexander Osipovich
855 words
24 April 2017
The Wall Street Journal
J
B11
English

Once vilified for its role in the financial crisis, S&P Global Inc. is emerging as one of the biggest beneficiaries of the rise of passive investing.

The New York-based financial-information giant collects a tiny fee from every investor that buys an exchange-traded fund tied to one of its market indexes.

Total assets in those products topped $1 trillion in December, the firm said, doubling from just three years earlier. S&P is now roughly twice as large an indexer as its next biggest rival, MSCI Inc., according to data from ETFGI, a London-based research and consultancy firm on ETF trends.

Just seven years ago, S&P was in the hot seat. Former executives were grilled on Capitol Hill over why the firm gave top-notch AAA ratings to toxic mortgage-backed securities.

Congress passed the Dodd-Frank Act, partly in a bid to dislodge the big debt-rating firms from their position at the heart of the U.S. financial system.

Those efforts failed. S&P still doles out nearly half of the debt ratings issued in the U.S., according to the latest Securities and Exchange Commission data. A boom in corporate-debt issuance has helped power S&P Global's stock up 27% over the past year, to $131.52 on Friday, including a 22% rise so far in 2017 that has topped the benchmark **S&P 500 index** that bears the company's name. In October 2008, the stock traded as low as $17.15.

Critics fault regulators for failing to do more to shake up the clubby ratings industry, where the Big Three firms of S&P, Moody's Corp. and Fitch Ratings Inc. are paid by the companies whose debt they rate. Rating fees have helped underpin S&P's expansion in recent years.

"For the SEC to have let it sit there for all these years is beyond disgraceful," said Alan Blinder, who was vice chairman of the Federal Reserve in the 1990s.

S&P Global says that the "issuer pays" model allows them to make ratings available for public scrutiny free of charge, and that conflicts are addressed by separating analysis from business activities. An SEC report from December cites improved processes for firms' oversight of credit ratings, such as increased documentation.

The company has also restructured and rebranded itself, spinning off its education unit in 2012 and shedding its old name, McGraw Hill Financial Inc., in April 2016.

Ratings, along with commodities, data and analytics, account for the lion's share of S&P Global's revenue. But indexing has grown the fastest since 2012.

The unit, known as S&P Dow Jones Indices, and owned in part by CME Group Inc., boasted adjusted operating margins of 65% last year. The firm is scheduled to report earnings for the first three months of the year on April 25.

Indexes have been around since 1896, when the **Dow Jones Industrial Average**, now an S&P-owned index, was introduced. But S&P Global wasn't predestined to be an index giant.

In 2011, when Jana Partners LLC and the Ontario Teachers' Pension Plan called for changes at the company, then named McGraw-Hill Cos., the activist investors proposed turning the index unit into a stand-alone company. S&P held on to the business.

Dow Jones & Co., a unit of Wall Street Journal parent company News Corp, completed a sale of its stake in S&P's index business in 2013. Two representatives of the Journal still help determine the composition of the Dow industrials, one of S&P's indexes.

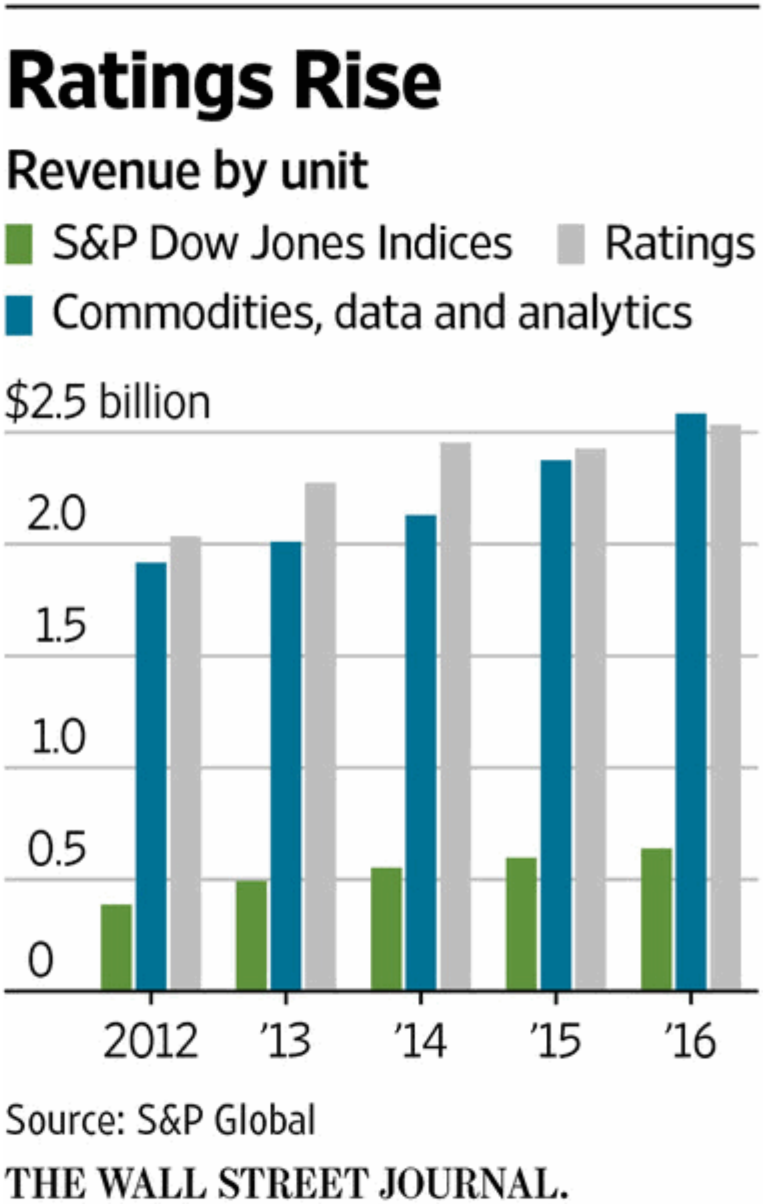
Indexes have gained a higher profile in the past few years as ETFs have surged in popularity. The world's largest ETF, the **S&P 500** tracking SPDR fund, now has more than $230 billion in assets. S&P Dow Jones Indices collects a licensing fee that averages out to 0.0303% of the assets that an investor holds in the fund each year, which is around a third of the fund's net expenses, according to its prospectus.

S&P Dow Jones Indices collects licensing fees from exchanges such as CME and CBOE Holdings Inc. that offer futures and options based on S&P indexes. It also makes money by calculating the value of indexes and developing custom benchmarks.

Competition is heating up as upstart index providers offer cheaper alternatives for ETF issuers that don't need a highly recognizable brand like S&P's.

Solactive AG, for example, has a flat rate for its indexes, typically seeking to charge smaller fees than its larger competitors.

"Globally you have, let's say 20 big, massive, branded indices that are really hard to replace," such as the **S&P 500**, said Steffen Scheuble, chief executive at Solactive. "We don't go after them. Nevertheless, everything beyond that, of course we are trying to get that business."


Ratings Rise
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$2.5 billion
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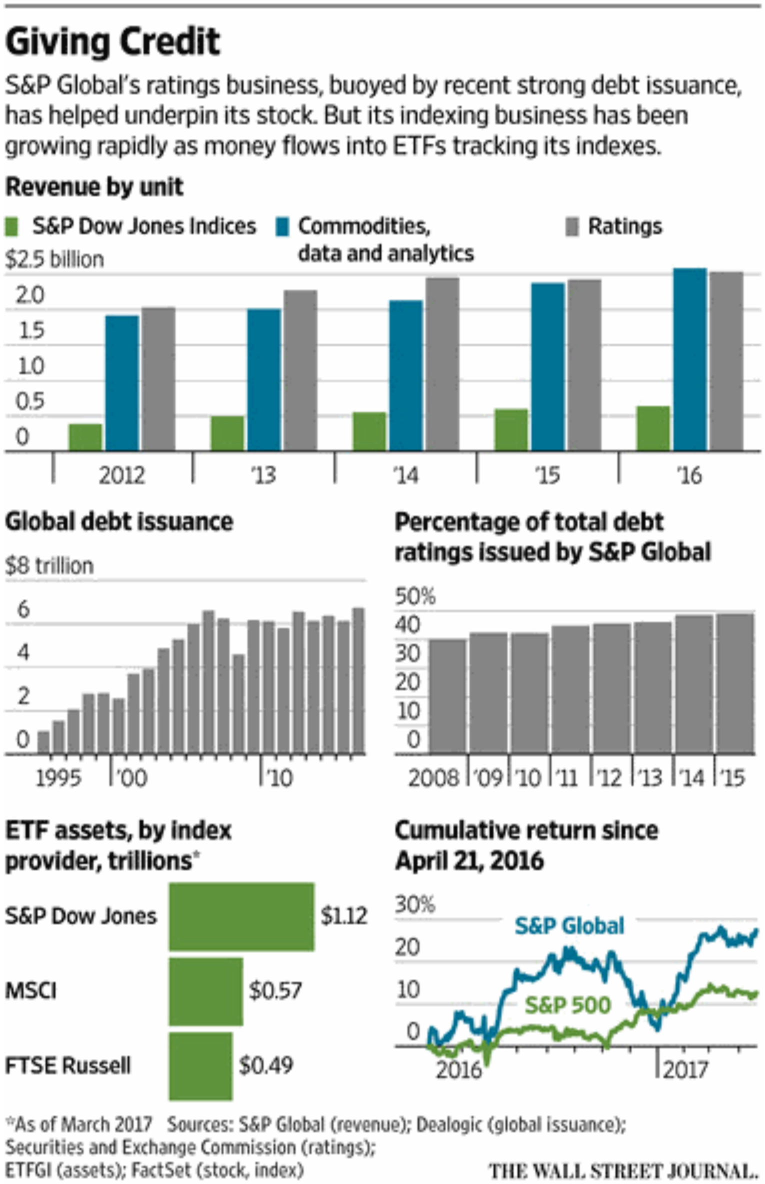
Source: S&P Global
THE WALL STREET JOURNAL.



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Heard on the Street
Confidence Game: American Data Fall Short of Huge Hopes

By Justin Lahart
438 words
24 April 2017
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

In the months since President Donald Trump was elected, consumer and business confidence have soared, but the economy has slowed. The split has rarely been so stark and while optimists have been hoping the economy will soon catch up with sentiment, it is looking more likely that sentiment will roll over.

Following a string of weak sales, spending and production data, economists have cut their expectations of economic growth for the first quarter. Forecasters polled by Macroeconomic Advisers now expect Friday's gross-domestic-product report will show the economy grew at a 0.9% annual rate in the first quarter. At the start of the year, they had estimated growth of 2.1%.

Some of the apparent weakness in GDP is likely due to quirks in the data caused by factors such as unusual winter weather and a swing in business inventories. Still, the divergence between "hard data" -- tangible measures such as car sales -- and "soft data," such as confidence and other survey-based measures, is unusual. Research firm Cornerstone Macro calculates that the confidence data would normally imply GDP growth of about 5%.

The **bullish** case is that newly optimistic consumers and business owners will soon start spending, boosting economic data. This is generally what happens when the economy is coming out of recession, with the hard data following the soft data higher.

But the economy isn't coming out of a recession -- the last one ended nearly eight years ago. Instead, the country has experienced a long period of rising employment and disappointing but steady growth. The pent-up demand that exists in the aftermath of a downturn isn't there. And the mere possibility of lower taxes and faster growth hasn't changed the caution that consumers and businesses learned since the financial crisis.

The clock is ticking, says Bank of the West economist Scott Anderson. Historically, when the hard data don't pick up within a month or two of the move higher in the soft data, the soft data tend to tumble.

There are signs the souring in the soft data has begun.

Last week, regional manufacturing surveys from the Federal Reserve banks of Philadelphia and New York registered slowing activity. So did U.S. private-sector surveys conducted by Markit.

Barring proof that the White House and Republican-controlled Congress are about to deliver on tax cuts and stimulus, investors would be better off expecting the economy Mr. Trump inherited rather than the one he has promised.

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Encore (A Special Report): Financing Your Future --- As Rates Rise, It's Time To Tweak the Portfolio: Among the suggestions from investing professionals: Go stodgy but steady with stocks, and look outside the U.S.

By Michael Pollock
965 words
24 April 2017
The Wall Street Journal
J
R3
English

Many older investors longing for the days when they could earn reasonable returns from relatively safe certificates of deposit and money-market funds have cheered what appears to be the beginning of a more rapid rise in interest rates.

But for those in that group who are trying to carefully manage retirement portfolios, the situation could end up being a double-edged sword.

Rising rates could reduce appetites for already overvalued stocks well before returns on CDs and money-market funds reset to levels that would allow today's retirement savers, like those of generations before them, to use such investments as the sturdy legs of their portfolios. These days, stocks have taken on the role of workhorse in many retirement accounts, meaning some retirees could get pinched if the rewards they receive for risking capital in equities get smaller.

As a result, many financial professionals believe today's retirement savers need to continue to invest in stocks to preserve capital and generate enough growth to stay ahead of inflation -- but with some fine-tuning.

Here are a few of their ideas, along with a few caveats, for navigating this shifting investment landscape.

1. Don't swing for the fences

After lifting rates twice since last fall, the Federal Reserve is expected to boost its rate target five or six more times through next year. Juggernaut stocks, or those that investors have bid up to expensive valuations because of their perceived high growth potential, could take a big hit if higher rates trigger a market pullback. Instead, investors should consider stodgy but steady stocks such as Procter & Gamble Co. or Johnson & Johnson, which tend to hold up better when the market heads lower, says Scott Clemons, chief investment strategist at Brown Brothers Harriman.

"Investors who want to preserve and grow capital patiently don't need to hit home runs," says Mr. Clemons.

Companies with strong cash flows that consistently boost dividends offer a buffer against rising rates, says Dennis Notchick, an adviser at Safeguard Investment Advisory Group, San Diego. Mr. Notchick uses the Vanguard Dividend Appreciation ETF (VIG), which he says has held up well in broad market downdrafts. Another ETF that follows a similar approach is the iShares Core Dividend Growth ETF (DGRO).

2. Stay really diversified

As market sentiment shifts, there's always a risk that investors could find themselves holding stocks that have fallen out of favor. Avoid making major bets on one sector or asset class, says Michael Macke, president of Jacksonville, Fla.-based Petros Advisory Services. A very broad portfolio "should give you the highest odds of growing and protecting your wealth in retirement," he says.

One way to get diversified exposure is through a fund such as Vanguard Total **Stock Market** index (VTSMX), which holds nearly 3,600 securities of varying market capitalization. The iShares Core S&P Total US **Stock Market** ETF (ITOT) and Schwab U.S. Broad Market ETF (SCHB) offer broad U.S. equity exposure and charge very low fees.

3. Beware rate-sensitive stocks

As some investors have sought lower volatility and better income, they've flocked to high-yielding stocks such as utilities. If bond yields continue to rise, those stocks might be hit by selling as investors switch to relatively safer fixed-income investments paying comparable yields, says Doug Ramsey, chief investment officer at Leuthold Group.

But as long as the economy continues to grow, investors could see reasonable returns from funds or ETFs that focus on consumer discretionary, energy and information technology, sectors that historically have performed well despite rising rates, says Todd Rosenbluth, director of ETF and Mutual Fund Research at CFRA, New York.

Mr. Rosenbluth suggests Fidelity Dividend ETF for Rising Rates (FDRR), which owns Apple Inc. and J&J, or PowerShares S&P 500 Ex-rate Sensitive Low Volatility (XRLV), which holds J&J and 3M Co. among larger positions.

4. Find growth outside the U.S.

Because valuations are lower overseas, some professionals believe foreign markets offer better growth prospects than U.S. stocks. Research Affiliates sees emerging markets appreciating 9% a year in the coming decade, in part because of cheaper valuations, says Chris Brightman, chief investment officer at the firm.

Mr. Macke of Petros says that he is putting about half of the non-U.S. portion of portfolios he oversees into developed markets such as Europe and half into emerging-markets. He uses Vanguard Developed Markets Index Fund (VDVIX), a multi-cap fund that is available also as an ETF, and Vanguard Emerging Markets Stock Index Fund (VEIEX), another with an ETF counterpart.

"The opportunities I see come more from global markets," says Mr. Macke.

5. Watch investing costs -- they may matter even more

The benefits of owning a lower-fee fund or ETF may be obvious: The less a fund charges to cover expenses, the more of its returns are left over for fundholders.

Research suggests that active funds with lower fees also are better performers than those with higher fees, says Russel Kinnel, director of manager research at Morningstar Inc.

One reason might be that the best-managed funds tend to attract more investor money, and economies of scale make it possible for those funds to reduce fees.

"Fees always matter," Mr. Kinnel says. But if investors are careful about fees and market returns turn out to be lower, "then there's a lower margin for error in hitting your goals."

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Border Wall Push Muddies Shutdown Talks

By Kristina Peterson
1,005 words
24 April 2017
The Wall Street Journal
J
A1
English

WASHINGTON -- Less than a week before the federal government could run out of money, White House officials said President Donald Trump wants any spending deal to include some funding for a border wall, despite little appetite among congressional Republicans for risking a partial shutdown over the issue.

The last-minute push, voiced on Sunday talk shows and by the president himself on Twitter, injected a note of **volatility** into the coming week, when lawmakers return after a recess and with little time for reaching an agreement to keep the government operating after its current funding expires at 12:01 a.m. Saturday -- also the 100th day of Mr. Trump's presidency.

That deadline has left congressional Republicans juggling the demands of the White House and its shifting messages with those of Democrats, whose votes will be needed to pass a spending bill to avoid a shutdown.

Complicating the negotiations over the funding bill, top White House officials also are urging House Republicans to move swiftly to revive a partisan health-care bill that stalled last month, and Mr. Trump has said he would release a proposal for overhauling the tax code on Wednesday.

Given the complications and tight timeline, few, if any, of Mr. Trump's legislative ambitions are likely to be realized by Saturday. That means GOP lawmakers would face the uncomfortable choice of denying or deferring some of Mr. Trump's wishes, such as funding the wall, before the symbolic 100th day, or triggering a showdown with Democrats.

House Republicans held a weekend conference call where GOP leaders said they would focus first on striking a deal to keep the government funded.

"The top priority is keeping the government open," Rep. Tom Reed (R., N.Y.) said in an interview after the Saturday afternoon call. "I support the [border] wall, but I don't like us getting bogged down in symbolic, ideological fights" on must-pass legislation.

House Speaker Paul Ryan (R., Wis.) told Republicans that the House Appropriations Committee had been working closely with the White House on the spending agreement, according to a Republican on the call.

"And so, wherever we land will be a product the president can and will support," Mr. Ryan said, according to that person. If lawmakers can't reach a bipartisan deal by Friday, they may pass a one-week stopgap measure, lawmakers and aides predicted. A larger bill would fund the government until October and could include a newly written defense-spending bill.

The spending bill under discussion already was expected to include some of the president's wishes, including an increase in funding for the military and border security.

But White House officials began pushing for more late last week, potentially destabilizing the precarious balance required to avert a shutdown.

Administration officials said Mr. Trump wants the spending bill to include funding to begin building the wall along the southern border. However, they haven't threatened that he would veto a bill that excluded it.

"The president has been pretty straightforward about his desire and the need for a border wall," Homeland Security Secretary John Kelly said in an interview that aired Sunday on CNN. "I will suspect he will be insistent on the funding."

In March, the administration asked Congress for $1.4 billion in spending for the current fiscal year for the project, with an additional $2.6 billion for the next fiscal year, beginning Oct. 1.

"It's not like we're inserting something that the president didn't talk about on the campaign," White House budget director Mick Mulvaney said in an interview Friday. "It should come as a surprise to no one that President Trump wants money for a southern border wall."

Mr. Trump himself repeated his request over Twitter on Sunday. "The Democrats don't want money from budget going to border wall despite the fact that it will stop drugs and very bad MS 13 gang members," he said.

But White House Chief of Staff Reince Priebus said Sunday the administration could be flexible on whether the spending bill included money specifically for the wall, suggesting funds for border security could be considered sufficient for now.

On Capitol Hill, Democrats in both chambers have warned that they aren't willing to fund the wall in the coming spending bill.

"The Democrats do not support the wall," House Minority Leader Nancy Pelosi (D., Calif.) said Sunday on NBC. "The wall is, in my view, immoral, expensive, unwise, and when the president says 'Well, I promised a wall during my campaign,' I don't think he said he was going to pass billions of dollars of cost of the wall on to the taxpayer."

While some Republicans said they would be willing to set aside funds for the border, many are reluctant to imperil a bill that would need at least eight Democratic votes to pass the Senate. GOP leaders are also likely to need Democratic votes in the House, where some conservatives are expected to oppose the bill, giving Democrats unusual leverage at a time of full GOP government control.

Democrats are pushing to include payments, known as "cost-sharing reductions," that help support Affordable Care Act plans by helping insurers lower costs for low-income consumers. An abrupt withdrawal of the payments would pose an immediate threat to health-insurance markets.

GOP lawmakers and aides have stressed the need to demonstrate their party can govern, particularly after House leaders were forced to pull their health-care bill from the floor last month. Mr. Priebus said on NBC Sunday that he "would like to have a vote this week" on a modified health bill, "but again, it's not something that has to happen in order to define our success."

Even if the bill were to clear the House this week, it isn't clear it could pass the Senate.

Brody Mullins, Peter Nicholas and Michelle Hackman contributed to this article.

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The New York Times

Business/Financial Desk; SECTB
A Good Trading Week Ends With Shares Falling Into a Slight Slump

By THE ASSOCIATED PRESS
716 words
22 April 2017
The New York Times
NYTF
Late Edition - Final
3
English

Stocks on Wall Street slumped Friday as financial and health care companies moved lower. Industrial companies rose as stocks continued the up-and-down pattern they've been stuck in for the last month.

Stocks lagged in morning trading as banks fell in tandem with bond yields and interest rates and energy companies sank with **oil prices**.

The Standard & Poor's 500-share index lost 7.15 points, or 0.3 percent, to 2,348.69. The **Dow Jonesindustrial average** dipped 30.95 points, or 0.2 percent, to 20,547.76. The **Nasdaq composite** fell 6.26 points, or 0.1 percent, to 5,910.52.

Stocks climbed in the final minutes of trading and left the S.&P. 1 percent higher for the week.

President Trump gave the market a fleeting boost in the afternoon when he said his administration would release a tax reform proposal next week that includes a large tax cut. He did not provide details.

Financial companies fell. Professional services firm Marsh & McLennan skidded $1.41, or 1.9 percent, to $71.88 and wealth management company Morgan Stanley dipped 70 cents, or 1.6 percent, to $41.80. Bank of America fell 36 cents, or 1.6 percent, to $22.7.

Bond prices rose early on but wound up little changed. The yield on the **10**-**year Treasury** note closed at 2.25 percent.

Health care companies moved lower. Biotech drugmaker Alexion Pharmaceuticals lost $1.90, or 1.6 percent, to $116.82 and Merck declined 66 cents, or 1.1 percent, to $61.89. Pharmacy benefits manager Express Scripts dipped 59 cents to $66.46.

Stocks did well this week, but they've wandered up and down over the last few weeks. That may persist. Next Friday the government will release its report on first-quarter GDP growth, something investors pay a lot of attention to. On the same day, the federal government is scheduled to reach its borrowing limit, which could trigger a government shutdown unless Congress agrees to an extension.

Next week the market may also react to the first round of voting in the French presidential election. Polls between the top four candidates are fairly close, and a good showing by far-right candidate Marine Le Pen or leftist Jean-Luc Mélenchon, as opposed to their more centrist rivals, could unsettle investors.

Mattel, the largest toy company in the United States, said its sales dropped 15 percent in the fiscal first quarter as it continued to deal with effects of poor sales over the holiday season. The company's revenue totaled $735.6 million, which was $67 million less than expected, according to FactSet. The stock lost $3.42, or 13.6 percent, to $21.79.

Mattel also took a steep loss after it reported its fourth-quarter results. Its stock is down 21 percent this year.

Benchmark crude shed $1.09, or 2.1 percent, to $49.62 a barrel in New York. Brent crude, used to price international oils, fell $1.03, or 1.9 percent, to $51.96 a barrel in London.

Schlumberger, the world's biggest oil field services company, fell after it reported less revenue than analysts had forecast. The company said revenue in China, Russia and the North Sea dropped more than it had expected. The stock gave up $1.67, or 2.2 percent, to $74.84.

Gold rose $5.30 to $1,287.40 an ounce. Silver lost 16 cents to $17.86 an ounce. Copper remained at $2.54 a pound.

The dollar dipped to 109.07 yen from 109.32 yen. The euro fell to $1.0701 from $1.0716.

France's CAC-40 retreated 0.4 percent after a big gain Thursday. Germany's DAX gained 0.2 percent and the British FTSE 100 lost 0.1 percent. The Nikkei 225 in Tokyo gained just over 1 percent and the Kospi in South Korea added 0.7 percent. Hong Kong's Hang Seng shed 0.1 percent.

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

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THE WALL STREET JOURNAL.
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Investors Shift Gears Amid Tumult --- Gold, Treasurys and other assets perceived as safe prove popular; stocks rebound on day

By Ira Iosebashvili
781 words
21 April 2017
The Wall Street Journal
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B3
English

Investors are bidding up prices for gold, Japanese yen and other haven assets, seeking cover from political and economic risks that are spreading across the globe.

Gold prices rose to their highest level since November this week and are up 11% this year. The yen reached a five-month high against the dollar on Monday. Other assets that tend to rise during times of turmoil, such as Treasurys, have gained steadily this month.

Riskier investments such as emerging markets have turned **volatile** recently, and the **Dow Jones Industrial Average** was off to its worst month since January 2016 before rebounding on Thursday.

The blue-chip index rose 0.9%, while gold and other haven assets were flat or weaker on the day after some solid earnings reports. But traders said the mood in the market remained shaky, despite a relief rally.

Driving the shift to safety is a series of geopolitical events that are beginning to rattle investors. Some of these political concerns, like heightened tensions over North Korea's nuclear-weapons program, have been around for years but intensified in recent days.

IHS Markit, a risk-consulting firm, warned in a Tuesday note about North Korea that "the risk of escalation and miscalculation following weapons tests, military exercises, or isolated attacks is greater now than at any point in the past 10 years." U.S. airstrikes in Syria and Afghanistan also have rekindled fears about those conflicts spiraling out of control.

Other concerns have appeared out of nowhere, like the sudden rise of French far-left presidential candidate Jean-Luc Melenchon. With France going to the polls on Sunday, investors worry that candidates from two political extremes could face each other in a runoff.

Either one would be a bad outcome for stability and markets, investors say.

"Typically, you get a market environment that is consumed by a single issue," said Robert Tipp, chief investment strategist at PGIM Fixed Income. "Now, the attention is focused all across the globe, on a number of issues." Mr. Tipp increased positions in longer-dated Treasurys in the first quarter, in part to mitigate risk from political events.

The flight to safety is also a sign that investors are losing confidence that President Donald Trump can deliver a new fiscal policy to stimulate the U.S. economy after Republican efforts to overhaul health care collapsed amid other roadblocks, though Treasury Secretary Steven Mnuchin said on Thursday that the administration expected to release a tax plan "very soon."

The belief that Mr. Trump and a GOP-controlled Congress could enact tax cuts, deregulation and other business-friendly policies drove stocks higher after the election, but many investors have been reversing those trades in recent weeks. The latest U.S. inflation and jobs data also disappointed, raising new concerns that the U.S. economy may be hitting a soft patch.

Rising doubts about growth are also weighing on the dollar. The U.S. currency shot higher in the weeks after the election, but is down 3.4% against a basket of other currencies this year. With traders uncertain whether the multiyear dollar rally can restart, they are putting money in assets perceived as safer as they reassess.

Riskier investments such as emerging markets have turned **volatile** recently, while the **S&P 500** is off 1.7% from a 52-week high hit in March.

The CBOE**Volatility** Index, or VIX, has also climbed around 14% this month to 14.15 and is well above its average in the first quarter, when it hovered at historic lows. Dubbed the "fear gauge," the index is based on options prices on the **S&P 500 index** and tends to rise when stocks decline.

In addition to political unrest, some investors are worried about signs of a slowdown in China's economy. That is starting to weigh on commodities. Iron-ore prices are down about 18% this month, due in part to weaker housing data in China, analysts say. China is the world's largest consumer of raw materials.

Deltec International Group, a private banking and wealth-management firm in the Bahamas, is cutting back on its **bullish** bets, anticipating a more **volatile** second quarter. The firm is paring back on U.S. stocks and is adding to its bondholdings, said Atul Lele, Deltec's chief investment officer. "The biggest risk to markets is . . . that growth momentum is slowing," Mr. Lele said. "And it means risk assets are going to decline."

Timothy Puko and Gunjan Banerji contributed to this article.

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THE WALL STREET JOURNAL.
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Moves in Markets Show Signs Investors Souring on Economy

By James Mackintosh
893 words
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A1
English

Markets are flashing red on growth as investors begin to return to pre-election bets on the "new normal" -- a persistently weak economic expansion.

The shift back is far from complete. And the assessment is muddied by geopolitics and the uncertain French election.

But there are signs that the sugar rush of Donald Trump's victory and global-growth hopes has faded, raising doubts among some investors about whether stocks can stay high.

On Thursday, the **Dow Jones Industrial Average** rose 174.22 points to 20578.71, boosted by Treasury Secretary Steven Mnuchin's remarks that a tax-reform proposal would be released soon.

The recent sharp drop in government-bond yields is the most obvious signal that something is amiss. It is backed up by ominous signs from raw-materials markets, where copper and iron-ore prices have tumbled, and a swing in leadership of the **stock market** away from go-go bank shares and cheap "value" stocks to safety-first utilities, real estate and companies with high-quality balance sheets and reliable earnings. All this has come as inflation expectations priced into bonds have fallen and as some weak data has led to downgrades of economic forecasts.

Technology stocks' return to favor also suggests investors are looking for companies able to deliver growth even if the economy is weak.

"The new normal's still with us," says Scott Minerd, chief investment officer of Guggenheim Partners. Investors, at least for a time, thought the promise of change that came with Mr. Trump's election could help break the U.S. economy out of slow-growth mode, Mr. Minerd said. "So far, we're long on promise and short on delivery. The market's waking up to that."

There are two big question marks around the market portents: Are they right? If so, do they spell doom for shares?

One way the omens could be wrong is if they are caused by something other than a slowdown.

The most obvious candidate is geopolitics, with money seeking havens ahead of Sunday's French election and amid the concern about North Korea's nuclear threats. It is impossible to know how much this has depressed bond yields, but buying of bondlike utility and real-estate stocks might be a result of falling bond yields, rather than supporting evidence of a slowdown.

Commodity prices need a separate explanation, but their fall might just be coincidence.

The market message could also be wrong if the economy is just fine.

Evidence is gathering that the hoped-for rebound didn't come through in the first quarter, with the Federal Reserve Bank of Atlanta's "nowcast" of first-quarter growth down to just 0.5%, from above 3% in early February. Economic surprises -- the degree to which reported data beat forecasts -- are now barely positive, too, having dropped back from a three-year high in March, according to Citigroup.

But there is a long history of first-quarter numbers being wrong due to seasonal adjustment errors, and the "soft" survey data is still strong, if less so than it was.

The White House and Congress have failed so far to make progress on tax cuts or infrastructure spending, either of which could give the economy a boost. But Mr. Trump is nothing if not flexible, and a deal later this year is plausible.

Nick Gartside, international chief investment officer for fixed income at J.P. Morgan Asset Management, says there is contradiction between still-high stock prices and tumbling bond yields. But he expects it to be resolved by yields rising and the market again pricing in a faster pace of rate increases by the Federal Reserve, as it did earlier this year.

Sliding Treasury bond yields over the past month have pushed down mortgage rates, a boon for refinancing homeowners. The average rate for a 30-year fixed mortgage fell to 3.97% from 4.08% last week, Freddie Mac said Thursday, the first reading below 4% since mid-November.

The second question is trickier. The past five years have shown that high and rising share prices are compatible with weak economic growth, so long as yields stay low. Economically sensitive cyclical stocks might underperform -- Ford, General Motors and Fiat Chrysler are all down close to 10% since bond yields began to fall in mid-March. But in an era of low bond yields, equities as a whole have been held up by the argument that there isn't a better alternative for investors.

Vincent Mortier, deputy chief investment officer at Amundi, Europe's biggest asset manager, says lower bond yields "are saying to us we had better be more cautious on equities." Investors have been buying the dips because U.S. profits haven't been questioned, but he worries that any correction will be brutal.

As long as low growth means low interest rates and doesn't threaten profits, it's fine for shareholders. But with the economy near full capacity, even tepid growth could be enough to push up wages and inflation, hurting profits and keeping the Fed on alert to raise rates.

Rising rates and weak growth are a terrible combination, so investors should take the warnings seriously, and hope that the signs are wrong.

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Business/Financial Desk; SECTB
Shares Rally as Companies Post Healthy Results

By THE ASSOCIATED PRESS
736 words
21 April 2017
The New York Times
NYTF
Late Edition - Final
2
English

Stocks on Wall Street climbed Thursday as industrial, banking, energy, and technology and materials companies all rallied. A strong day of corporate results appeared to leave investors feeling better about the economy.

For more than a week investors have been poring over earnings reports for signs that the economy is growing faster, and on Thursday they appeared to have found it. The railroad operator CSX buoyed transportation companies, while Sherwin-Williams raised its annual projections and helped lift basic materials makers.

The **Standard & Poor's 500**-**stockindex** advanced 17.67 points, or 0.8 percent, to 2,355.84. The **Dow Jonesindustrial average** rose 174.22 points, or 0.9 percent, to 20,578.71. The **Nasdaq composite** index gained 53.74 points, or 0.9 percent, to a high of 5,916.78.

American Express had a solid first quarter as its members spent more and kept bigger balances on their cards. The stock gained $4.47, or 5.9 percent, to $80.02. SLM, the parent of the student lender Sallie Mae, reported much stronger revenue than expected, and its stock climbed $1.17, or 10.1 percent, to $12.70. Citizens Financial Group rose $1.05, or 3.1 percent, to $35.27 after its report.

The railroad company CSX announced a bigger profit and more revenue in the first quarter than Wall Street had expected. CSX also said restructuring and spending cuts would increase its profit by about 25 percent this year. The company is cutting jobs and reorganizing after it hired Hunter Harrison, the former chief executive of Canadian Pacific, as its new chief executive last month. The company also said it would buy back more stock and raise its dividend. Its stock jumped $2.65, or 5.6 percent, to $49.58.

Railroads and transportation companies rose, as did trucking companies and airlines. Industrial companies were among the top performers.

Sherwin-Williams raised its profit forecast for the year as paint sales jumped and prices increased. The stock added $12.48, or 4 percent, to $324.02. That helped basic materials companies. So did the steel company Nucor, which rose $2.73, or 4.7 percent, to $60.35 after its first-quarter results were better than expected.

Verizon dipped 53 cents, or 1.1 percent, to $48.41 as it reported a decline in cellphone subscribers and its profit dropped 20 percent. That helped push other telecommunications companies lower.

Bond prices fell further. The yield on the **10**-**year Treasury** note rose to 2.24 percent from 2.22 percent.

Energy prices wobbled and finished lower. Benchmark crude oil slipped 17 cents to $50.27 a barrel in New York, while Brent crude, the international standard, rose 6 cents to $52.99 a barrel.

State and federal authorities sued the mortgage lender Ocwen Financial and said it had mishandled millions of accounts. Ocwen is one of the nation's largest nonbank mortgage lenders, focusing mostly on subprime and delinquent mortgages. Its stock plunged $2.91, or 53.9 percent, to $2.49 in heavy trading.

Gold rose 50 cents to $1,281.90 an ounce. Silver lost 14 cents to $18.02 an ounce. Copper rose 1 cent to $2.54 a pound.

The dollar rose to 109.32 yen from 108.84 yen. The euro inched up to $1.0716 from $1.0714.

The CAC in Paris 40 jumped 1.5 percent as traders bet on the increasing likelihood of a victory for the centrist Emmanuel Macron in the presidential election on Sunday. Polls have long showed a tight race among four candidates before the first round of voting.

The DAX in Germany and the FTSE 100 in Britain each added 0.1 percent. The benchmark Nikkei 225 in Japan finished little changed and the Kospi in South Korea rose 0.5 percent. Hong Kong's Hang Seng Index climbed 0.9 percent.

The floor of the New York Stock Exchange on Thursday. Transportation and financial stocks were among those that rallied. (PHOTOGRAPH BY BRENDAN MCDERMID/REUTERS) CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Thursday. (Source: Reuters | By The New York Times); Freddie Mac Yields: Average for some Federal Home Loan Mortgage Corp. securities. (Source: F.H.L.M.C.)

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THE WALL STREET JOURNAL.
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U.S. News: Sweeping Tax Plan Is Coming 'Very Soon'

By Peter Nicholas, Kate Davidson and Nick Timiraos
318 words
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A4
English

White House officials said Thursday they are developing a sweeping plan to overhaul both corporate and individual taxes, dismissing concerns that a more modest proposal might be more viable in today's political climate.

Speaking at a conference of international financial firms, Treasury Secretary Steven Mnuchin said the administration would release its tax overhaul "very soon."

The remarks ended weeks of mixed signals from the White House about the breadth of President Donald Trump's plan and came as some of his former campaign advisers cautioned against an aggressive approach.

Four of Mr. Trump's 2016 advisers wrote an op-ed in the New York Times laying out a strategy that would focus on corporate and small-business taxes while leaving for 2018 what they called the "maddeningly complex individual income tax system."

The authors of the op-ed included Stephen Moore, an economic adviser to Mr. Trump's campaign, and Arthur Laffer, a well-known adviser to President Ronald Reagan and also to the Trump campaign.

Sen. Tom Carper (D., Del.), a member of the Senate Finance Committee, also called for a focus on business taxes, saying in an interview: "Maybe we could try and take in bite-size pieces."

But Mr. Trump's top economic aides, Mr. Mnuchin and Gary Cohn, director of the National Economic Council, rejected that approach.

Calling for an expansive plan, Mr. Mnuchin said the Trump administration is determined to enact "the most significant change to the tax code since Reagan" -- a reference to the last comprehensive tax rewrite, passed in 1986.

A rewrite of the complex tax code is a goal that many business leaders have been pressing for years.

The **Dow Jones Industrial Average** rose 43 points on Thursday while Mr. Mnuchin was speaking.

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Heard on the Street
China's Oil Refiners Set Sights On World

By Nathaniel Taplin
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B1
English

[Financial Analysis and Commentary]

Hungry Chinese refineries were once a boon for oil-sector investors. But the global refining business is now in the crosshairs of its big oil firms.

Chinese oil demand has skyrocketed this century, but its refining capacity has risen more rapidly, tripling to 15% of the global total by the end of 2015, according to BP's annual world energy report, and a level nearly 20% higher than China's annual oil consumption. Diesel and gasoline exports have surged. China National Petroleum Corp. predicts a further 5% rise in China's capacity in 2017 and and a further 55% rise in net diesel exports.

China's rising refining overcapacity has followed a pattern that previously helped sink global margins in steel, aluminum and solar-panel manufacturing. State-backed firms, which face little problem getting access to credit, pile into what initially look like profitable sectors.

As long as the economy is humming along, this strategy works fine. But when growth slows, all that new diesel or steel needs to find a new home. As the Chinese economy slowed sharply in late 2014, China moved from being a net importer of fuel products to one of the world's largest exporters -- a position it still holds.

The situation was exacerbated last year by a new rule spurring higher output by independent "teapot" refineries and by Beijing's continuing price controls: While global crude prices rose over 60% in yuan terms, domestic diesel prices rose only 19%. With margins narrowing and the yuan weakening, refiners had a strong incentive to send production abroad.

Things are improving somewhat this year. The yuan has stabilized and so has domestic growth. That won't be enough to erase the now-structural overcapacity in Chinese refining. Along with the rise in U.S. shale-oil production, this factor could help keep global crude prices in check: Competing regional firms facing lower margins would be even less inclined to build up inventories if crude-**oil prices** start rising.

The impact is spreading to European firms like Royal Dutch Shell and Total. McKinsey notes that lower refinery run rates in Europe last year were partly due to a surge in Middle Eastern fuel imports.

As Chinese oil products start leaking under the door, Western oil refiners celebrating the prospect of higher global growth this year -- including in China -- should temper their optimism.

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REVIEW & OUTLOOK (Editorial)
Teeing Up Trump Tariffs

850 words
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A14
English

Financial markets have been discounting the risks from President Trump's trade policy, but maybe that's premature. This week's actions on "Buy American" and steel aren't immediately dangerous, but they do make protectionist blunders more likely.

Visiting Wisconsin on Tuesday, Mr. Trump ordered a review of federal procurement to buy only U.S. products. He made this sound like a grand new policy, but U.S. law dating to the New Deal already gives preference to domestic businesses bidding for federal contracts. Federally funded transportation projects must use U.S.-made iron and steel.

Mr. Trump's order requires federal agencies to evaluate exceptions to these Buy American policies, presumably with a goal of reducing those exceptions. But agencies make those exceptions when domestic inputs are unavailable or their cost is "unreasonable," which often occurs on large projects.

Take steel, a Trump preoccupation. One reason for exceptions is that domestic manufacturers have limited capability to produce steel of certain strengths, thickness and flexibility. Most higher-strength steels used in thin-walled pipelines are made overseas. Retrofitting plants to produce a type of steel for one or two projects could delay construction and increase the cost. More U.S. workers would have to be retrained, which may not be practical in the short-term. So contractors often have no choice but to import foreign substitutes.

The American Petroleum Institute chronicled some of these supply challenges in its response to Mr. Trump's earlier executive order on domestic sourcing for pipelines. On one pipeline project, only five domestic companies were capable of making a particular grade of steel, but none could produce the required quantity, accommodate the pipe diameters and meet the customer's delivery schedule. Only one U.S. pipe mill bid on another project, and its bid was double that of two international suppliers. It also couldn't meet technical and safety requirements.

Thanks to the North America Free Trade Agreement, Canadian and U.S. companies can integrate their supply chains. Many steel makers operate subsidiaries in both countries. American raw exports -- e.g., iron ore from the Rust Belt and coal from Appalachia -- made up 85% of Canadian steel inputs last year, and some were re-imported. Many U.S. pipe mills use Canadian steel slab and coil made from American scrap metal.

Mr. Trump says Nafta is "a disaster," but the reality is that cross-border economic integration improves efficiency and reduces costs for federal contractors and taxpayers. It also supports jobs in U.S. manufacturing, coal and steel.

Federal officials can also issue Buy America waivers if they determine the rules are "inconsistent with the public interest" or violate U.S. trade obligations. A Trump spokesperson Monday accused federal officials of overusing their waiver authority and said foreign governments don't reciprocate.

But most U.S. trade agreements allow favoritism in domestic procurement for certain industries like defense. Some U.S. states are even allowed to impose preferences for their own home-grown industries (Pennsylvania for steel). The trouble is that blacklisting foreign contractors makes it harder to convince countries, especially in emerging markets, to open up their procurement to U.S. companies.

More potentially dangerous is Mr. Trump's memo, issued Thursday, teeing up tariffs on steel imports. The President ordered Commerce Secretary Wilbur Ross to investigate "whether steel imports threaten to impair the national security." The point of this language is to make it possible for Mr. Trump to invoke Section 232 of the Trade Expansion Act of 1962.

The White House press office explained the gambit: "If the report concludes that steel imports threaten to impair the national security, and the President concurs, he may take several actions, including tariffs, to eliminate the negative effects of steel imports on the national security of the United States."

This sounds as if Mr. Trump has made up his mind and merely wants Mr. Ross to find an excuse to satisfy the language of Section 232. U.S. steel users had better rush their orders because tariffs look like a sure thing. And the main effect will be to raise the U.S. price of steel, foreign or domestic, as U.S. steel makers exploit the tariffs to pad their bottom lines.

That's precisely what happened when George W. Bush imposed steel tariffs in 2002. Economists Joseph Francois and Laura Baughman found that more American workers lost their jobs from higher steel prices than the total employed by the entire U.S. steel industry. A quarter of those lost jobs were in metal manufacturing, machinery and transportation equipment and parts. Some of the biggest losses were in Trump country: 10,553 in Ohio, 9,829 in Michigan and 8,400 in Pennsylvania.

Mr. Trump is moving ahead smartly on deregulation, but his tax and health reforms are stalled in Congress. He may figure that tariffs are political substitutes, but they're an anti-growth tax on U.S. consumers and steel users. They'll cost more jobs than they'll save.

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Heard on the Street
Heed the Alarm Sounded by the Bond Markets

By Richard Barley
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20 April 2017
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B1
English

[Financial Analysis and Commentary]

Do bond investors know something other market participants don't? The 10-year **U**.**S**. **Treasuryyield** has hit a five-month low and has broken decisively out of its recent range -- to the downside. But stocks, corporate bonds and emerging markets are acting like nothing has changed.

The bond-market reversal has been swift. Ten-year Treasury yields have fallen around 0.4 percentage point in just six weeks and settled at 2.202% on Wednesday; the 10-year German yield is back below 0.2% and Japanese 10-year bonds yield zero. The U.S. yield curve has flattened, with the gap between two-year and 10-year yields narrowing to pre-election levels. That could signal concern about the economic outlook. Headline inflation may have peaked, and hard growth data have failed to match the lofty heights suggested by surveys of economic sentiment, particularly in the U.S.

Yet other asset classes haven't succumbed to gloom. Corporate-bond spreads have remained tight even as Treasurys have rallied; U.S. stocks are moving broadly sideways, with European stocks winning favor. In emerging markets, bonds and stocks are taking the softer U.S. dollar and lower yields as encouragement to push higher. Global growth seems to be in decent shape.

A combination of political risks and shifts in positioning may lie behind this disconnect. In the U.S., there is disappointment about the lack of progress on tax and spending policy under President Donald Trump; in Europe, anxiety is high ahead of a French election that is too close to call. North Korea and Syria are geopolitical flashpoints. All of that supports havens such as Treasurys.

Moreover, investors who were betting on higher yields have been wrong-footed. Ultralow rates elsewhere make Treasurys look appealing.

In the near term, politics are more important than economics. The first round of the French elections is an important hurdle for markets to surmount. What would be more worrying for risky assets would be a continued rally in bonds if political risks abate. Then the signal from the bond market would be harder to ignore.

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THE WALL STREET JOURNAL.
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Oil Prices Stop Swinging for Now --- Commodity has been volatile in the past two years, but that has changed in 2017

By Timothy Puko and Alison Sider
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20 April 2017
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B11
English

The wild price swings that characterized the oil market for much of the past two years have faded in 2017, a welcome development for stock and bond investors whose holdings tend to suffer when crude turns **volatile**.

U.S. **oil prices** traded in a range of $50.82 to $54.45 a barrel for most of the past four months. No 60-day trading range has been that tight in nearly 14 years.

Two opposing forces have trapped **oil prices** in that narrow band: Production cuts by the major producing nations have limited price declines while growing U.S. supply has held rallies in check.

That doesn't mean the market is free from the occasional big price swing. Crude futures declined 3.8% on Wednesday after a surprising increase in U.S. gasoline stockpiles. But even those losses weren't enough to knock prices below $50 a barrel, and traders and investors are still betting that the market will remain stable in coming weeks.

The low **volatility** is a stark change from the previous two years, when prices often swung $10 or more monthly, as the Organization of the Petroleum Exporting Countries ramped up production to compete with U.S. shale drillers. Prices fell from $100 a barrel to less than $30 before rebounding last year after OPEC began to explore reductions to output.

Oil-price stability is a **bullish** indicator for other **financial markets**, many investors say. Fuel and shipping are major costs for businesses, so big swings in energy prices can impair planning, said David Rolley, co-head of global fixed income for money manager Loomis Sayles & Co., which has $250 billion in assets.

A stable price "makes us more optimistic about global growth," Mr. Rolley said, as businesses invest more and energy companies face a lower risk of bankruptcy.

Earnings growth for oil-and-gas companies could hit double digits in the first quarter of 2017, said Joseph Tanious, senior investment strategist for Bessemer Trust. "When **oil prices** were dipping lower, that was having a drag on the overall results for the **S&P 500**," he said. "Now we're seeing the opposite of that."

Energy shares in the **S&P 500** rose 24% in 2016. That made them last year's top-performing sector and helped boost the broader market, though these stocks have given back some of those gains this year.

Bond markets also have enjoyed a lift from oil. High-yield debt tends to move alongside crude prices because smaller energy companies have issued $190 billion of outstanding junk bonds, accounting for 15% of the U.S. high-yield market, according to research from Bank of America Merrill Lynch. Dozens of these borrowers went bankrupt during the **oil-price** collapse.

The oil crisis forced many of those companies to cut costs, sell future production and assets, raise new equity and refinance debt. Rebounding prices stabilized their finances and steadied the high-yield market.

Markets have been steadier than they were in early 2016, when stocks and many commodities plunged amid fears that a global recession was at hand. Crude prices dropped 9% over three days in March but otherwise have been largely stable.

Options traders are betting that **volatility** in the next three months will hit its lowest levels since the autumn of 2014.

Not everyone has been pleased by the lack of **volatility**: Executives at Goldman Sachs Group Inc. said during a Tuesday earnings call that stable **oil prices** meant fewer opportunities to make wagers on large price moves, hitting earnings.

And some investors remain unconvinced that **volatility** is going away. Oil's trading range is pricing in an OPEC decision to extend its production cuts for another six months, brokers and traders said. If OPEC reconsiders, that could send prices back to near $40 a barrel, analysts at Citigroup Inc. said last week.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Indexes Fall as Worries About Wages Persist

By THE ASSOCIATED PRESS
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20 April 2017
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Late Edition - Final
2
English

Stocks on Wall Street gave up a promising start and finished mostly lower on Wednesday as investors continued to worry about lagging wages and energy company stocks dropped with the price of oil.

Stocks climbed early as a solid quarter from Morgan Stanley revived optimism about banks and strong results from the auto and industrial parts distributor Genuine Parts sent the stocks of carmakers and suppliers higher.

The gains began to fade around noon as **oil prices** and energy companies sagged. The losses accelerated after the midafternoon release of the Federal Reserve's Beige Book survey of economic conditions.

The **Standard & Poor's 500**-**stockindex** finished down 4.02 points, or 0.2 percent, at 2,338.17. It had risen as much as 10 points, or 0.4 percent, earlier. The **Dow Jonesindustrial average** lost 118.79 points, or 0.6 percent, to close at 20,404.49. Half of the blue-chip index's losses came from IBM, which reported weaker-than-expected sales in the first quarter. The **Nasdaq composite** index rose 13.56 points, or 0.2 percent, to 5,863.03 as health care companies climbed.

The Federal Reserve said that economic growth continued from mid-March into early April and that pay improved for some workers. But investors have been wondering when rising statistics like consumer confidence will start to turn into better pay and more spending.

''Show me where those numbers are translating into something more than just feelings,'' said Brent Schutte, chief investment strategist for Northwestern Mutual Wealth Management. ''People are looking for evidence that these confidence numbers are translating into actual actions, and the Beige Book showed that over the last couple of months, it's been more of the same.''

Oil prices slumped after the Energy Information Administration said United States crude inventories did not shrink as much as investors had hoped they would. The agency said the stockpiles were larger than normal for this time of year. Benchmark crude lost $1.97, or 3.8 percent, to $50.44 a barrel in New York. Brent crude, used to price international oil, fell $1.96, or 3.6 percent, to $52.93 per barrel in London.

All 34 energy companies on the **S**.**&P**. **500** finished lower. Chevron fell $1.45, or 1.4 percent, to $104.23, and Marathon Oil declined 68 cents, or 4.3 percent, to $15.06.

Morgan Stanley reported that profits rose 74 percent in the first quarter. It earned $1.93 billion in the first quarter, or $1 a share, compared with $1.13 billion, or 55 cents a share, in the same period a year earlier. The results exceeded analysts' expectations of 89 cents a share, according to FactSet. Shares rose 2 percent, to $42.04.

IBM slumped after it reported $18.16 billion in revenue in the first quarter. FactSet said that was more than $200 million less than analysts' estimates. IBM stock fell $8.36, or 4.9 percent, to $161.69.

Bond prices fell, negating most of their gains from Tuesday. The yield on the **10**-**year Treasury** note rose to 2.22 percent, from 2.17 percent.

The price of gold, which has climbed steadily in recent weeks, fell $10.30, to $1,281.40 an ounce. Silver lost 11 cents, to $18.16 an ounce. Copper added 1 cent, to $2.53 a pound.

The dollar rose to 108.84 yen, from 108.44 yen. The euro edged down to $1.0714, from $1.0732.

British stocks continued to fall as the FTSE 100 slid 0.5 percent after a 2.5-percent plunge on Tuesday. Other major European indexes recovered modestly. The French CAC 40 gained 0.3 percent, and the German DAX edged up 0.1 percent. In Japan, the Nikkei 225 rose 0.1 percent, and the South Korean Kospi shed 0.5 percent. In Hong Kong, the Hang Seng Index fell 0.4 percent.

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

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WELLS FARGO

Regulator Criticizes

Own Supervision

A national bank regulator blamed itself for failing to catch questionable sales practices at Wells Fargo & Co. for years before a national scandal last fall.

The Office of the Comptroller of the Currency published the results of an internal review that found OCC supervisors missed or failed to address warning signs about the bank's risky sales-incentive program.

The bank examiners knew of reports of sales-integrity violations as far back as 2010 but "did not take timely and effective supervisory actions," the report said.

The bank paid a $185 million fine in September 2016 for what authorities called widespread illegal sales practices that led to the opening of as many as two million phony customer accounts. Many employees were fired or quit as a result of a cutthroat sales culture, and customers were stuck with credit cards or other products they didn't seek.

The OCC report amounts to a detailed critique of failures at the agency, the primary regulator of Wells Fargo. It found that supervisors were aware of complaints about the sales program, including a meeting with a senior Wells Fargo executive in January 2010 where they inquired about 700 whistleblower complaints "related to the gaming of incentive plans."

Examiners in 2010 also pointed out that they hadn't seen the bank assess risks associated with the sales practices or create a good system for monitoring complaints about them, the report said.

-- Ryan Tracy

ENERGY

Crude Falls on Rise

In Gasoline Stockpile

Crude prices had their worst day in over a month after the U.S. Energy Information Administration reported an unexpected increase in gasoline supplies.

The 1.5-million-barrel increase in gasoline stockpiles raised fears that a gasoline glut would cause refiners to cut their purchases of crude.

U.S. crude futures fell $1.97, or 3.8%, to $50.44 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, fell $1.96, or 3.6%, to $52.93 a barrel.

It was the biggest tumble for both benchmarks since March 8, when **oil prices** sold off sharply after weekly EIA data showed an unexpected increase in crude supplies. This time the data showed that crude-oil inventories fell last week, but the 1-million-barrel decline wasn't big enough to assuage concerns about rising gasoline supplies and a 17,000-barrel-a-day increase in U.S. oil production. Output from U.S. oil fields has been steadily rising --

something that could stand in the way of efforts by the Organization of the Petroleum Exporting Countries to bring supply and demand into balance.

-- Alison Sider

Document J000000020170420ed4k0001y

The New York Times

Business Day; DealBook
Goldman's Dim Trading Results Raise Eyebrows on Wall St.

By KATE KELLY
1,141 words
18 April 2017
08:55 PM
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English

Correction Appended

The business of trading bonds, currencies and commodities has been booming this year, with banks like Bank of America and Citigroup reporting robust profits.

Yet the bank most synonymous with that Wall Street business, Goldman Sachs, has weathered an embarrassing setback in what has usually been a core strength for the nearly century-and-a-half-old firm.

All day Tuesday, analysts and investors were asking one question: What happened?

A combination of low trading volume and **volatility** were to blame for the firm's weak trading performance in the first three months of the year, Goldman executives said on a conference call on Tuesday. Volume refers to the number of buy or sell orders clients send Goldman's way, while **volatility** refers to the ups and downs in a market that create opportunities to make profits on price swings. In this case, neither one was in long supply.

"We did underperform," said R. Martin Chavez, Goldman's incoming chief financial officer, "and the underperformance was driven by commodities and currencies."

"Ultimately, we didn't navigate the market well," Mr. Chavez added, "but no quarter defines the franchise."

In other words, don't extrapolate too much from a single three-month period.

But it was Goldman, probably the most admired trading franchise in the world, and Wall Street analysts could talk about little else.

On the first earnings call he has led, Mr. Chavez endured a half-dozen questions from analysts trying to parse the trading results. One questioner, from UBS, even apologized for the repetition. "Sorry to give you a hard time here on your first call," he said.

Mr. Chavez declined to elaborate on what he had already said. A call with reporters afterward followed a similar arc.

Investors, surprised and disappointed by the results, punished Goldman shares on Tuesday. The stock closed down 4.7 percent, leading the **Dow Jonesindustrial average** lower. It was the sharpest daily decline in Goldman shares since the day after Britain's vote to leave the European Union last June, according to data from Bloomberg.

"There's no shying away; it's a bad quarter," Glenn Schorr, a senior financial analyst at Evercore ISI, said in an interview that afternoon.

It was bad enough that Goldman's net revenue from bond trading, which was $1.7 billion, was up just 1 percent from the same period of time last year, he said. But the fact that Goldman rivals like JPMorgan, Citigroup, and Bank of America were up an average of about 21 percent made the situation much, much worse.

"That difference of 20 percent is what all the hoopla is about," Mr. Schorr said.

Goldman did not explain exactly how much money it had lost, if any, on the weakness in currency and commodity trading, saying only that it had notched “significantly lower” net revenue in those areas.

Analysts, however, said that language of that sort often indicates losses in the hundreds of millions of dollars.

The broader picture at Goldman also disappointed investors. The firm reported net earnings of $2.26 billion in the first quarter, nearly double the figure from the quarter a year earlier. But at $5.15, the figure for earnings per share was significantly less than the Wall Street consensus estimate of earnings of $5.31 a share, according to a survey by Thomson Reuters.

Still, there were encouraging signs. At just over $8 billion, Goldman’s overall net revenue, for instance, was actually higher than analysts’ expectations. The firm remains No. 1 among banks in advising companies on mergers and acquisitions, as well as underwriting corporate stock offerings. And Goldman’s net revenue from investing and lending, where it provides capital to outside companies, was at its highest quarterly level in four years.

The earnings disappointment comes amid some management changes at the firm even as its chief executive, Lloyd C. Blankfein, rounds out his 11th year at the top.

Late last year, Gary D. Cohn, the firm’s longtime president and the person who had been viewed as Mr. Blankfein’s most likely successor, left for a senior role at the White House, where he is now the president’s top economic adviser. His departure paved the way for two new co-presidents, Harvey M. Schwartz and David M. Solomon, which in turn prompted the promotion of Mr. Chavez, Goldman’s chief information officer, to chief financial officer, the position Mr. Schwartz had held. Mr. Chavez will take over in May.

In the eyes of some veterans of the firm, it was a much-needed change. Even Mr. Cohn had advocated in recent years the promotion of a new generation of executives. New ideas were needed to address questions of scale and scope at the firm, despite its dominance in many areas.

The quarterly results suggest Mr. Cohn may have had a point.

In addition to Goldman executives’ singling out the low volume and **volatility** in certain trading areas, “they did make a cryptic comment on the call about how the markets could have been managed better,” noted Guy Moszkowski, director of United States research for Autonomous Research.

But Goldman executives suggested that no specific position in the markets had harmed results, and analysts and employees said the problems were more likely caused by the firm’s unique position in the markets than by any one trading misfire.

Goldman’s client base, Mr. Moszkowski noted, comprises more “professional investors,” like hedge funds, than the customers of rivals like JPMorgan Chase and Bank of America, which cater to a broader array of corporate clients.

And corporations can help create bigger trading volumes in areas like foreign-currency trading, even when **volatility** is low, helping to shore up revenue during challenging periods.

And then there’s the fact that Goldman is a bellwether financial stock at a time when the postelection ebullience has cooled a bit.

“People got very enthusiastic about the potential for the administration to do a lot of things, and now it’s turning out that doing a lot of things is going to be harder and take longer than the market thought,” Mr. Moszkowski said. “So it’s a microcosm of that.”

Correction: April 24, 2017, Monday

This article has been revised to reflect the following correction: An article on Wednesday about Goldman Sachs’s earnings misstated, in some copies, the position that R. Martin Chavez, Goldman’s incoming chief financial officer, previously held with the company. He was chief information officer, not chief technology officer.

* For Goldman, the Fintech Revolution Can’t Come Soon Enough

“We did underperform,” said R. Martin Chavez, Goldman Sachs’ incoming chief financial officer, “and the underperformance was driven by commodities and currencies.” | Karsten Moran for The New York Times

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THE WALL STREET JOURNAL.
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U.S. News: Housing Starts Fell 6.8% In March

By Laura Kusisto and Ben Leubsdorf
254 words
19 April 2017
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A2
English

WASHINGTON -- U.S. housing starts declined in March, but not enough to signal a reversal from the long-term trend of improvement in new-home construction.

Starts decreased 6.8% to a seasonally adjusted annual rate of 1.215 million from a month earlier, the Commerce Department said Tuesday.

The decline comes after an unusually strong winter, buoyed by temperate weather in most parts of the country. Single-family housing starts in February hit their highest level since October 2007.

"We had a lot of projects that probably would have started in March but they started in January or February, so there's a little bit of payback there," said Gus Faucher, chief economist at PNC Financial Services Group.

Residential building permits, which can signal future home construction, rose 3.6% to an annual pace of 1.26 million last month and were up 17%, compared with the same month last year.

The permit numbers "should quash any concerns that home builders might be pulling back," said Ralph McLaughlin, chief economist at home-tracker Trulia.

Data on housing starts tend to be **volatile** and imprecise. Still, the trend for the year so far is one of steady improvement. New-home construction was up 8.1% in the first quarter from the same period in 2016. Permits in the first three months of 2017 jumped 10.4% from a year earlier.

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World News: Global Economy on Track for Growth

By Ian Talley and Harriet Torry
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The Wall Street Journal
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A11
English

WASHINGTON -- The global economy is on course for its best performance in several years despite trade tensions and looming geopolitical threats, the International Monetary Fund said ahead of a meeting of world finance chiefs this week.

Investors are skittish over a potential U.S. standoff with North Korea, France's elections and Washington's fresh use of force in the Middle East and Afghanistan. But global investment, manufacturing and consumer confidence are signaling strength. U.S. growth is projected to accelerate. Europe and Japan are finally showing signs of recovery.

Meanwhile, **oil prices** have risen from 2016 lows, boosting inflation readings from exceptionally low levels and offering hope for economies dependent on commodity exports that the worst of the two-year price rout might be over.

The International Monetary Fund, in its flagship report on the state of the global economy, nudged up its forecast for world growth this year a tenth of a percentage point to 3.5%, which will be the fastest rate in five years if the IMF is correct.

"Acceleration will be broad-based across advanced, emerging, and low-income economies, building on gains we have seen in both manufacturing and trade," said IMF Chief Economist Maurice Obstfeld.

While the IMF kept its forecast pickup for U.S. growth at 2.3% for the year -- up from 1.6% last year -- it notched higher outlooks for all five of Europe's largest economies. The U.K.'s bump-up was the biggest, a 0.5 percentage point increase to 2% for the year.

Even with the generally positive projections outlined by the IMF, however, trade frictions, political uncertainty and China's debt problems still threaten to erode and potentially upend global growth.

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The New York Times

OP-ED CONTRIBUTORS
Editorial Desk; SECTA
For Tax Reform, Just Keep It Simple

By STEVE FORBES, LARRY KUDLOW, ARTHUR B. LAFFER and STEPHEN MOORE
1,005 words
19 April 2017
The New York Times
NYTF
Late Edition - Final
25
English

In the aftermath of the health care blowup, President Trump and the Republicans need a legislative victory. Tax reform probably should have gone first, but now is the time to move it forward with urgency.

Unfortunately, the White House seems all over the map on the subject. One day there is a trial balloon for a value-added tax. The next, the idea of a carbon tax or a reciprocal tax. And now we are hearing the curve ball of a payroll tax cut. Steve Mnuchin, the Treasury secretary, has thrown cold water on the idea of any tax bill meeting the August deadline.

One sure lesson from the health care setback is the old admonition ''Keep it simple, stupid.'' The Republicans tried to fix the trillion-dollar health insurance market instead of keeping the focus on repealing Obamacare.

They have a chance to make amends with a new tax bill and still hit the August deadline. We advised President Trump during his election campaign and we believe the Republican Party's lesson for tax reform is this: Don't try to rewrite the entire tax code in one bill.

Instead, the primary goal of Mr. Trump's first tax bill should be to fix the federal corporate and small-business tax system, which has made America increasingly uncompetitive in global markets and has reduced jobs and wages here at home. The White House and the Treasury already have a tax plan that we were involved with last year. The three most important planks of that plan are:

First, cut the federal corporate and small-business highest tax rate to 15 percent from 35 percent, which is now one of the highest corporate tax rates in the world.

Second, allow businesses to immediately deduct the full cost of their capital purchases. Full expensing of new factories, equipment and machinery will jump-start business investment, which since 2000 has grown at only one-third the rate recorded from 1950 to 2000.

Third, impose a low tax on the repatriation of foreign profits brought back to the United States. This could attract more than $2 trillion to these shores, raising billions for the Treasury while creating new jobs and adding to the United States' gross domestic product.

To help win over Democratic votes in the House and Senate, we would also suggest another component: What many workers across the country want most from President Trump is infrastructure funding. As part of this bill, we should create a fund dedicated to rebuilding America's roads, highways, airports and pipelines, and modernizing the electric grid and broadband access -- financed through the tax money raised from repatriation of foreign profits.

As much as possible, this bill should include private financing for projects like toll roads and energy drilling. We also favor ''user pays'' financing, such as toll roads, and we would oppose any Fannie Mae-type financing structure for projects that would put taxpayers on the hook for hundreds of billions in potential losses.

For this strategy to work, Republicans need to take several steps. First, President Trump and Paul Ryan, the speaker of the House, should stop insisting on ''revenue neutrality.'' In the short term, the bill will add to the deficit. But President Trump's tax bill, like those of Presidents Ronald Reagan and John Kennedy, should be a tax cut, and it should be sold to the American people as such.

We should emphasize that business tax relief is not a sellout to corporations but a boon for middle-class workers. A study by the Tax Foundation and Kevin A. Hassett, then at the American Enterprise Institute and now the chairman of President Trump's Council of Economic Advisers, found that middle-class wages rise when business taxes fall.

The additional increase in real wages could be nearly 10 percent over the next decade, which would reverse 15 years of income stagnation for the working class in America. And, if we are right that tax cuts will spur the economy, then the faster economic growth as a result of the bill will bring down the deficit.

Next, Republicans should abandon the so-called border-adjustable tax. A border tax is a poison pill for the tax plan: It divides the very business groups that the party needs to rally behind tax reform. Retailers like Walmart will never go along. A carbon tax would be even worse. The best way to bring jobs back to America is to simply lower tax rates now while rolling back anti-jobs regulations, such as rules that inhibit American energy production.

As for fixing the maddeningly complex individual income tax system -- lowering tax rates and ending needless deductions -- we are all for it, but that should wait until 2018. Jobs and the economy are the top priority to voters.

Republicans need to act with some degree of urgency. The **financial markets** and American businesses are starting to get jittery over the prospect that a tax cut won't get done this year. A failure here would be negative for the economy and the **stock market** and could stall out the "Trump bounce" we have seen since the president's election.

Mr. Trump should demand that Congress send him a jobs bill this summer that he can sign into law on Aug. 13, 2017. That is the day President Reagan signed his historic tax cut in 1981 at his beloved Ranch del Cielo in Santa Barbara, Calif.

That tax cut and President Kennedy's before it unleashed two of the longest periods of prosperity in American history, and that is a result Donald Trump should want to replicate.

Follow The New York Times Opinion section on Facebook and Twitter, and sign up for the Opinion Today newsletter.

Steve Forbes, Larry Kudlow, Arthur Laffer and Stephen Moore, co-founders of the Committee to Unleash Prosperity, advised the Trump presidential campaign on economic policy.

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U.S. News: Goldman Sachs Drags Down Dow

By Ben Eisen
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19 April 2017
The Wall Street Journal
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A4
English

Goldman Sachs Group is tugging the Dow industrials lower.

The lender's stock fell 4.7% Tuesday after reporting earnings for the first three months of the year below estimates. That means it shaved about 73 points off the **Dow Jones Industrial Average** for the day. The Dow fell 113.64 points, or 0.6%. The 30-member Dow index is price-weighted, so Goldman exerts a particularly large influence, since it is the only stock with a share price north of $200. That is good for the Dow on the way up. But Goldman's influence is proving more treacherous on the way down. The bank's shares are off 10% in 2017, subtracting 163 points from the index, which is still up 3.9% so far this year. It is the most negative contributor to the Dow so far in 2017.

(See related article: "Goldman Posts Rare Trip-Up In Trading" -- WSJ April 19, 2017)

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THE WALL STREET JOURNAL.
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Banking & Finance: Fed Pick on Collision Course Over Rates --- Quarles's support for use of formula sets up conflict with current central-bank members

By Kate Davidson and Ryan Tracy
796 words
18 April 2017
The Wall Street Journal
J
B10
English

WASHINGTON -- President Donald Trump's expected choice to be vice chairman at the Federal Reserve has called for setting interest rates using a formula, setting up a clash with current officials who have warned such an approach could undermine the central bank's effectiveness.

Randal Quarles, an investment-fund manager from Utah, is expected to be selected as the Fed's vice chairman for bank supervision, a senior official said. The White House hasn't yet announced its final decision, and neither a White House spokeswoman nor Mr. Quarles responded to requests for comment Monday.

Mr. Quarles has criticized the Fed's policy of keeping interest rates near zero and called for a monetary-policy rule, or formula, to guide rate decisions -- a policy that is popular among some conservatives but has less support among GOP centrists.

The Fed's low rate-policy has "led to a rise in speculative positions across a wide range of asset classes, as all financial institutions find themselves under intense pressure to seek adequate returns," Mr. Quarles said in a March 2016 Wall Street Journal op-ed that he co-wrote, arguing that a rule for monetary policy would help normalize interest rates and reduce the incentive for big banks and smaller firms to take dangerous risks.

In a 2015 television interview he said that by not following a rule, the Fed contributed to instability in **financial markets**. With a rule in effect "there will be certainty in the market as to what the consequences will be," he said.

Fed Chairwoman Janet Yellen and other central-bank officials have objected to GOP legislation that would require the Fed to hew more closely to a monetary-policy rule, arguing it could subject the central bank to short-term political pressure.

Speaking at the University of Michigan last week, Ms. Yellen said the measure "goes even further in interfering with our monetary policy independence" than efforts to subject the Fed's interest-rate decisions to government audits.

Asked in a 2015 Bloomberg television interview about whether his approach would politicize the Fed, Mr. Quarles said: "I actually think that it increases the politicization of monetary policy by having it driven by these discretionary decisions."

If his nomination is sent to the Senate for approval, it also may disappoint some populists and conservatives by putting a more moderate voice in charge of overseeing the nation's largest financial firms.

Mr. Trump's "picks have not been in that populist bucket," said Edward Mills, a policy analyst at FBR & Co., pointing to Treasury Secretary Steven Mnuchin and White House National Economic Director Gary Cohn, both former investment bankers. Mr. Quarles "would continue that pattern."

Mr. Trump and his top advisers say they want to pursue a modern version of the Glass-Steagall Act, which could break up huge banks. Mr. Quarles, in the March 2016 op-ed article, denounced "arbitrarily taking an ax to big banks and irreparably damaging the economy."

Some conservative Republicans believe financial deregulation should be paired with a significant boost in bank capital requirements.

Mr. Quarles's op-ed endorsed a review of postcrisis regulations but warned that "the consequence of a dramatic increase in bank capital is an increase in the cost of bank credit."

Mr. Trump's team is said to have considered candidates outside of traditional Republican circles over the past five months.

Mr. Quarles has donated to Republican candidates for years, served in the Treasury Department of both Bush administrations and was mentioned in 2012 as a contender for Mitt Romney's economic team.

Mr. Quarles held senior posts in the Treasury Department under President George W. Bush, working among other things on international regulatory policy discussions -- an area where he could exert influence if appointed to the Fed vice chairman role.

He left the government in 2006 and was a managing director at the Carlyle Group private-equity firm, investing in troubled banks. He is currently managing director at Cynosure Group.

The Fed vice chairman's job is just one of several decisions facing the White House as it seeks to put its mark on the U.S. central bank. Two other seats on the Fed's seven-member governing board are vacant, and Ms. Yellen's term as Fed chairwoman expires in February 2018.

Mr. Trump's team is considering nominating a Fed vice chairman for supervision at the same time as it puts forward one or two other Fed candidates, according to people familiar with the matter.

None of the nominees have been officially announced.

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The New York Times

Business Day
China's Economy Grows 6.9%, but Warning Signs Persist

By KEITH BRADSHER
1,545 words
16 April 2017
10:36 PM
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NYTFEED
English

SHANGHAI — China's economic data is usually very predictable. But occasionally there are surprises, though so small that by other countries' standards they would barely be noticed.

The country's economy, the world's second-largest behind that of the United States, grew 6.9 percent in the first quarter, led by strong expansion at factories, Chinese officials said Monday. The pace was a slight acceleration in the economic tempo here after five consecutive quarters in which China reported growth of either 6.7 percent or 6.8 percent, a remarkable period of stability in the official data.

Most economists had predicted that China would again report 6.8 percent growth for the first quarter. The slightly higher figure announced on Monday reflected the construction industry's heavy use of steel, which had been expected to slow, while investment in electronics factories rose as overseas demand strengthened.

Government data nonetheless holds some warning signs. While a torrent of mortgages issued by the state-controlled banking sector has helped housing sales, the number of housing starts has been rising even faster this spring.

That mismatch will add to the number of unsold homes, at a time when government policy makers are concerned whether the easy availability of mortgages may have already driven housing prices to unaffordable heights. Last month at the National People's Congress, Premier Li Keqiang lowered China's growth target for this year to "around 6.5 percent or higher, if possible," suggesting that the government's economists expected slower growth.

But for now, Chinese officials are savoring a strong quarter and are quick to attribute it to measures taken last year to close inefficient coal mines and factories and to improve overall productivity.

"Since last year with supply-side reforms, the demand-and-supply relationship is obviously improving and enterprises have more confidence," Mao Shengyong, the spokesman for the National Bureau of Statistics, said at a news conference in Beijing.

There are plenty of reasons not to take the overall stability in economic growth, or even slight acceleration, at face value. Economists instead will parse more detailed data on trade, construction and retail spending to divine whether China — the largest single contributor to global growth in recent years — will continue to keep the world economy in gear.

Yet based on those other data points, the Chinese economy appears to be steaming along, even as Beijing begins trying to rein in rampant lending. Industrial production increased 7.6 percent in March, the best performance since the end of 2014. Investment and retail sales were also unexpectedly strong.

The trick will be to continue that growth while also trying to curb China's dependence on loans by big state-owned banks to large state-owned enterprises, which has allowed these enterprises to go on spending and investing even in money-losing ventures. The government has been reluctant to risk protests by curtailing lending this year, particularly with a big conclave of the Communist Party to be held in late autumn.

Uncommonly Steady Growth

Official data shows that China's economy has grown 6.7 percent to 7.2 percent for the last 11 quarters, a stunningly long period of stability by international standards. By comparison, figures for growth in the United States can move by one or two full percentage points from quarter to quarter.

Now, China is not exactly like the rest of the world. The government directly controls its big banks, huge state-owned companies and other tools it can use to hit its growth targets. The government spends heavily on new roads and rail lines, and a surge in government spending in March helped push the economy along. But the government has much less control over retail spending and private investment, which should make the data more **volatile**.

Chinese officials themselves have said the country's data can be unreliable, though outright fraud has not been documented at the national level. Many economists believe Beijing uses a combination of policy and statistical sleight-of-hand to achieve steady results. By this theory, policy makers there make moves to get what they want, like expanding infrastructure spending and mortgage lending during slowdowns, but they also engage in data smoothing by understating growth in good years and overstating growth in bad years.

Factories Hum

Despite the dubious predictability, other figures suggest that China's economy is expanding at a vigorous pace.

Economists had expected industrial production to maintain in March the same 6.3 percent growth that it demonstrated in January and February and were taken by surprise by Monday's announcement that production was up 7.6 percent. That means China's factories are staying busy. Exports are one reason, as the world appears to be showing more appetite for the types of things that China churns out and sends abroad. The Treasury Department's decision in Washington on Friday not to name China as a currency manipulator, despite a campaign promise by President Trump to do so, removes another possible threat to China's exports.

Consumer electronics have led China's export boom in recent years and have also been at the center of rising domestic demand. Production continues to surge for devices like smartphones and energy-efficient light-emitting diodes, an alternative to compact fluorescent lights or traditional incandescent bulbs.

Liu Rulong, 25, a salesman for Guangzhou Juhong Optoelectronics, a manufacturer of light-emitting diodes based in southeastern China, said that his sales were up 20 percent. He said he was expecting monthly bonuses this spring of $1,160 to $1,450 and that some colleagues earned even more.

"I'm still in the middle — some salesmen did far better than me," Mr. Liu said.

Real estate is a big factor in China's growth. Last year, China's central bank urged commercial banks to step up mortgage lending to support the housing market, which had been weakening in some cities. The additional mortgages have produced frenzied buying over the past year.

March showed a big bulge of extra steel production last year as construction started to take off. So March this year was expected to indicate a slowdown. But steel output last month jumped 7.1 percent from last year's high base.

All this comes amid signs that China is trying to curb the lending that has driven so much of its growth in recent years. That lending kept the economy going but resulted in heavy debt that economists worry could hinder the country's growth for years to come. So far, the government's modest pressure on banks to limit lending, notably through slight increases in short-term interest rates, seems to have had only a limited impact on overall bank lending, however, and little effect on mortgage lending.

Still Building Homes

Chinese households put as much as nine-tenths of their savings into real estate, more than households in many other countries. That has continued to produce strong demand for new apartments, which in turn has led to a brisk pace of construction.

Credit data released on Friday showed that bank loans to households, a category in which mortgage lending plays a leading role, leapt 24.6 percent in March compared to the same month a year ago, even as other categories of lending began slowing somewhat.

But the National Bureau of Statistics said on Monday that overall investment in fixed assets, including factories as well as office towers and apartment buildings, climbed 8.8 percent for the first quarter, little changed from a pace of 8.9 percent for the first two months of the year despite the central bank's modest moves to limit credit. Private investment quickened in March, offsetting a slight slowing in what remains heavy investment by the government, particularly in rail lines and other infrastructure.

Earning and Spending

Chinese blue-collar wages have surged as much as eightfold in the past dozen years. That has considerably eroded the country’s once-daunting advantage in labor costs compared with the West, but it has also produced a broad-based surge in prosperity that has fostered a rise in consumer spending.

The government has wanted for many years to shift the economy away from its dependence on investment and toward a greater reliance on consumption, but that process has been slow. The National Bureau of Statistics said on Monday that retail sales were up 10.9 percent in March from a year earlier, considerably stronger than economists’ expectations of a pace below 10 percent.

Ailin Tang contributed research.

* In China, Property Frenzy, Fake Divorces and a Bloating Bubble

* As China’s Economy Slows, Beijing’s Growth Push Loses Punch

* Inquiry in China Adds to Doubt Over Reliability of Its Economic Data

* A New Economic Era for China Goes Off the Rails

A construction worker outside a building site in Beijing. | Nicolas Asfouri/Agence France-Presse — Getty Images | A welder in the Chinese city of Qingdao. | CHINATOPIX, via Associated Press | A resident near apartment towers in the Chinese city of Yanjiao, near Beijing, in Hebei Province. | Sim Chi Yin for The New York Times | A shopping mall in Beijing in 2015. | Wang Zhao/Agence France-Presse — Getty Images

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THE WALL STREET JOURNAL.
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U.S. News --- THE OUTLOOK: Fed Works on Unwinding Its Portfolio

By Nick Timiraos
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The Federal Reserve is moving quickly to fill in the details of how it will wind down its securities holdings in the years ahead, a process that could start this year and become the next big challenge for investors grown accustomed to easy money from the world's most important central bank.

The Fed wants to move toward a smaller portfolio for several reasons. The economy is on a stronger footing, leaving less need for support from a large bond portfolio. The large holdings have become a political liability, unpopular in Congress. Moreover, getting started now could relieve pressure on possible new leadership in 2018, when Fed Chairwoman Janet Yellen's term ends. Finally, officials want room to ramp the portfolio back up in a crisis if needed.

The Fed moved closer to agreement on the outlines of a plan at its March 14-15 meeting, according to an official account this month and interviews with officials.

Officials want their benchmark federal-funds rate to remain the primary tool for managing monetary policy, which means once they start shrinking the balance sheet they want that process to run in the background with little ripple in the markets.

If the economy performs in line with the Fed's forecasts, the bank could begin allowing its holdings of Treasury securities and mortgage bonds to mature without reinvesting all of the proceeds into new securities later this year or early in 2018.

Officials have penciled in two more quarter-point rate increases this year. After that, the Fed could pause rate increases, set into motion its plan to shrink the balance sheet, and then return to its normal practice of raising short-term rates.

Among the issues the Fed is working to resolve: How large should the balance sheet be when the process ends? The Fed's holdings swelled to $4.5 trillion from less than $900 billion before the financial crisis in 2008 through asset-purchase programs aimed at lowering long-term interest rates and boosting economic growth.

Already, the Fed's portfolio is providing less support to the economy than before because it is holding fewer bonds with long maturities. Holding long-maturity bonds is stimulative because these are especially risky assets. Constraining that supply sends investors in search of other risky assets, lifting values of stocks, corporate bonds and other private holdings.

Even though the Fed will shrink its holdings from current levels, it will end up with more assets than it had before the crisis because its liabilities have grown -- there is more currency in circulation and the U.S. Treasury has increased its cash balance.

Changes in how it sets interest rates will also make the portfolio larger than before. Before 2008, banks held relatively low levels of deposits -- known as reserves -- at the Fed. The central bank managed the federal-funds rate by making small adjustments in those amounts through routine purchases and sales of Treasury securities.

Now, with a large portfolio, the Fed has left the banking system flush with trillions of dollars in reserves. It manages rates by paying interest on the holdings. New York Fed President William Dudley said this month he prefers keeping some excess reserves in the system -- perhaps $500 billion to $1 trillion -- which would mean keeping a larger portfolio of securities than before the crisis.

Economists at Goldman Sachs Group Inc. estimate the balance sheet could shrink to $2 trillion if the Fed chooses to minimize reserves, and hover near $2.9 trillion if the central bank wants a higher level of reserves.

Another question is how fast the Fed should get there. Officials leaned at their March meeting toward reducing holdings of Treasurys and mortgage bonds simultaneously. They could reduce these holdings gradually by tapering the reinvestments of principal payments, or they could stop the reinvestments cold turkey, which would be easier to communicate to markets but could also create more market **volatility**.

Officials at the March meeting seemed inclined to phase out the holdings gradually. That would add only around a year to an already drawn-out process, and officials may conclude it is a small price to avoid a rerun of the 2013 "taper tantrum" on Wall Street, when the Fed signaled an end to its asset purchases, roiling bond markets and sending up rates.

Finally, the Fed needs to manage the composition of its holdings.

Officials have said once they get the balance sheet steady, they want almost all holdings in Treasurys, not mortgages. But because their mortgage bonds have longer durations, the Fed could hold a much larger share of mortgage bonds once the balance sheet stabilizes. This could prompt the Fed to remix its portfolio down the road.

To avoid roiling markets, officials aren't inclined to engage in large-scale sales of the mortgage holdings.

More details about the strategy are likely to emerge in the months ahead.

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Funds: Emerging-Market Debt ETFs Underperform

By Carolyn Cui
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Exchange-traded funds have jolted stock picking with their low costs and strong performance. But in emerging-market debt, they are facing greater competition from active investors.

ETFs, baskets of assets that trade like stocks, have exploded in popularity as a low-cost way to access specific countries or markets. They have become impossible to ignore in the $3.6 trillion emerging-market bond market. Already in 2017, an iShares ETF has attracted more than $2 billion to become the world's largest fund for developing-nation debt.

But in a year when emerging markets are in the spotlight as big winners, underperformance by the ETFs is also raising concerns over whether they are suitable instruments for betting on **volatile** developing nations.

Debt issued by governments and companies in emerging economies can be harder to buy and sell. Higher transaction costs have resulted in tracking errors in emerging-market bond ETFs. The complexity of these bonds, particularly those of far-flung markets, can also give an edge to active bond managers, who in some cases have spent decades gaining an understanding of idiosyncratic political and currency risks.

"There's an aura around ETFs that you're going to get an exposure to an asset class very cheaply and you're going to track the benchmark," said James Barrineau, co-head of emerging-market debt at Schroders Investment Management Ltd. "That by and large works for equities, but debt is a very different instrument."

Assets in the iShares J.P. Morgan USD Emerging Markets Bond ETF, called EMB, reached more than $10 billion this year to surpass the actively managed Pictet Asset Management's Global Emerging Debt fund.

But EMB trailed its benchmark by a cumulative 4.92 percentage points between 2011 and 2016, according to BlackRock Inc. data. That amounts to an underperformance of 0.8 percentage point on an annualized basis. Even after excluding a 0.4% expense ratio, the performance still lagged behind the benchmark by 0.4 percentage point annually.

"We're trying to track the universe as closely as possible, while dealing with the over-the-counter nature of the EM debt market," said Karen Schenone, a fixed-income strategist at BlackRock.

Broadly, the average emerging-market bond ETF has returned over a five-year period 1.66% annually, while their active counterparts returned 1.95%, according to Morningstar Inc. data. From the start of 2017 through Wednesday, the average total return on emerging-debt ETFs was 4.15%, while the comparable figure for active funds was 5.32%. Over three years, ETFs slightly outperformed active funds.

ETF managers say the majority of active managers also trail their benchmark over time. While 62% of the active emerging-market bond managers beat the benchmark in 2016, only 14% outperformed over a five-year period, according to S&P Dow Jones Indices LLC.

"We've done a fairly good job over a long period of time," said Fran Rodilosso, who runs a $3.1 billion VanEck ETF. His fund lagged behind its benchmark by 0.74 percentage point annually in the five years ended March 31 and by 0.27 percentage point after fees.

On average, emerging-market debt ETFs charge 0.46%, while an active fund's expense ratio is 1.16%, according to Morningstar.

The lackluster ETF performance numbers contrast sharply with flows of funds into the securities since mid-2016. Emerging-market bond ETFs have nearly doubled in assets in the past year as of March, while traditional bond funds grew by 30%, according to data provider EPFR Global.

Emerging-market bonds broadly have attracted money this year as the economic outlook for developing countries improved, fears over President Donald Trump's protectionist policies eased and yield-hungry investors piled in.

Simon Lue-Fong, who manages the $7.6 billion Pictet fund, said in the **volatile** world of emerging-market debt, only active managers can identify severe dislocations that lead to outsize returns or protect a portfolio when signs of distress start to surface.

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The New York Times

OFF THE SHELF
Money and Business/Financial Desk; SECTBU
One Stock Market, Two Unconventional Approaches

By PAUL B. BROWN
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With the **stock market** up substantially since the first of the year, and technological innovations continuing to roil the corporate landscape, how should you invest right now?

Two new books offer very different answers, with each taking an unconventional approach.

In the far better one, ''Money Machine: The Surprisingly Simple Power of Value Investing'' (Amacom, $27.95), Gary Smith, a Pomona College economics professor, says you should concentrate on value stocks. In contrast, in ''The Truth About Your Future: The Money Guide You Need Now, Later and Much Later'' (Simon & Schuster $26), Ric Edelman says you need to figure out how to capitalize on trends disrupting how business is typically done.

Let's begin with Mr. Smith, who does an excellent job explaining his position.

''Instead of trying to predict short-term zigs and zags in stock prices, value investors evaluate individual stocks and the market as a whole by looking for good companies that have low stock prices relative to their dividends, earnings and assets,'' he writes.

Mr. Smith uses an analogy to make his case.

''Think of a stock as a machine that generates cash every few months -- cash that happens to be called dividends,'' he writes. ''The key question is how much you would pay to own that machine in order to get the cash. This is the stock's intrinsic value. Value investors buy a stock because it is an inexpensive money machine, generating bountiful cash it is hoped over many years.''

Throughout the book, Mr. Smith provides financial formulas to help you identify value stocks, and his writing is clear and often clever. For example:

· ''Bargains are not going to be found when investors are optimistic, but when they are pessimistic.''

· ''Value investors do not buy metals -- no matter how precious -- because metals do not generate cash.''

· ''It's tempting to confuse a great company with a great stock.''

The book, however, does have its flaws -- one major, a couple minor.

The big one first: It is perfectly defensible to pick one approach to investing -- such as loading up on value stocks, companies with solid revenues, earnings and dividends that are trading at a relatively low price -- over all others. As Mr. Smith points out a number of times, Warren E. Buffett is a value investor. And this reviewer understands that Mr. Buffett has done quite well.

But financial mavens like Mr. Buffett, the maestro of Berkshire Hathaway, are rare, and as Mr. Smith himself points out, ''very few investors think they are below average, even though half are.'' Most of us would be better off with a widely diversified portfolio, something Mr. Smith barely acknowledges.

As for the minor nits, Mr. Smith tends to digress, mentioning academic papers he wrote that are at best tangential to the concept of value investing. For example, he says that stocks with ingenious ticker symbols, such as MOO for VanEck Vectors Agribusiness ETF, tend to outperform the market. That is a fun fact -- especially for us financial nerds -- but I am not sure what it has to do with the matter at hand, and I would not recommend an investment based solely on a cute name.

Similarly, while it is possible that a home could be viewed as a value investment, as he explains, I am not sure the discussion was worth 20 pages of a 300-page book.

These are small quibbles. For the most part, he states his case well.

''The value-investing philosophy is simple,'' he writes. ''Look for great companies whose stocks are inexpensive relative to their dividends and earnings.''

That clarity and brevity are lacking in Mr. Edelman's book. He is a financial planner, but readers expecting detailed investment advice will be disappointed.

For example, after writing that it is vital to diversify your investments among stocks, bonds, cash and perhaps other investments such as real estate, how does Mr. Edelman respond to his rhetorical question ''how much of your portfolio should be placed into each'' of those assets?

Like this: ''The answer is ... it depends. I wish I could provide you a more specific answer right now, but this is just a book on personal finance -- it's not a private, in-depth meeting with a financial planning professional.''

He doesn't even offer general guidelines. He just moves on.

This is already my pick for the most frustrating personal finance book of 2017. And one of the reasons I am so annoyed is that the premise was so promising.

''Financial planning is all about anticipating and preparing for the future,'' Mr. Edelman writes. ''So to understand what your future will be like, you need to understand why it's going to be so radically different from what you have been assuming.''

He then devotes about two-thirds of his more than 300 pages to underscoring things we know but can easily forget: Medical advances could make us live longer, ever-evolving technology will provide more engaging entertainment options, and rapidly evolving workplaces will require continuous education, perhaps extensive enough for us to have to leave the workplace for a while to concentrate on learning new things.

So far, so good. But what do these changes mean for the way we invest? Well, when it comes to leisure and learning, for example, Mr. Edelman's advice is just this: ''Expect to spend lots of money on travel and recreation -- and this will need to be factored into your financial plan.'' How? There are no details.

About as specific as he gets is to say: ''Invest in a globally diversified portfolio. Maintain that portfolio for a very long time. Strategically rebalance the portfolio as needed,'' and ''include companies that are using or developing exponential technologies.''

The ''what'' to invest in, how much of your portfolio it should represent, and what's ''a very long time'' are left to you. That isn't much help when you are trying to determine how to invest today.

(PHOTOGRAPHS BY AMACOM; PATRICIA WALL/THE NEW YORK TIMES)

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The New York Times

Money and Business/Financial Desk; SECTBU
The Muni Market Turns Toward Washington

By CARLA FRIED
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With $3.8 trillion in bonds from more than 50,000 issuers, the municipal market is remarkably large and diverse. But right now, the vast muni universe is focused on one city, Washington.

Numerous proposals of the Trump administration and the Republican-controlled Congress could rattle the market if enacted.

President Trump's call for $1 trillion in infrastructure spending could swell the nation's municipal bond supply, for example, while the possibility of lower corporate tax rates could reduce the appetites of banks and insurers, which now own about 30 percent of muni bonds.

What's more, if personal income tax rates went down (another possibility in Washington these days), demand for muni bonds could drop because the tax-sheltering features of the bonds could be less enticing. Even more troubling for the market, the tax exemption of interest income -- the very foundation of municipal bonds -- is always part of discussions about changing the tax code.

The muni bond market initially reacted negatively to these possibilities. The iShares National Muni Bond ETF fell 4.2 percent from the presidential election until Dec. 2. That was a rough stretch for all kinds of bonds, as interest rates climbed and the Federal Reserve indicated it was on the cusp of more aggressive rate increases, though the muni slide was more pronounced. The iShares Core U.S. Aggregate Bond ETF, which tracks the high-grade taxable market, lost only 2.75 percent in the same period.

But the market may have overreacted, said John V. Miller, co-head of fixed income at Nuveen Asset Management. ''There is a perception that every one of the policies being discussed will be passed and passed in short order and all will be deeply harmful to municipal bond investors,'' he said. The reality is different. ''I expect there will be a delay, and even if some of the proposals get through, they aren't all unequivocally negative,'' Mr. Miller said.

Indeed, after the initial shock wore off, the Bloomberg Barclays Municipal Bond index gained 3.2 percent from its December low through the end of the first quarter, while an index of taxable bonds rose 1.3 percent. ''It's not 100 percent clear it is going to be a rocky year,'' said Cormac Cullen, co-manager of Fidelity Municipal Income Fund.

Professional municipal bond investors are generally sanguine that while policy changes may cause some near-term **volatility**, they are not an existential threat. Depending on how negotiations in Washington play out, there could even be some good news for munis.

For example, the precarious condition of the compromised Oroville Dam during California's heavy rainfall this winter once again put the spotlight on the need for major infrastructure investments. The early estimates to repair the damaged spillway for the tallest dam in the United States are as high as $200 million. While Oroville is an extreme case, there is no shortage of other dams, bridges, roads and transit systems across the country in need of serious care.

The $1 trillion for infrastructure the president proposed may not roil muni bonds too greatly because the outlay would probably be spread out over a decade, making it more digestible for the $3.8 trillion market. Moreover, all or a portion of the money may be earmarked for funding private-public partnerships, which could resemble something along the lines of the taxable Build America Bonds that were issued as part of the 2009 stimulus. In that case, the supply of traditional tax-exempt munis would not swell. "You can't presume all the spending would be for projects financed with tax-exempt money," Mr. Miller said.

Nor is a reduction in the corporate tax rate all bad news. Peter Hayes, head of the municipal bond group at BlackRock, believes that a new rate would not be low enough to cause insurers and banks to high-tail it out of municipal bonds. "What we could see is that they let their municipal portfolios mature and, over time, shift money into other assets," he said. Yet, Mr. Hayes said, "There's also the possibility that the ability of corporations to deduct corporate bond interest goes away." That would lead to less issuance of corporate bonds -- and that could increase demand for muni bonds.

A reduction in personal income tax rates is also not expected to be a seismic event. One possibility is that the top rate would fall from 39.6 percent to 33 percent. That's a lot less than the fall from 50 percent to 28 percent under the Reagan tax cuts, which the municipal market survived. Moreover, it is not as if any state with a high income tax rate is talking about cuts. And right now, a 10-year high-grade municipal bond has the same 2.5 percent yield as a taxable **10**-**year Treasury** note. That works out to a 3.73 percent taxable equivalent yield for someone in a 33-percent federal income tax bracket

As for eliminating the exemption for interest income, changing it would affect thousands of municipalities that rely on muni bonds to finance their public works. For that reason alone, it is widely seen as unlikely to happen.

What has a much higher probability of affecting muni bonds this year is rising interest rates, though even here, the damage may not be great. While a sharp rate spike would cause **bond prices** to suffer bigger losses, Christopher Ryon, municipal bond manager at Thornburg Investment Management, noted that "we are not in a situation where rates are going to take off." (**Bond prices** and bond yields move in opposite directions. Total return is the sum of the yield and the price change.) With expectations for rates that are higher but not too high, "you will be getting more income, which is why you own municipals," Mr. Ryon said.

And that rate rise is making municipal bonds a better value. "Before the election, you were not getting paid to take risk," Mr. Ryon said, citing the fact that the inflation-adjusted yield for a 10-year municipal bond was below zero. Today it is back at 0.65 percent. That is still below the longer-term norm of two percentage points, but it is moving in the right direction.

Nonetheless, rising rates merit some attention. Gary Schatsky, a financial adviser based in New York City, is sticking with short-term municipal bonds maturing in three years or less. The yields are small (around 1 percent before factoring in the tax break), but you aren't exposed to much price movement as rates rise, or if policy changes materialize.

Another way to eke out more yield is to look for portfolios that emphasize bonds rated A (often called single-A) over AA and AAA bonds. A single-A bond is still considered high quality, just a little less than AA and AAA. The 3 percent yield for a 10-year A-rated bond is about a half a percentage point more than the yield for AAA bonds.

Funds and ETFs that track a municipal index hold less than 20 percent in single-A bonds. Actively managed high-quality funds including Fidelity Municipal Income and T. Rowe Price Summit Municipal Income now invest more than 30 percent in single-A issues.

"Single-A bonds offer good risk-reward," said Kevin Ramundo, co-manager of Fidelity Municipal Income. That's a balancing act that will be ever more valuable this year as policy makers bear down.

A damaged spillway at the Oroville Dam in California showed the need for infrastructure investments, which could swell the municipal bond supply. (PHOTOGRAPH BY JIM WILSON/THE NEW YORK TIMES)

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Traders Reposition, and Ease Jam --- Investors had flooded into same bets on growth hopes, but now they are pouring out

By Chelsey Dulaney
475 words
15 April 2017
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English

The wave of global optimism that fueled big bets on everything from cotton to the U.S. dollar in recent months continues to fade, hampered by questions over the path of the U.S. economy and mounting geopolitical tensions.

Hedge funds have cut bets on a stronger U.S. dollar to $16 billion from $26 billion at the start of the year, according to Commodity Futures Trading Commission data. **Bullish** bets on a range of commodities from cotton to copper have also been pared back after touching records this year, CFTC data show.

"These big macro trades have not delivered, for the most part," said Alvise Marino, a foreign-exchange strategist at Credit Suisse Group AG. "The positioning was based on expectations that you would see fiscal stimulus, tax reform. None of that has happened."

The dollar has fallen 3% this year, erasing more than 60% of its postelection gains. Cotton prices have lost 1% in the past month after flirting with a three-year high in March, while copper has tumbled 2.4% over that period.

Signs of fledgling global growth and inflation, compounded by President Donald Trump's economic plans, prompted investors to pour into bets on rising stocks, commodities and the U.S. dollar, in a strategy widely dubbed "the reflation trade." Investors believed that stronger economic growth and Mr. Trump's big infrastructure-spending plans would fuel demand for goods and commodities around the world.

But investors are now facing signs that the U.S. economy is slowing, while geopolitical tensions mount and the Trump administration faces setbacks in pushing through its growth-supportive agenda.

Government data Friday showed a key measure of inflation declined in March for the first time since January 2010, while a separate report showed U.S. retail sales declined for a second month.

Increasingly strained relations between the U.S. and nations such as Russia and North Korea could help revive some of these **bullish** positions. Crude-**oil prices**, for example, stand to benefit from conflict in the Middle East. Net **bullish** bets on oil have fallen to 309,229 contracts from 413,637 contracts in February, CFTC data show.

The dollar could also attract more buyers because of its status as a haven during times of market turbulence.

At the same time, the moderation in positions helps to ease concerns that **bullish** bets had gotten ahead of economic fundamentals, leaving markets crowded -- traders making the same bets -- and prone to swift reversals. Investors with large positions can be quick to retreat on any disappointing news or data, which can set off a cascade of selling as similarly positioned traders scramble to exit those bets.

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Heard on the Street
For Inflation, It's All About Oil

By Richard Barley
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English

[Financial Analysis and Commentary]

Inflation has sprung back to life around the world recently, bringing with it expectations of higher growth and tighter monetary policy.

But much of that revival has been caused by the rebound in **oil prices** from their tumble at the start of last year, and those effects are already fading. The coming months will be a better guide to true inflationary pressures, with potential consequences for markets and monetary policy.

U.S. inflation and retail sales data out Friday show the shift. Headline inflation fell back in March to 2.4% from 2.7% in February due largely to falling gasoline prices. Core prices, which exclude food and energy, were up 2%, their lowest annual reading since November 2015.

Separately, a second straight month of falling U.S. retail sales signals that growth hasn't accelerated along with the higher inflation figures.

Oil's swings have been big in both directions. The price hit bottom in early 2016; the recovery to roughly $50 a barrel from 2016's lows was swift. As a result, on the downward trip oil acted as a drag on headline inflation, but on the rebound it has caused a spike. In January, a barrel of Brent crude was about double the price it was a year earlier; now, it is 27% higher than a year ago. If **oil prices** stick around current levels, then in the next couple of months much of this effect will wash out.

That swing has played out in the inflation numbers. In the U.S., annual energy inflation has moved to 10.9% now from minus 12.6% in March 2016; in the eurozone, it was minus 8.7% in March 2016 and is now 7.3%, pushing up headline inflation. Rising inflation has changed the debate about monetary policy in markets. With the Federal Reserve already gently moving to tighten policy, the spotlight has fallen on the European Central Bank's exit from unconventional measures, particularly because the ECB's mandate focuses on headline inflation.

But the oil peak is old news now. Headline inflation rates in March also fell back versus February in the eurozone, to 1.5%, as the energy push retreated. In the U.S., the inflation outlook is much more solid.

In the eurozone, the underlying rate of inflation remains weak: Services inflation, a proxy for domestically generated price pressures, was 1% in March and has essentially flatlined a little above that level for more than three years.

The rise in inflation has coincided with a buzz about the prospect of reflation and escape from the ultraloose monetary policy that has dominated markets in recent years. Headline data in coming months, once the oil rush wears off, will be a better guide to the real picture for inflation.

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Investors Rethinking Risk --- Rising unease fuels market turnaround after soft economic data, global conflicts

By Corrie Driebusch and Sam Goldfarb
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15 April 2017
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English

Signs of a slowdown in the U.S. economy and rising anxiety in markets are prompting many investors to reassess their portfolios and prune risky positions.

On Friday, the consumer-price index, which measures what Americans pay for goods and services, declined. It was the first monthly decline for core prices, which exclude the often-**volatile** categories of food and energy, since January 2010. The data came a week after the Labor Department said U.S. employers added far fewer jobs in March than economists had expected.

The declines, which helped push the WSJ Dollar Index to its fourth retreat in five sessions, amplify the concern among many investors that markets are entering a treacherous period as lackluster economic fundamentals collide with unpredictable domestic and international politics.

The **S&P 500** is down about 3% from its record hit in March, within the range many analysts have said they expect the **stock market** to end 2017. The CBOE**Volatility** Index, or VIX, climbed every trading day this past week, rising 24% since April 7 to its highest since November. Bond yields have fallen to their lowest level since just after the November elections, reflecting the retreat of expectations that a White House policy onslaught would spearhead a rise in economic growth and inflation.

In recent weeks, Erik Knutzen, multiasset class chief investment officer at Neuberger Berman, said he reduced exposure to large-company stocks and instead put that money into European and emerging-market stocks in some of the portfolios he manages, citing more-favorable valuations overseas.

"We were concerned a lot of optimism and good news was already priced in, and we wanted to take some chips off the table," he said. "We do expect an increase in **volatility**, but we're not expecting a 20% drawdown in markets."

Potential pitfalls for markets are numerous. President Donald Trump this past week reversed several positions that had defined his campaign. In an interview with The Wall Street Journal, he said he supported the Export-Import Bank and declined to label China as a currency manipulator.

At a news conference Wednesday, he said the North Atlantic Treaty Organization is no longer obsolete, as he said repeatedly during the campaign.

On Thursday, after the Pentagon said the U.S. dropped one of its largest nonnuclear bombs on Afghanistan, U.S. stocks fell further.

The perception of policy **volatility** is among the reasons that some investors are increasing holdings of cash, at least for the near term.

"The realization is it's going to be bumpy the next six, nine or 12 months," said Mr. Knutzen.

Bond investors have scored gains amid the turmoil. Over the past four trading days, the yield on the **10**-**year Treasury** note registered its largest one-week decline since last June, settling Thursday at 2.237%, its lowest close since Nov. 16. Yields fall when **bond prices** rise.

Over the past month, one development after another has led investors to rethink assumptions that had previously caused them to sell bonds.

Against this backdrop, one argument for higher yields that has remained intact has been a trend toward higher U.S. inflation. But that also suffered a setback Friday with the release of the CPI report.

While many bond investors had already started to scale back bets on inflation, the report confirmed suspicions "that inflation is not as big of an issue as we thought it was," said George Rusnak, co-head of global fixed-income strategy at Wells Fargo Investment Institute.

One area where U.S. investors might shift money to protect their portfolios: Europe. Demand for European stocks has risen this year thanks to relatively low valuations, data pointing to an improving eurozone economy and polls suggesting far-right candidate Marine Le Pen's odds of winning the French presidential elections have moderated.

Investors poured $1.8 billion into European equity funds in the week through Wednesday, according to data from EPFR Global, the biggest inflows for those funds in 68 weeks. Meanwhile, investors put just $400 million into U.S. equity funds. The prior week, they had withdrawn $14.5 billion, the largest outflow for U.S. equities in 82 weeks.

The moves mark a reversal from the period between Election Day and year-end, when bets that the Trump administration's agenda would supercharge economic growth in the U.S. led investors to pour $57.7 billion into U.S. equity funds while withdrawing $1.1 billion from their European counterparts, according to EPFR data.

While the VIX remains well below its 10-year average, its revival has marked a sharp move relative to the **S&P 500 index**, which fell about 1% since April 7. The VIX is based on options prices on the **S&P 500 index** and tends to rise when stocks fall. Investors also drove up the price of April futures contracts on the VIX relative to May expiration contracts, signaling anxiety around the near term.

"There's some nervousness in the marketplace that's not reflected in the **S&P 500 index**," John-Mark Piampiano, head of equity derivatives strategy at Seaport Global Securities, said.

Gunjan Banerji and Akane Otani contributed to this article.

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Economy Stumbles Despite Optimism

By Eric Morath
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Households, businesses and investors started the year riding a wave of rising expectations for growth with a new, business-friendly president in the White House, but the euphoria hasn't translated quickly into broad economic gains.

Bank loan growth has slowed, economists have marked down projections for output growth, the **stock market** has lost some momentum and consumer spending is taking an anemic turn.

In the latest evidence, the Commerce Department reported Friday that sales at U.S. retail stores, restaurants and online sellers decreased 0.2% in March from the prior month. February sales were revised down to a 0.3% decrease from an initial estimate of a 0.1% gain. It marked the first consecutive declines for retail spending since the first two months of 2015.

"The market in the U.S. in particular continues to be challenged," Jerry Storch, chief executive of Saks Fifth Avenue and Lord & Taylor parent Hudson's Bay Co., told investors earlier this month. "We're planning as if the environment is not going to improve." The retailer is looking to reduce costs in case sales don't improve.

Uneven retail spending stands in sharp contrast to soaring measures of consumer confidence. The University of Michigan's consumer-sentiment measure, released Thursday, is near the highest level in more than a decade, and the index's measure of current conditions touched the highest mark since 2000 in early April.

"The rising levels of confidence we've seen since the election hasn't translated," said Carl Tannenbaum, chief economist at Northern Trust. "Consumers are saying one thing in response to a survey, but doing something different with their wallet."

He said underlying fundamentals -- chiefly job and wage growth -- should support better spending later in the year, but he isn't expecting a near-term spending breakout based on confidence figures.

Inflation unexpectedly weakened in March. The Labor Department's consumer-price index declined a seasonally adjusted 0.3% in March from the prior month, and prices excluding food and energy fell 0.1%, the agency said Friday. It was the first decline for those so-called core prices since January 2010 and the steepest drop for overall prices since January 2015. Slowing inflation pressures could be a sign that it is difficult for firms to pass along further price increases to consumers.

President Donald Trump, stung in recent weeks when an attempt to overhaul the Affordable Care Act stalled in Congress, has cited confidence surveys as evidence of economic momentum. "Economic confidence is soaring as we unleash the power of private sector job creation," he tweetedon Wednesday.

Hiring growth has largely backed up that view, though the broadest measure of economic growth due out later this month is likely to paint a different picture of the first months of 2017.

Many economists project the annualized pace of growth in the first quarter slowed from the 2.1% rate recorded in the final three months of 2016. Following Friday's data release, the Federal Reserve Bank of Atlanta lowered its projection for first-quarter economic growth to a 0.5% pace.

In early February, it expected better than 3% growth. Forecasting firm Macroeconomic Advisers forecasts a 0.6% advance for last quarter.

Macroeconomic Advisers expects a rebound to a 3.6% growth pace for the second quarter. Still, the slow start to the year could make it difficult for the economy to grow for all of 2017 much better than the roughly 2% pace recorded since mid-2009.

Decreased spending at auto dealerships and gasoline stations were the primary drivers of the recent decline in overall outlays at retailers. Spending on vehicles and parts has fallen for three straight months, according to the Commerce Department, the longest streak of declines since 2008. The slowdown in car sales is a worry because they have been a driver of economic growth. U.S. car and light-truck sales hit a record high in 2016.

Dealership lots are swollen amid flattening demand following a record seven-year run of rising vehicle sales. Even with record-high discounts, U.S. dealerships in March carried 72 days' worth of inventory based on the current sales pace, up from 66 days a year earlier.

Tepid sedan sales are the primary reason for the inventory glut, as consumers gravitate toward SUVs and pickup trucks given low fuel prices. General Motors Co. is in the process of laying off about 4,400 workers as it curbs production across several Midwest plants, mostly at factories that make sedans.

Bank loan growth, meanwhile, is slowing markedly. Commercial and industrial loans from banks were up just 2.8% in late March from a year earlier, compared with average growth of 10% in a stretch between 2014 and 2016. Consumer loan growth was up 5.8%, a slowdown from earlier months though in line with average growth in the 2014-2016 periods.

Banks reporting earnings this week said one reason for the loan slowdown was that businesses were turning to booming bond markets for capital rather than tapping credit lines.

It is possible the first-quarter slowdown will quickly reverse itself. In several years of this expansion the economy started out on a slow footing only to pick up as the year progressed. In 2011 and 2014, for example, output contracted, sparking fears of recession. Bad weather and quirks in statistical seasonal adjustments were among the explanations. Worries about external events, including economic uncertainty in Europe and China, also have nagged at business and investor confidence.

Suzanne Kapner and Mike Colias contributed to this article.

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Essay
Business Day; Mutual Funds
Contrition of Uber and Valeant Executives Provide Lessons for Us All

By JOHN SCHWARTZ
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Everybody loves getting an apology. Nobody enjoys making one, especially in public life, where leaders tend to see admitting an error as a sign of weakness.

That's why I'm amazed by what has happened in the last couple of months: A captain of industry apologized for something. No, wait — two of them did! And then an epidemic of apologies started spreading.

One C.E.O., Travis Kalanick of Uber, apologized for — well, basically building an "always be hustlin'" business culture that looked less like a responsible multibillion-dollar corporation than a frat kegger. (Honest, "always be hustlin'" is one of the company's 14 core values. You tell me what it means.) As my colleague Mike Isaac has reported, Mr. Kalanick promised to "grow up," which at 40 is not a terrible idea.

But that apology wasn't nearly as startling as the one from William A. Ackman, a contentious hedge-fund owner who issued a heavy-duty mea culpa to his investors after losing $4 billion.

Let's slow down a moment. That was dollars: four billion of them.

And that's how much Mr. Ackman lost on one investment, in Valeant Pharmaceuticals International, also known as "troubled drug company Valeant." Previously he had lost quite a bundle on his efforts to bet against Herbalife, a supplements company he compared to a pyramid scheme.

Herbalife denied Mr. Ackman's allegations and fought back, hard; last year, the company signed a $200 million settlement with the Federal Trade Commission and agreed to restructure its business. The company declined to talk with me about Mr. Ackman, who continues to maintain a short position in the company — meaning he continues to bet against Herbalife.

As he told shareholders last month, "We remain short Herbalife because we believe its intrinsic value is meaningfully below the current share price, and we believe the stock should eventually decline to zero."

Fortune Magazine estimates Mr. Ackman's losses in the Herbalife mess range into the hundreds of millions of dollars.

That used to seem like a lot of money, but the Valeant debacle makes the problems with Herbalife look sort of puny.

Today, Mr. Ackman is a true Wall Street titan, one whose investment went down like the Titanic. It makes you wonder: What does it take to lose $4 billion on a single company, anyway?

I've lost money in my time (lost a fair bit of change through a hole in my pocket, got out of a co-op apartment at a loss), but this is in such a different league that he's making me feel good about myself. You could call it shekelfreude, if you will.

In the days after the Valeant loss became known, Mr. Ackman tried to make it clear that under no circumstances was any of this Mr. Ackman's fault. His company issued a statement saying that his firm, Pershing Square, "has generated billions of dollars of profits for its investors and double the **stock market** returns since the inception of the firm inclusive of our large loss on Valeant."

“Unfortunately,” the statement continued, “we cannot guarantee that every one of our investments will be successful. We regret the loss which occurred due to Valeant board and management decisions made prior to our active engagement with the company.”

Mr. Ackman was so good at deflecting blame that I thought he might be in the wrong line of work. With that attitude, he’s a natural for politics. After all, in politics, all mistakes are made by overzealous aides. But then he spoiled it by actually apologizing. In March, he called the stake in Valeant “a huge mistake,” and told investors, “I deeply and profoundly apologize.”

Even so, he seemed to turn his mea culpa into a they-a culpa, writing, “In retrospect, we misjudged the prior management team, and this contributed to our loss.”

Was that enough? I called Lanny J. Davis, a former White House special counsel during the Clinton administration who has founded a law firm, Davis Goldberg & Galper, that specializes in crisis response.

He said he has no inside knowledge of Mr. Ackman’s business or of what led to Mr. Ackman bringing out the scourge, but said: “The apology is too little too late. If you’re doing crisis management, it’s not enough to say ‘I’m sorry’ — though that is a good first step.” Instead, he said, the apology has to move things forward. “Here are the facts, here is why I’m apologizing, and here is what I learned so it won’t happen again.”

He added, “If you attack one week and apologize the next week, you’ve got to fill in the gap and be more transparent.”

Mr. Davis had helped me understand why an apology that seemed so strong on the surface felt a little hollow on a second reading. I decided to delve further and got in touch with Susan McCarthy, a writer and co-founder of a great blog that’s all about apologies, SorryWatch.

Ms. McCarthy read through Mr. Ackman’s apology. She, too, found it at war with itself: the boasting about past success and then the mea culpa for the losses.

“A sort of bragpology,” she said. She cited the line stating: “My approach to mistakes is that I personally assume 100 percent of the responsibility on behalf of the firm while sharing the credit for our success.” Ms. McCarthy said, “The wriggling around on I/we, and the repeated blaming of the prior management team make it look like he’s having a hard time taking that 100 percent responsibility.”

We can all learn from captains of industry, from their achievements but especially from their colossal mistakes. (Entire college classes will be devoted someday to the debacle at United, when the airline removed a passenger from a plane by force. The apologies for that one keep coming. And then there’s Sean Spicer, the White House press secretary, who is getting plenty of practice saying, “I’m sorry.”)

Those of us who are not great must also know how to apologize. I intend to do so frequently. And I’ll start with you, dear reader:

Please let me apologize for this article, if it did not make you laugh out loud at least once. Of course, if it did not, this is undoubtedly your fault as a reader without a sense of humor.

However, it does not absolve me of my responsibility. The yuck stops here. Just as long as there aren’t any real consequences.

I hope to do better in the future. I have a plan in place to be 10 percent funnier in every column on the world of investing, quarter over quarter. How? By being funnier. If you are smart, you will see.

And I will grow up. I’m not saying when.

* Bill Ackman and His Hedge Fund, Betting Big

* Inside Uber’s Aggressive, Unrestrained Workplace Culture

* Herbalife Settlement With F.T.C. Ends Billionaires’ Battle

Glynis Sweeny

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Business Day; Mutual Funds
Finding Growth in Pizza, Paint and Credit-Card Companies

By TIM GRAY
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Growth stocks — those whose earnings are expected to grow faster than average — surged in the first quarter. They carried with them the managers of several of the quarter's top-performing stock funds.

Those managers grabbed onto that growth in expected sorts of companies, like Alphabet and Facebook, and in more surprising and mature ones like MasterCard, Domino's and Sherwin-Williams.

Morgan Stanley Growth Funds

Dennis P. Lynch and the growth investing team at Morgan Stanley Investment Management had the unusual distinction of placing three funds among the quarter's best performers: their Growth Portfolio, Multi Cap Growth Trust and Mid Cap Growth Portfolio funds. Mr. Lynch, who leads the team, said that, while the precise holdings of each fund differ, they can and do overlap. Five of the trio's top 10 holdings were the same as of Feb. 28.

The funds are also unified by a philosophy, Mr. Lynch said.

"What we do is try to buy good growth companies and own them for many years," he said. "We look very different from any benchmark. We have differentiated holdings, and we take concentrated positions. And with that, comes some **volatility**." Shares of Amazon and Facebook, for example, each accounted for about 9 percent of the Growth fund's assets at the end of February.

Morningstar's numbers bear out Mr. Lynch's points. The three funds' turnover ratios, indicating the percentage of holdings sold annually, are below average, while their risk ratings are above. Put differently, the funds tend to trade less than average, but their returns tend to roller-coaster more than the indexes they're benchmarked against.

A characteristic shared by many of the funds' holdings is that they can be tough to pigeonhole in a conventional investment sector, like technology or health care, Mr. Lynch said. "If there's not an easy category or comparison, then the company is more likely unique," he said.

Take Alphabet, the holding company for Google. Many people call it a tech company, but it makes its money from advertising, which would traditionally point to media. "They used the internet to create a large audience and then disrupted the advertising world," he said.

Other examples are MasterCard and Visa, lately held by both Growth and Multi Cap Growth. Some investors may classify them as tech companies because they provide networks for transaction-processing. "But what's really driving their economic exposure is consumer discretionary spending," Mr. Lynch said. They are platforms for purchases, becoming more valuable as more consumers and businesses use them.

The largest and, in the most recent quarter, best performing of the three Morgan Stanley funds was the Growth fund. The fund, whose A shares carry an expense ratio of 0.96 percent, returned 16.25 percent for the quarter, compared with 5.5 percent for the **S**.**&P**. **500**-**stock index**.

Columbia Select Large Cap

Thomas M. Galvin, lead manager of Columbia Select Large Cap Growth, approaches his fund in ways similar to what Mr. Lynch does: He and the other managers also concentrate their holdings and aim to hold down turnover.

“We’re trying to identify two to three dozen high-growth companies whose stocks have little to do with one another,” he said. “We then let that growth germinate. We’re trying to invest in companies for three or four years.”

Another point of emphasis is ensuring the returns of the fund’s investments are not correlated with one another. The managers do that by using both statistical screens and fundamental analyses of how businesses may interact in unexpected ways, Mr. Galvin said. It is also one of the reasons they limit the portfolio’s size. After about 35 stocks, he said, correlations in stock prices start to rise. “Either the companies are competing with each other, or they’re impacted by the same macroeconomic trends,” he said.

One of the qualities that drew Mr. Galvin and his colleagues to Domino’s, the pizza delivery chain, was that its size and strong financials have enabled it to invest heavily in technology. And that has differentiated it from independent pizza peddlers, he said.

“The digital divide is finally separating them from the mom-and-pop operators,” he said. “With digital, you tap the app and have a pizza delivered, along with other menu items. Local operators don’t have the financial wherewithal to invest in that kind of technology.”

Mr. Galvin and his team divide their holdings into two groups: established companies, like Domino’s, and emerging ones, like biotechnology outfits. The former “provide ballast to the portfolio,” and the latter, opportunities for outsized returns, he said.

“When you have about half the portfolio in each of those, it blends out at an 18 to 22 percent level” of average earnings growth, he said.

The Columbia fund, whose A shares carry an expense ratio of 1.08 percent, returned 15.6 percent in the first quarter.

Fidelity Growth Discovery

Jason L. Weiner, manager of the Fidelity Growth Discovery Fund, differs from Mr. Lynch and Mr. Galvin in that he doesn’t try to concentrate his fund’s holdings; the fund held 151 stocks on Dec. 31. But he, too, keeps an eye on his turnover ratio (lately 72 percent) and has been pulling it down over the last several years by trading less.

“I was just trading too much, and I didn’t think I was that good at trading,” he said. “If I’m doing good work, I should recognize mistakes, but I should also let the ideas develop.” That means selling when he’s sure an investment has gone bad but also hanging on through down periods if he is confident in a company’s plans and prospects.

Like any growth manager, Mr. Weiner hunts for strong, sustainable earnings growth. That has led him to put more than a third of the portfolio in technology stocks, like Facebook and Amazon. But it can also lead him into less obvious plays like the paint company Sherwin-Williams.

“The paint-store business is huge and consistent and grows nicely year in and year out,” he said. Sherwin-Williams caters to professional painters, and they’re loyal in return. “They don’t want to go to Home Depot,” he said. “They want 30-day terms.” That is, they want to finance purchases for a month, rather than paying upfront.

The business has pricing power, too, he said. The actual paint is a small enough portion of the cost of most paint jobs that the final consumer is not that sensitive to changes in price. “People hire a painter and get a quote and have no idea what the cost of paint is in the quote,” Mr. Weiner said.

The Growth Discovery Fund, with an expense ratio of 0.78 percent, returned 12.15 percent in the first quarter.

* Two Schools of Thought, Adding Up to Success

* Taking the Long View Paid Off in the Short Term, Too

* How Three Strong-Performing Funds Pick Stocks

* Funds That Find Speedsters, Even in a Slow Economy

Dennis Lynch, leader of the growth investing team at Morgan Stanley Investment Management. Three of the team’s growth funds were among the quarter’s top performers. | Vincent Tullo for The New York Times

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The Intelligent Investor: The Expensive Element Of Trading Cheap ETFs

By Jason Zweig
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The costs of trading are one of the worst destroyers of investment returns. That's a fact of life in the markets, although it is easy to overlook in exchange-traded funds, in which commissions and management fees have shrunk almost to zero.

And during placid markets like today's, when buying or selling tends to become cheaper, investors can form a bad habit of ignoring the costs of trading. That can come back to haunt you when turbulence resumes and trading becomes more expensive.

Often dirt-cheap to own, ETFs can still be costly to buy and sell. In a study just published in the Financial Analysts Journal, portfolio manager Antti Petajisto of LMR Partners, a London-based hedge fund, looked at about 1,800 ETFs from 2007 to 2014. He wanted to see how often, and how much, their market prices differed from the value of their underlying assets.

The average difference between price and value among all U.S.-traded ETFs was only 0.06% from 2007 to 2014. The harder the underlying securities are to trade, however, the bigger that gap gets.

Market prices exceeded net asset values by an average of 0.18% among precious-metal funds, 0.29% in short-term bond funds, 0.31% in corporate, high-yield and emerging-market bond funds, and as much as 0.37% in foreign funds investing in small stocks. At individual funds, they can be much wider.

"I was surprised both by how large and how common these differences are," says Mr. Petajisto. Even if you trade only a few times a year, "your ETF portfolio could easily be costing you 1% or 2%, and you might not even know it."

He estimates that the hidden costs of trading ETFs exceed $18 billion annually, a trifle in the trillions of dollars of combined trading in these funds, but real money to those who leave it on the table.

These costs lurk in the normally tiny space between the market price of an ETF and the per-share value of the stocks, bonds and other assets it holds. The market price is the number most commonly quoted, including by most brokers; the value of the underlying assets is much less widely available. So the gap between the two numbers is hard for most investors to see.

A broker making a market in an ETF will buy up a fixed amount of the portfolio's underlying assets in proportions matching their weights within the fund. The ETF's manager then creates new shares in exchange for that equal amount of its holdings. Normally, the fund's new shares and the basket of its assets will be almost identical in price. But fees and transaction costs aren't zero, and it can take time to round up securities that rarely trade, so the prices seldom match to the penny. Think of all this as a single grain of sand in the gears that manufacture an ETF.

During turbulent markets or in thinly traded securities such as municipal bonds or stocks in developing nations, that swap may come off at widely divergent prices. That is a cost of putting illiquid assets into a liquid fund.

When enthusiasm pushes an ETF's share price above the value of its holdings, that is called a premium; when the fund's shares trade for less than its underlying assets are worth, that's a discount.

Before trading, check the fund's "intraday indicative value," a real-time estimate of what its holdings are worth. You can do that on Yahoo Finance by entering the fund's ticker followed by "-IV" or view it on Morningstar.com's quote page for each ETF.

Right now, with markets extraordinarily calm, these costs are minimal. Only about two dozen out of nearly 2,000 ETFs in the U.S. have traded at average premiums or discounts of 1% or more in the past month, according to data from ETF.com. But that is unusual -- and probably unsustainable.

Big, popular funds such as iShares Core U.S. Aggregate Bond, SPDR **S&P 500** and Vanguard Total **Stock Market** ETF normally trade within a few hundredths of a percentage point of their underlying value.

To trade, set a limit order -- a price above which you will not buy or below which you won't sell -- within a penny or two of indicative value.

If you invest through a financial adviser, make sure he or she uses limit orders and always checks indicative value before trading, urges Samuel Lee of SVRN Asset Management in Chicago.

Avoid **volatile** days, says Mr. Petajisto, when premiums and discounts can shoot from fractions of a percentage point to 5% or more.

Typically, several ETFs from different managers invest in similar or identical assets. Track them over time so you don't end up buying one at a big premium.

Finally, favor widely traded ETFs that invest in big, broad markets. The narrower the fund, the wider those hidden costs tend to be. If you must buy a specialized fund, monitor the gap between price and value to see if you can grab it at a discount.

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REVIEW & OUTLOOK (Editorial)
Trump's Weak-Dollar Temptation

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Donald Trump doesn't have many firm policy convictions, but one of them seems to be a mercantile faith in the virtue of a weak currency. The U.S. dollar "is getting too strong," Mr. Trump told our Journal colleagues on Wednesday. "That's hurting -- that will hurt ultimately." Someone should tell him that weak-currency politicians tend to be losers.

One irony of his comments is that for weeks Mr. Trump had been celebrating the boost in economic confidence since his election, which has included a rise in the dollar. When investors have confidence in a country, they tend to put money into assets denominated in that country's currency. The "Trump reflation" in the dollar and stocks, which has since ebbed as the prospects for pro-growth reform seem more uncertain, was a good economic sign.

Mr. Trump's dollar-bashing is also highly unusual because even Presidents who favor dollar devaluation typically say the opposite. Or they say nothing at all, leaving the dollar commentary to the Treasury Secretary, whose mantra usually is "a strong dollar." And that makes sense. Why talk down the purchasing power of Americans?

A dollar-bashing President can also disrupt **financial markets**, as Mr. Trump's comments initially did on Wednesday. The greenback recovered, but currency markets are **volatile** and sharp movements can do serious harm at delicate financial times or take firms under if they've made the wrong currency bet.

Above all, dollar bashing can complicate the Federal Reserve's monetary policy. The Fed is currently in a tightening phase, which tends to support a stronger dollar, so Mr. Trump's comments are counter-cyclical.

But Mr. Trump also told the Journal that he might reappoint Fed Chair Janet Yellen when her term expires early next year. Ms. Yellen is known as a monetary dove who kept interest rates low throughout President Obama's second term. Most analysts interpreted that Yellen mention as a declaration that Mr. Trump wants the same treatment. But if Mr. Trump's policies succeed, growth will be faster and the Fed might have to raise rates more rapidly. The Fed and **financial markets** don't need a monetary kibbitzer on Twitter.

If economics doesn't persuade Mr. Trump, perhaps modern presidential history will. Going back to Richard Nixon, the most economically successful Presidents have presided over strong-dollar eras.

Ronald Reagan's pro-growth policies attracted capital from around the world, and the greenback soared along with U.S. growth. Bill Clinton also saw rapid growth and a rising dollar that sent commodity prices like oil that are traded in dollars crashing. Gasoline at 90 cents a gallon might have saved him after impeachment.

On the other hand, Richard Nixon encouraged an easy-money Fed and took the U.S. off the Bretton-Woods gold standard. One result was rising inflation and an explosion in **oil prices**. Jimmy Carter's Treasury tried to talk down the dollar, and inflation grew worse.

George W. Bush didn't seek a weak dollar but he did preside over one as the Alan Greenspan-Ben Bernanke Fed kept rates too low for too long. Oil and commodity prices rose, making for meager gains in real incomes, while runaway housing prices set the stage for the financial mania, panic and crash.

Much of Barack Obama's tenure was also marked by a weak dollar as the Fed tried to steal economic demand from the rest of the world. But that policy never did raise growth much above 2% a year. The public's frustrations with slow growth and stagnant incomes set the stage for the rise of Bernie Sanders and Donald Trump in 2016.

We aren't saying that a strong dollar is the primary goal of economic policy. That goal is broad prosperity from strong and sustainable economic growth. Monetary policy should seek a stable dollar not "king dollar." But the byproduct of better policies and faster growth might be a flood of capital into the U.S. and a stronger dollar. This isn't to be feared. If a strong dollar were politically damaging, both Reagan and Mr. Clinton would have been one-term Presidents.

Mr. Trump's policy challenge is coaxing faster growth from an economic expansion that is already long at nearly eight years and with relatively tight labor markets. The only way to lift growth above 3% for an extended period is by lifting business and capital investment. That requires deregulation and tax reform that boost supply-side incentives. Worry about that, not the dollar.

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Business Day; Mutual Funds
Vanguard Is Growing Faster Than Everybody Else Combined

By LANDON THOMAS Jr.
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MALVERN, Pa. — The Vanguard trading floor is the epicenter of one of the great financial revolutions of modern times, yet it is a surprisingly relaxed place.

A few men and women gaze at Bloomberg terminals. There is a muted television or two and a view of verdant suburban Philadelphia. No one is barking orders to buy or sell stock. For a $4.2 trillion mutual fund giant that is still growing rapidly, it occupies a small fraction of the space of a typical Wall Street trading hub.

You can barely hear the quiet hum of money being invested — money in scarcely imaginable quantities, pouring into low-cost index mutual funds and exchange-traded funds (E.T.F.s) that track **financial markets**.

In the last three calendar years, investors sank $823 billion into Vanguard funds, the company says. The scale of that inflow becomes clear when it is compared with the rest of the mutual fund industry — more than 4,000 firms in total. All of them combined took in just a net $97 billion during that period, Morningstar data shows. Vanguard, in other words, scooped up about 8.5 times as much money as all of its competitors.

“Flows of this magnitude into one company are unprecedented,” said Alina Lamy, an expert on fund flows at Morningstar. “Since the crisis, investors have been saying, ‘I may not be able to control the market, but I can control how much I pay in mutual fund expenses.’ And when they look for quality funds with low fees, the first answer is Vanguard.”

The triumph of index fund investing means Vanguard’s traders funnel as much as $2 billion a day into stocks like Apple, Microsoft and Amazon, as well as thousands of smaller companies that the firm’s fleet of funds track. That is 20 times the amount that Vanguard was investing on a daily basis in 2009. It is manageable, in large part, because no stock-picking is involved: The money simply flows into index funds and E.T.F.s, and through February of this year, nine out of every 10 dollars invested in a United States mutual fund or E.T.F. was absorbed by Vanguard.

By any measure, these are staggering figures. Vanguard’s assets under management have skyrocketed to $4.2 trillion from $1 trillion seven years ago, according to the company. About $3 trillion of this is invested in passive index-based strategies, with the rest in funds that rely on an active approach to picking stocks and bonds.

More broadly, this deluge of money abandoning higher-price actively managed funds for Vanguard’s plain vanilla cut-rate vehicles has come as an existential shock to a mutual industry that has long been resistant to change.

What is being called the Vanguard effect was felt last month when the indexing giant’s rival, BlackRock, announced that it would revamp its stock-picking operations, promoting instead a process that relies more on computer-driven methodologies.

The effect within Vanguard has been no less profound. For decades, the firm has made the case that cheaper index funds will, over time, outperform more-expensive mutual funds that rely on brainy portfolio managers to pick stocks.

The main advocate of this doctrine was the founder, John C. Bogle, who retired in 1999 but runs a research operation on the Vanguard campus. For years, the firm has relied more on his simple message and the passion of his devotees than on fancy advertising campaigns to spread the word.

Unlike its peers, Vanguard is owned by its funds — and ultimately its investors — so as money rushes in, expenses are persistently reduced, resulting in perpetual savings for the legions of Vanguard clients. They number well over 20 million and include New York Times employees: Vanguard runs the company's 401(k) retirement plans.

The model has been a powerful one: Since 1976, fees on Vanguard funds have fallen to about 0.12 percent from about 0.70 percent. By comparison, Lipper calculates that the average fee for all mutual funds is currently 1 percent, although it has been coming down rapidly.

"Mr. Bogle used to say, 'This is not our money,' and I agree," said F. William McNabb III, Vanguard's chief executive, referring to the extraordinary inflows. "For many years, there has been a real move to our way of investing. And it's more than active versus passive — it's high cost versus low cost."

This no-frills approach has come under some strain as cash flowing into Vanguard funds reaches new highs year after year, some people who follow Vanguard closely say. There have been reports of operational snarls, including website outages, longer-than-usual wait times on the phone and misdirected fund transfers.

"All this growth has come at the same time that the company has been cutting costs," said Daniel P. Wiener, the editor of the Independent Adviser, a newsletter for Vanguard investors, who says he has received many complaints about the current state of customer service at Vanguard. "Most companies when they are growing spend more. Vanguard is trying to spend less. At some point, cutting costs will bite you."

There is no doubt about Vanguard's commitment to pinching pennies. In touring the 287-acre campus of pathways, low-slung buildings and a commanding statue of Mr. Bogle, the sensibility is decidedly puritan.

There are few flashy cars to be found in the parking lots. The walls are largely devoid of eye-catching art — with the exception of some musty paintings of the HMS Vanguard, a Napoleonic-era British warship that inspired the company's name.

In sum, the look is slightly drab, certainly by Wall Street standards: rows of uniform cubicles, colorless carpets and an executive boardroom that seems more appropriate for a community college than one of the largest financial institutions in the land.

Vanguard executives say they are disciplined in terms of plowing money back into people and technology, but not overly so. "Our true investment spending has doubled in the past five years," Mr. McNabb said.

This tension between breakneck growth and spending restraint is most acutely felt in the firm's retail division — or the front lines, as they are referred to here — where 6,000 customer service representatives attend to the wishes, demands and whims of the close to eight million clients who purchase their mutual funds directly from Vanguard. In 2015 and 2016, this division added 350,000 new accounts each year, numbers never before seen at the firm.

"The spotlight is on us, given the growth, and there have been operational challenges," said Karin A. Risi, who oversees Vanguard's retail investor group and is in the midst of an aggressive hiring push. "But it is not fair to say we are not investing. Bringing in 2,000 crew on a base of 6,000 is not insignificant."

As with many executives at Vanguard, Ms. Risi gets a glint in her eye when she talks of the virtues of investing in low-cost index funds. Like the majority of her peers, she has spent the bulk of her career at the firm and, as a certified culture carrier, it is clear that she is taking the current growing pains to heart.

"My parents were Vanguard investors, and I was investing in Vanguard funds in high school," she said. "So I feel the burden of this responsibility. We are serving a mission here."

Beyond their devotion to indexing, Vanguard employees talk as if they are working on a frigate, a nod to the nautical images and themes embraced by Mr. Bogle at the company's founding.

Employees are called crew, one eats at the galley (not the cafeteria) and works out in the "ship shape" room, and new workers come onboard as opposed to being hired.

"You absorb the culture and you join the cause," said Joseph Brennan, who, as head of global equity indexing, has had a front-row seat as the firm has expanded. His division embodies Vanguard's credo of do more with less: The 45 people he oversees globally look after $2 trillion in assets.

"Our assets per head are incredible," he said. At $44 billion per person, that certainly qualifies as an understatement.

Up and down Wall Street, where the sum of a firm's assets under management has become a badge of power and sway, Vanguard's ability to attract and run so much money with so few people has been a cause for envy and disbelief. Some have even warned that index funds will distort the broader market, especially if active stock pickers are pushed farther to the sidelines.

Already, six out of the 10 largest mutual funds by asset size belong to Vanguard, with the largest, Vanguard Total **Stock Market** Index, now weighing in at $465 billion, according to Morningstar. Only two — American Funds' Growth Fund of America and its EuroPacific Growth Fund, both belonging to the Capital Group — are actively managed, promising higher returns for a steeper fee.

"There is this existential crisis in the soul of every professional asset manager," said Josh Brown, a financial adviser and blogger at Ritholtz Wealth Management. "Vanguard has become synonymous with the idea that people should pay less — not more — for **stock market** exposure."

Correction: April 23, 2017, Sunday

This article has been revised to reflect the following correction: An article in the Mutual Fund Quarterly last Sunday about the growth in inflows to the index fund giant Vanguard misspelled the given name of the executive who oversees its retail investor group. She is Karin A. Risi, not Karen. (The error was repeated in a picture caption.)

* Extolling the Value of the Long View

* BlackRock Cuts Fees and Jobs; Stockpicking Goes High-Tech

* The Man Who Hates E.T.F.s

* Give Fees an Inch, and They'll Take a Mile

A statue of the Vanguard founder, John C. Bogle, at the Vanguard headquarters in Malvern, Pa. | Mark Makela for The New York Times | "Mr. Bogle used to say, 'This is not our money,' and I agree," said F. William McNabb III, Vanguard's chief executive. | Mark Makela for The New York Times | Vanguard employees on the equity trading floor, a relatively relaxed place. | Mark Makela for The New York Times | "My parents were Vanguard investors, and I was investing in Vanguard funds in high school," said Karin A. Risi, who oversees Vanguard's retail investor group. | Mark Makela for The New York Times

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Business Day; Mutual Funds
Markets Saw a Trump Bump, Then Hit a Speed Bump

By CONRAD DE AENLLE
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The Trump bump in the **stock market** ran into trouble when the Republican effort to "repeal and replace Obamacare" foundered in Congress and the Federal Reserve increased interest rates, raising doubts that developments in Washington would treat the markets as kindly for the rest of the year as they appear to have done right after Election Day.

Stocks had recorded a succession of highs in the hope that President Trump's proposals for significant infrastructure spending, reduced regulation and an overhaul of the tax code would be enacted and be good for business.

But then, the market became choppier.

"The realization is setting in that even with a Republican White House and congressional majority, it doesn't ensure a smooth enactment of legislation," said Rebecca H. Patterson, chief investment officer of Bessemer Trust, a firm that advises wealthy families. Referring to the decline in March that accelerated after the health care bill showed signs of stalling, she added: "How much hope was priced in? Well, that much was priced in."

Maybe more than that, according to Komal Sri-Kumar, president of Sri-Kumar Global Strategies.

"We need all of the Trump stimulus to take place, and we need a tax cut," he said, to justify stocks' trading as high as they are. "I don't think either is going to take place in a hurry."

If at all. Robert Arnott, co-manager of the Pimco All Asset Fund, said that while the prospect exists for Mr. Trump to be "a transformational president" who can succeed at "disentangling the regulatory state, cutting a lot of red tape, making it easier for free enterprise to be free, a lot of that is likely to turn out to be wishful thinking."

It was wishful enough to take the **Standard & Poor's 500-stockindex** up more than 12 percent between Election Day and the beginning of March. For the first quarter, the benchmark index rose 5.5 percent, closing at 2,362.72.

When it comes to the outlook for monetary policy, the thinking is mixed. Ms. Patterson said the Fed's move last month "was perceived as an incredibly dovish hike, if that's not too much of an oxymoron." That's because Janet L. Yellen, the Fed chairwoman, declined to discuss plans for selling trillions of dollars of Treasury instruments and other securities added to the Fed's balance sheet after the global financial crisis through its quantitative easing program.

Mr. Sri-Kumar envisions a more accommodative Fed than is widely expected. The economy will remain too anemic for more than one rate increase a year for the time being, he predicted.

Jeffrey Gundlach, chief executive of DoubleLine Capital, counters that central bankers would have to be more assertive because, with the unemployment rate below 5 percent and inflation above 2 percent, "they have met their policy objectives."

"We've moved into a base case where it's not so much that if the data improves, the Fed will consider raising rates," Mr. Gundlach said. "Now if the data stays where it is, the Fed will raise rates once a quarter. If you look under the hood" at Ms. Yellen's commentary last month, "it wasn't that dovish."

Tighter monetary policy is ultimately good for long-term government bonds, all else being equal, he said, because it depresses economic growth and inflation. As he put it, “the long-bond market wants the Fed to destroy the economy.”

But the economy is still doing well enough to keep the **10**-**year Treasury** yield from falling much further, Mr. Gundlach predicted. He foresees it falling to 2.25 percent from 2.4 percent on March 31, before heading close to 3 percent later in the year. He would avoid buying longer-term government debt, therefore, and high-grade corporate bonds, which he said had “huge interest-rate risk.”

As for stocks, they would face pressure from a further rise in bond yields, he warned.

“The argument for stocks has for quite some time been that they’re better than bonds,” Mr. Gundlach said. “As interest rates move higher, you start to get real competition” for investors’ money. “It’s going to be a tough environment in the middle of this year with bond yields rising.”

It was a sufficiently favorable environment in the first quarter to send the average domestic stock mutual fund up 4.9 percent, according to Morningstar. Portfolios that focus on technology and health care did especially well, while specialists in industrials and financial services lagged.

The average taxable bond fund gained a modest 1.6 percent.

Tobias Levkovich, chief United States equity strategist at Citi Research, contends that the economy is humming along better than many on Wall Street believe and that it makes more sense to attribute the rally in stocks to stronger growth than to a Trump bump.

“The economy and earnings data were getting better before the elections,” Mr. Levkovich said, with measures like new business orders and capital spending already on the rise. “The Fed was watching all this data, as well,” he added, and that’s why it raised rates in March.

His benign economic view leads him to be wary of bonds; he expects a **10**-**year Treasury** yield of 2.6 percent at year’s end, and little opportunity for gains. He encourages investing in stock sectors that are especially sensitive to growth, like energy — which he said had been underperforming technology almost to the extent that it did during the 2000 tech bubble — and industrials. He also likes narrower segments like biotechnology and producers of entertainment and media content.

Ms. Patterson is less hopeful about the economy and stocks. While she finds that economic and earnings growth “continue to look pretty good,” she thinks a downward turn in the cycle is approaching.

“We’ve been neutral on stocks since late spring, and we’ll probably stay neutral until it’s time to go underweight,” she said, adding a caveat: “You don’t want to be too nervous too early.”

Although she is less hopeful on the economy than Mr. Levkovich, Ms. Patterson likewise favors energy stocks. She also recommends health care and would avoid materials stocks, another economically sensitive sector.

“We went into the year thinking equities were already highly valued and we’re in the latter stages of the economic cycle,” she said. “We’re telling our clients that over the next few years we’ll have positive equity returns, but that they have to manage their expectations.”

With his low expectations for the economy, Mr. Sri-Kumar advises a liberal allocation to Treasury and high-grade corporate bonds, and he would limit exposure to the **stock market** to defensive sectors like utilities and consumer staples.

Investors have seldom felt the need to go into a defensive crouch during the eight-year bull run in stocks. The market appears pricey, Mr. Arnott said, based on the CAPE Shiller ratio, which compares share prices to the last 10 years of inflation-adjusted earnings to get a valuation reading that adjusts for the shifts of the economic cycle.

“Now, we sit with a Shiller P.E. that briefly touched 29,” he said. “That’s pretty expensive,” more so than at any time in the last century, he said, other than just before the 1929 crash and in the run-up to the popping of the tech bubble in 2000.

“That’s heady company to be keeping,” he said. “It’s not a slam-dunk formula for a market crash, but it suggests very high odds for long-term anemic returns.”

Mr. Arnott finds the return prospects much better abroad, with stocks trading at 13 times earnings in Europe and 12 times in emerging markets. As for bonds, local-currency debt in emerging markets yields about 6.5 percent on average, compared with 1.5 percent for a basket of long-term government issues from the United States, Germany, Japan, Britain and France.

Emerging markets "are priced for deep disappointment," he said. "Any upside surprise is not priced in."

Funds that invest in emerging stock markets did not disappoint in the first quarter. The average one rose 11.9 percent, helping the average international stock fund to return 7.9 percent.

Mr. Gundlach prefers foreign markets for similar reasons. He favors France, where returns have lagged those in other European countries, like Germany and Britain, over the last year. A populist presidential candidate, Marine Le Pen, has continued to poll well ahead of French elections that will begin next Sunday, although she is not expected to win.

Among emerging markets, he considers India an excellent investment over the very long term. He foresees its economy developing much as China's has over the last few decades.

"When foreign markets outperform the U.S., you see tremendous enthusiasm for U.S. investors to diversify, but they're buying what has already gone up," Mr. Gundlach said. "If diversification is prudent, why not do it when you've already made big profits on U.S. investments?"

Chris Koehler | Shoppers on Fifth Avenue in Manhattan. Stocks rose after Donald J. Trump's election, but the campaign promises that powered the rally have yet to be realized. | John Taggart for The New York Times

Document NYTFEED020170414ed4e005xx

The New York Times

Business Day; DealBook
Bank Lending Stalls on Doubts About Trump's Pro-Growth Agenda

By MICHAEL CORKERY
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Many business owners and corporate executives have expressed unbridled optimism that President Trump can fuel economic growth and increase their profits.

Their borrowing habits, however, may tell a different story.

Some of the nation's top bankers said on Thursday that businesses were feeling less certain that Mr. Trump can pull off his ambitious agenda to deregulate and cut taxes.

Many industries, the bank executives said, are increasingly cautious about taking on too much new debt, particularly after efforts to replace the Affordable Care Act failed last month, raising doubts about whether the president can get pro-business measures like tax cuts through Congress. And such political uncertainty comes at a time when the Federal Reserve has embarked on raising interest rates, which will make borrowing costlier.

"They all want to believe that there is more growth ahead, but they need to see something out there before they act," John Shrewsberry, the chief financial officer of Wells Fargo, said in an interview.

Wells Fargo, a leading lender to American consumers and businesses, said its outstanding loans in the first quarter had increased just 1 percent from a year earlier.

Citigroup, which has a large global presence operating in dozens of countries, said its lending growth wasn't that much larger, with overall loans rising 2 percent.

Earnings reports on Thursday from three of the nation's biggest banks — Wells Fargo, Citigroup and JPMorgan Chase — offered the latest indications that corporate America and Wall Street were giving a more sober assessment to the feasibility of the growth-focused Trump agenda.

The results followed recent signs that lending has been slowing, and in some cases declining more broadly in the banking industry. Data from the Federal Reserve showed that lending in February was flat, while lending to manufacturers and energy companies was in decline, after many months of growth.

"If this continues, it is definitely concerning," said Leo Mourelatos, a United States country risk analyst with BMI Research. "It would signal that the U.S. economy is much weaker than the current consensus."

Yet the banking data may be sending out some mixed signals.

Some economists said the lending decline reflected in the Federal Reserve data — particularly commercial and industrial loans — was driven not by any broad weakness or lack of confidence but by a decrease in energy lending because of low **oil prices**.

Another factor was the paring of business inventories. Businesses typically borrow from banks to purchase inventories of goods and parts. With smaller inventories, businesses need fewer loans.

Bank loans are also not the only way that companies can borrow. Large corporations in particular have also been able to tap the bond market for financing, which may also be taking a share from bank lending.

Executives at the nation's largest bank, JPMorgan Chase, played down concerns about slowing loan growth, noting that its loans had risen 6 percent from a year ago.

“U.S. consumers and businesses are healthy over all and with pro-growth initiatives and improving collaboration between government and business, the U.S. economy can continue to improve,” said the bank’s chief executive, Jamie Dimon.

On a conference call with analysts on Thursday, Mr. Dimon said: “I wouldn’t overreact to the short-term thing about loan growth.”

He added that it took time for a new administration to push through an agenda and counseled patience. “To expect it to be to be smooth sailing would just be silly,” Mr. Dimon said.

It was just such optimistic expectations that helped drive a powerful rally in the **stock market** after Mr. Trump’s election. Recently, stock prices have been weaker as investors have grown a bit more pessimistic. The benchmark **Standard & Poor**’**s500 index** fell 0.68 percent on Thursday, led by energy and financial shares. For the holiday-shortened week, the index closed down 1.1. percent.

Mr. Shrewsberry of Wells Fargo noted that the optimism about a pro-growth agenda had buoyed the spirits of business community after the election and into February.

But after the health care overhaul failed, he noted a change. “There is more waiting and seeing going on,” he said.

Citigroup’s chief financial officer, John Gerspach, also said businesses might be looking for more certainty from Washington before ramping up their borrowing.

“We haven’t seen concrete changes yet in policies,” Mr. Gerspach said in a conference call with reporters on Thursday.

The banks themselves are also waiting to see whether President Trump delivers on his promise to roll back the 2010 Dodd-Frank Act, a financial regulatory overhaul passed in the wake of the financial crisis that has required banks to hold increasingly more capital and restrict certain types of trading.

At the same time, the Trump administration has thrown the banking industry a curveball by raising the possibility of restoring a version of the Glass-Steagall Act of 1933, which required banks to separate their commercial and investment banking activities. The idea also has the support of liberals like Senator Elizabeth Warren, the Massachusetts Democrat and one of Wall Street’s toughest critics.

The Glass-Steagall law was repealed in 1999, paving the way for the creation of sprawling mega-banks like Citigroup and JPMorgan Chase.

Big banks have argued that the current model — in which banks fund their investment banking activity with customers’ deposits — has helped provide credit to companies and consumers across the world. It is at the core of the large bank’s profits, giving them a big advantage over smaller competitors.

Efforts to bring back Glass-Steagall — which would effectively break up the big banks — has left the industry slightly perplexed.

“I would have to wonder how that would be consistent with deregulation or boosting growth, which is the goal of this administration,” Mr. Gerspach, the Citigroup chief financial officer, said on Thursday.

Kate Kelly contributed reporting.

Jamie Dimon, the chairman and chief executive of JPMorgan Chase, played down worries over loan growth on Thursday, saying, “I wouldn’t overreact to the short-term thing about loan growth.” | Molly Riley/Agence France-Presse — Getty Images

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THE WALL STREET JOURNAL.
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Heard on the Street
Beware the Coming Profit Squeeze

By Justin Lahart
558 words
14 April 2017
The Wall Street Journal
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B1
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[Financial Analysis and Commentary]

Companies may not give up fat profit margins without a fight. That could soon pose a problem for the economy.

First-quarter results are starting to roll in and expectations are running high. Analysts polled by Thomson Reuters I/B/E/S estimate that earnings at companies in the **S&P 500** will be up 10% from a year earlier, marking the strongest profit growth since 2011.

Despite the gains, investors should remember that the earnings of the global companies in the S&P don't always reflect what is happening in the American economy.

The domestic profit picture is more challenging, with revenue climbing slowly and rising labor costs threatening to bite into the bottom line.

The first quarter of last year was rough for the global economy, with the combination of falling commodity prices, a rising dollar, strained emerging markets and a slowing Chinese economy weighing on the overseas operations of U.S. multinationals.

That has set up a nice comparison for the first quarter, and is a big factor behind the expected strength in S&P profits. But when it comes to just multinationals' domestic businesses, and the businesses of companies that only operate in the U.S., earnings growth probably hasn't seen so much oomph.

The economy continues to grow slowly, with economists now estimating gross domestic product grew at just a 1.2% annual rate in the first quarter. Low inflation shows that companies still don't have much pricing power. But a tightening job market is pushing labor costs higher, with last Friday's jobs report showing the Labor Department's measure of aggregate wages up 4.1% in March from a year earlier. It all adds up to increasing pressure on profit margins.

Indeed, one measure of margins within the U.S. -- domestic after-tax profits as a share of gross value added at nonfinancial companies -- began slipping over two years ago. That matters, argue economists at Cornerstone Macro, because when domestic profit margins roll over it is often a sign the economic expansion is getting old. To judge from where margins peaked during the past 10 cycles, the most recent peak would suggest that the expansion is about three-quarters of the way to its finish. That would suggest a recession around the third quarter of next year.

Narrowing profit margins present a risk to the economy, and companies may not give up fat profit margins willingly. But trying to preserve profits in the face of rising labor costs by cutting back on hiring and spending ends up hurting demand, which makes the profit problem worse. A vicious cycle ensues.

There are things that could disrupt this story: If President Donald Trump and Congress can hammer out a corporate tax cut, for example, margins would at least temporarily improve, forestalling the squeeze. If economic growth picks up, revenue would, too, so more money would fall to the bottom line.

And maybe, since margins are still quite wide, historically speaking, management teams will allow them to fall slightly without too much grumbling. Ultimately, that might be the optimal outcome for the companies, for their investors and for their workers. But people don't always do what is best for them.

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THE WALL STREET JOURNAL.
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U.S. News: Economists Trim Growth Forecasts

By Josh Zumbrun
585 words
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The Wall Street Journal
J
A2
English

A growing number of forecasters are beginning to reconsider their **bullish** outlooks for the U.S. economy as doubts grow over the extent to which President Donald Trump will be able to implement his agenda.

The prospect of single-party control of Congress and the White House -- coupled with campaign promises to overhaul the health-care system, simplify the corporate tax code and launch a major infrastructure package -- had sent optimism about the U.S. economy soaring. Following the election, respondents to The Wall Street Journal's monthly survey of forecasters significantly raised their estimates for growth, inflation and interest rates.

But the collapse of the initiative to "repeal and replace" President Barack Obama's health-care law last month underscored Republican Party divisions that might make it difficult to reach consensus on initiatives that could provide an economic stimulus, such as lower corporate taxes or federal funding for infrastructure.

"Many people still remain too invested in Trump's campaign promises of a large fiscal-stimulus program," said Bernard Baumohl, chief economist of the Economic Outlook Group. "But as time passes, the lack of follow-through will turn that optimism into disappointment, if not outright skepticism."

Growth forecasts for the first quarter have come down. In December, the average forecast called for 2.3% growth in the first quarter. That fell to 1.9% in March and dipped again to 1.4% in this month's survey.

Fewer forecasters are now banking on a large push from Congress. In January, 71% of economists were including significant fiscal-policy changes in their forecasts. In April, that number was down to 44%. A majority now say "significant" changes are unlikely, although many said a small fiscal boost remains possible.

"It is entirely debatable how stimulative any tax program will ultimately be," said Constance Hunter, chief economist of KPMG. "The timing of a tax overhaul in 2018 is still up in the air, meaning it is unwise to incorporate into forecasts just yet," she said.

In an interview with The Wall Street Journal this week, Mr. Trump said he intended to finish dealing with health care before releasing guidelines for lawmakers to write tax legislation.

Forecasts for the pace of job growth have also dipped. The forecasters now expect 169,000 jobs a month added in the year ahead, down from 187,000 in last month's survey. That downgrade owes, in part, to the Labor Department's employment report for March, which showed the economy adding 98,000 jobs.

Many economists believe consumer sentiment is likely to come down, too. After the election, consumer confidence soared. Only about 10% of economists believe sentiment will stay elevated. A majority, 53%, said the economy would improve, but not enough for sentiment to remain so high.

There was "undue optimism regarding the speed at which Washington, D.C., can move," said Michael Fratantoni, chief economist of the Mortgage Bankers Association.

For the first time since the election, less than 50% of economists saw upside risks to their economic forecasts, meaning the economy could perform better than they estimated.

In April, 46% of forecasters saw greater upside risks, compared with 62% last month. The chances of a recession in the next 12 months climbed to 16% from 14% last month.

The survey of 61 financial, academic and business economists was conducted from April 7 to April 11. Not every economist answered every question.

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THE WALL STREET JOURNAL.
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Markets & Finance: Hedge Funds Missing China Rally --- Foreign investors remain wary even as Chinese shares far outpace their gains

By Gregor Stuart Hunter and Laurence Fletcher
821 words
14 April 2017
The Wall Street Journal
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B11
English

Chinese stocks' banner year is failing to persuade major foreign investors like big hedge funds.

They are wary for reasons including China's slowing economy, growing debt and history of market crashes. There are fears, too, of a U.S.-China trade war. Others say they are finding surer, if less dramatic, gains closer to home -- from U.S. stocks, for example, up 5.1% in 2017.

But the funds are being smoked by Chinese stocks. The average global hedge fund was up 2.3% through April 7, according to Chicago-based HFR Inc., while the MSCI China index, which mostly tracks Chinese companies listed in places like Hong Kong and New York, gained 14%.

"We haven't seen many funds get overly **bullish** in Chinese equities markets, so most missed the recent move," said Robert Duggan, partner at New York-based SkyBridge Capital, which invests in hedge funds and runs $11.8 billion in assets, with no direct exposure to Asia.

A recovery in producer prices in China and a broad rally in commodities have helped stoke Chinese stocks in Hong Kong, as has increased buying by mainland investors. In the U.S., Chinese tech giants like Alibaba Group Holding Ltd. and JD.com Inc. also have rallied.

China's currency, the yuan, forecast to continue a slide that took it down almost 7% against the dollar last year, instead has mostly held steady.

A number of macro-hedge-fund managers were in and out of the yuan market in late 2015 and into 2016, betting on a sharp drop, only to mostly lose hope and throw in the towel by the middle of the year, when a big devaluation appeared unlikely, said SkyBridge's Mr. Duggan. China's central bank has repeatedly stepped in to slow the currency's fall, limiting funds' gains.

Many have remained wary of China since.

Major global investors are finding more lucrative opportunities elsewhere in the Asia-Pacific region, said Dan McNicholas, Nomura's Asia-Pacific head of capital introductions, which acts as a matchmaker between hedge funds and sources of investment.

"China has been what I'd class as lukewarm," he said. "China is at best third, behind India and Japan," he added, citing meetings with fund managers in New York, Singapore, Hong Kong and Tokyo. India's **stock market** recently hit a record.

For sure, some hedge funds focused on China have been racking up big returns.

Hong Kong-based Quam Asset Management runs a fund that bets on stocks of Chinese companies -- a "long-short" fund, meaning in some cases it bets on a rise, in others on a fall. It was up 13.2% through March 31, edging the MSCI China's 13.1% over the same period, making it the best-performing China-focused hedge fund and second-best overall among 473 alternative-asset managers ranked weekly by HSBC Holdings PLC.

Most of the $58 million fund's returns came from rapidly growing Chinese stocks such as internet company Tencent Holdings Ltd., iPhone-camera supplier Sunny Optical Technology Group Co. and online-travel leader Ctrip.com International Ltd., according to portfolio manager Jim Fong, who argues that this year's rally is unlike the one two years ago, when China stocks soared into June and then collapsed. "This time, the share-price gains are not as irrational as last time," he said. "The economic data is not bad, and commodity prices have increased compared to last year."

Some 90% of China funds employ variations on the same long-short equity strategy, and most tend to bet stocks will rise, said Mohammad Hassan, head analyst for hedge fund research and indexation at Eurekahedge. They are hamstrung by a lack of tools to hedge risk -- especially in the yuan -- by China's heavily managed capital markets.

"A lot of these guys sink when the market does," he said. Despite the gains this year, the potential for a trade war in Asia is still discouraging investment in China-focused funds. "A lot of people still want to see how the U.S. and China will move forward," Mr. Hassan added.

That tendency has resulted in many China hedge funds clustering around the same high-performing stocks, a trade that fund managers said could prove vulnerable to reversal.

"We're starting to see a little bit of crowding in terms of themes like the new economy," said Adolfo Oliete, head of Asia-Pacific investments at UBS Hedge Fund Solutions, whose $36 billion in assets makes it the world's second-biggest fund-of-hedge-funds manager, according to Hedge Fund Intelligence. Technology, media and telecom stocks and Macau gambling were other sectors that were also becoming hot, he added.

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Options Traders Brace For Fight in Congress

By Gunjan Banerji
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Volatility watchers are circling a new date on their calendars: April 28.

That is when the U.S. government's current funding ends. Lawmakers need to pass a new spending bill by then or they risk triggering a partial government shutdown.

The CBOE**Volatility** Index, or VIX, has jumped 29% since April 6 to its highest level since November. The **volatility** measure is based on options prices and tends to move in the opposite direction of stocks. Investors can use options to hedge their portfolios or place directional bets on stocks.

Options traders are fixated on index contracts that expire near April 28 and are driving up prices of shorter-term futures tied to the VIX.

"Normally, with Congress in recess and during a holiday week, you don't see **volatility** this firm," said Amy Wu Silverman, an RBC Capital Markets equity derivatives strategist.

Concerns over whether Congress will be able to agree on a spending plan and who will win the French presidential election this month have caused the futures curve for the VIX to invert, analysts say, with April contracts priced higher than May ones.

The shape of the curve is usually upward sloping, with contracts getting pricier as market participants see heightened uncertainty further out in time. When the VIX futures curve inverts, it is a potential warning signal that investors could see violent price swings in the near term.

House Republicans' failure last month to replace the Affordable Care Act has generated questions over whether lawmakers will be able to reach an agreement. At the forefront of the potential standoff will be President Donald Trump's promises on tax overhauls, infrastructure and spending.

As of Thursday, there are over 550,000 **bearish** put options -- bets that prices will fall -- on the **S&P 500 index** that expire on April 28, Trade Alert data show. That is high for open interest on puts that expire on this date, according to Trade Alert analyst Fred Ruffy.

In contrast, "stocks are taking a more 'wait-and-see' attitude versus the options markets, which are a little more nervous," said Maneesh Deshpande, global head of equity derivatives research at Barclays.

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THE WALL STREET JOURNAL.
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Technology Stocks Go on the Fritz --- A once-hot sector hits a 10-session losing streak, an ominous sign for markets

By Chris Dieterich and Ben Eisen
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The Wall Street Journal
J
B12
English

Tech stocks, the top-performing stock group this year, are in a rare funk.

The largest U.S. technology companies in the **S&P 500** on Thursday fell for the 10th session in a row, the longest losing streak in nearly five years.

Waning enthusiasm for widely owned tech stocks at a time of flat broader-market performance is a potentially ominous sign for those tracking market sentiment. Investors had flocked to the group in recent months amid rising uncertainty about the pace of U.S. economic growth and the timing for implementation of pro-growth economic policies.

Tech stocks within the **S&P 500** have been by far the biggest winners in 2017, climbing 10% versus a 4% advance for the broader index. Apple Inc., the world's largest company by market value, is up 22% so far this year, while Facebook Inc. has climbed 21%.

Strength in tech this year followed a three-week blip of weakness in the immediate aftermath of November's U.S. presidential election. Tech stocks were down as much as 2.7% from the election through the first day of December, while the **S&P 500** climbed by nearly the same increment.

At the time, traders pinned the sector's weakness on investors who appeared to be paring back tech holdings to make room for economically sensitive industries including banks and construction materials, which sent the market higher in anticipation of policy-driven economic growth.

Such economically sensitive stocks pulled ahead of the market last year, but tech has swiftly closed the gap as a booming U.S. **stock market** pushed the **Dow Jones Industrial Average** above 20000 for the first time in January and drew investors into marquee stocks within the technology sector.

Meanwhile, political wrangling in Washington in recent weeks has dimmed prospects that market-friendly tax cuts and infrastructure spending will happen in 2017. Formerly highflying financial and industrial stocks have faded, making big-cap tech companies more alluring.

Tech's pullback during the past 10 sessions has been mild, just 2%, and comes weeks before tech companies are expected to report robust profits in the first quarter.

S&P 500 tech companies are forecast to report profit growth of 13.3%, topping the 9% expected of companies in the broader index. That would be the best quarter for tech earnings in five years, according to FactSet.

"The fact of the matter is that growth is still scarce," said Michael Block, chief strategist at Rhino Trading Partners. "Where do you go for growth? Into these big tech stocks."

Tech could find its footing should cyclical stocks, including those in the financial, industrial an materials groups, lag behind if signs of growth fail to materialize. Economists polled by The Wall Street Journal expect first-quarter gross domestic product to grow at a middling pace of 1.4%, while another forecast from the Federal Reserve Bank of Atlanta calls for 0.6% GDP growth.

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The New York Times

Business/Financial Desk; SECTB
Shares Slide for a Third Straight Day

By THE ASSOCIATED PRESS
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2
English

Investors were in a selling mood at the end of a mostly subdued week of trading, sending Wall Street stocks lower for the third day in a row on Thursday to the market's lowest close since Feb. 13.

The **Standard & Poor's 500**-**stockindex** slid 15.98 points, or 0.7 percent, to 2,328.95. The **Dow Jonesindustrial average** fell 138.61 points, or 0.7 percent, to 20,453.25. The **Nasdaq composite** index lost 31.01 points, or 0.5 percent, to 5,805.15.

Energy stocks led the slide. Chesapeake Energy was the biggest decliner in the **S**.**&P**. **500**, shedding 26 cents, or 4.2 percent, to $5.89.

Small-company stocks fell more than the rest of the market. The Russell 2000 index lost 13.96 points, or 1 percent, to 1,345.24. More stocks fell than rose on the New York Stock Exchange.

After a week of trading without major new economic data or company news, investors got a look at the first batch of big bank earnings. Several banks reported better-than-expected results thanks to improved revenue from trading and rising interest rates. While that gave the stocks a boost early on, those gains faded.

Citigroup slipped 47 cents to $58.04, while JPMorgan Chase shed $1, or 1.2 percent, to $84.40. PNC Financial Services slid 20 cents to $115.80.

Wells Fargo gave up 3.3 percent after Warren Buffett's Berkshire Hathaway sold some of its stock in the lender to avoid being designated a bank holding company. Wells also reported flat quarterly earnings, reflecting continuing struggles to recover from its sales practice scandal. The stock lost $1.77, to $51.35.

The yield on the benchmark United States Treasury 10-year note fell to 2.24 percent from 2.25 percent late Wednesday.

Oil prices inched higher as traders shrugged off a report by the International Energy Agency that said the demand growth for oil would slow for a second consecutive year. Benchmark crude rose 7 cents to close at $53.18 per barrel in New York. Brent crude, used to set the price of international oils, added 3 cents to close at $55.89 per barrel in London.

Pier 1 Imports's shares slumped 9.1 percent after the home décor retailer reported disappointing sales. The stock slid 66 cents to $6.59.

U.S. Steel fell 5.9 percent as investors weighed the effects of a wastewater spill on Tuesday at one of the company's steel plants in northern Indiana. Federal officials were waiting for the results of tests to determine whether a potentially carcinogenic chemical had entered Lake Michigan. The company's shares were off $1.84, to $29.42.

Among metals, gold climbed $10.40 to $1,288.50 an ounce and silver gained 21 cents to $18.51 an ounce.

Major stock indexes overseas closed mostly lower.

The DAX in Germany slid 0.4 percent, while the CAC 40 in France shed 0.6 percent. The FTSE 100 in London lost 0.3 percent. The Nikkei 225 **stock index** in Japan fell 0.3 percent and the S&P-ASX 200 in Australia lost 0.7

percent. The Hang Seng in Hong Kong slid 0.2 percent after a report showed that China's export growth accelerated in March while import growth cooled. The Kospi in South Korea added 0.4 percent.

The dollar continued to weaken a day after President Trump said in an interview with The Wall Street Journal that the dollar was ''getting too strong'' and that he would not label China a currency manipulator.

Mr. Trump's remarks helped to push the yen to its highest level since mid-November, just after the presidential election. The dollar slid to 109.05 yen from 109.15 yen late Wednesday.

U.S. markets will be closed on Friday for the Good Friday holiday.

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

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THE WALL STREET JOURNAL.
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The Syria Success Creates a Chance for Bipartisan Tax Reform

By David M. Smick
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14 April 2017
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English

President Trump's successful strike on Syria has earned him praise across party lines. Chuck Schumer, the top Democrat in the Senate, lauded the Syria strike as "the right thing to do." His counterpart in the House, Nancy Pelosi, called it "a proportional response." Could this be a new beginning, an opening for renewed bipartisanship?

For the moment, Washington is on hold. Republicans continue trying to negotiate a deal on health-care reform. Those negotiations will determine whether Congress can pass tax reform this year. While the country waits, President Trump loses nothing by reaching out to Democrats, particularly the 25 senators up for re-election next year, to propose a bipartisan fiscal plan.

That could help Mr. Trump win back support from independents, who jumped ship after he accused his predecessor of wiretapping Trump Tower -- as if President Obama had donned earphones in a van across the street. Mr. Trump's approval rating has fallen from 46% after his inauguration to 41% this week, according to Gallup. Going bipartisan on tax reform may be a way to win back that support. But merely calling for bipartisanship isn't enough. The president needs to quickly put a proposal on the table.

Bipartisanship has historically been good for the economy. Presidents Reagan and Clinton were willing to compromise when they had no other choice, which provided certainty and stability to **financial markets** and businesses.

In 1983 Social Security faced insolvency in a matter of months. President Reagan worked with Democratic House Speaker Tip O'Neill on a compromise plan to save the system by raising the retirement age, delaying annual cost-of-living adjustments, and increasing payroll taxes. In the 1990s, President Clinton and Republican Speaker Newt Gingrich reformed welfare and passed a budget that cut the tax rate on capital gains. The budget ended up in surplus.

Both presidents achieved economic success. From 1983-88, average growth in the country's gross domestic product topped 4.5% a year. From 1993-2000 the economy grew by an average of nearly 4% a year. Contrast these results with the meanly partisan eras of George W. Bush and Barack Obama, which featured average growth of 2.1% (2001-08) and 1.5% (2009-16).

Rob Shapiro, a former economic adviser to President Clinton, argued in a March 2015 paper for the Brookings Institution that one reason for the difference is that the policy approaches of both Presidents Reagan and Clinton "supported stronger rates of business investment," as well as "public investments to modernize infrastructure, broaden access to education, and support basic research and development." They also "pushed measures to liberalize trade and foreign direct investment."

What was the result? "Households of virtually every type," Mr. Shapiro writes, "experienced large, steady income gains, whether they were headed by men or women, by blacks, whites or Hispanics, or by people with high school diplomas or college degrees."

Which brings us back to Mr. Trump's fiscal policy. The president should reach out to Democrats and put on the table a bipartisan plan with four elements. First, reduce corporate tax rates from 35% to 20%, with pass-throughs included and many loopholes eliminated. Second, allow immediate expensing of capital investment. Third, create a generous repatriation incentive that allows American companies to bring home the $2.5 trillion sitting offshore so long as they purchase a specified amount of low-interest infrastructure bonds. Fourth, spend serious money to modernize the country's major infrastructure.

The president should offer Democrats some sweeteners that would be tough to vote against. One might be a new program giving disadvantaged families vouchers to help them relocate for better job opportunities. Another might be a modest, incremental increase to the minimum wage, carefully designed to avoid threatening small-business solvency.

The president should also ask the Senate to move quickly on such a plan under "regular order," meaning 60 votes required for passage. For now, leave out overhauling the individual tax code, which would only inflame partisan passions. Argue the merits of individual tax changes in a later reconciliation bill, which requires only 51 votes for passage.

The key to winning legislatively is to build momentum. Mr. Trump showed a different side of himself when he acted decisively in Syria. Now he could demonstrate the same largeness of character and political flexibility in his fiscal policy. Democrats and Republicans alike should remember that policy changes often show their effects after an uncertain lag. The 1986 tax reform, for instance, happened on Reagan's watch but arguably laid the foundation for the Clinton economy. Both parties gained politically, but the big winner was the American people.

Mr. Smick, author of "The Great Equalizer: How Main Street Capitalism Can Create an Economy for Everyone" (PublicAffairs, 2017), was Rep. Jack Kemp's chief of staff (1979-84).

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THE WALL STREET JOURNAL.
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U.S. News: Producer Prices Fell in March

By Jeffrey Sparshott and Sarah Chaney
269 words
14 April 2017
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English

WASHINGTON -- A gauge of U.S. business prices fell slightly in March, suggesting inflation pressures remain muted.

The producer-price index for final demand, measuring changes in the prices companies receive for goods and services, declined a seasonally adjusted 0.1% in March from the prior month, the Labor Department said Thursday. The drop was the first since August.

From a year earlier, prices advanced 2.3%, the biggest year-over-year increase in five years, largely because of higher energy prices. Excluding often **volatile** prices for food and energy, the index was flat last month. From a year earlier, those core prices were up 1.6%.

Prices were up 0.1% from a month earlier and 1.7% on the year when excluding food, energy and a measure of wholesaler and retailer margins known as trade services.

Energy prices, down 2.9% from the prior month, drove the change in the headline PPI. Gasoline prices fell 8.3% from February. From a year earlier, energy prices climbed 15.2%.

The PPI is an inflation gauge that looks at prices businesses receive from customers, including consumers, other businesses and governments. As a result, changes in the index don't necessarily directly reflect what consumers pay. But PPI readings generally follow the same trends as other major inflation gauges.

The personal-consumption-expenditures price index, the Federal Reserve's preferred inflation gauge, crossed the bank's 2% target for the first time in nearly five years in February.

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The New York Times

Business/Financial Desk; SECTB
Shares Slide Lower on a Sedate Market Day

By THE ASSOCIATED PRESS
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English

Industrial and materials companies led Wall Street stocks modestly lower Wednesday on another day of subdued trading ahead of the long Easter holiday weekend.

The slide marked the second decline in a row for the **stock market**, extending its losses for the month.

Energy stocks also fell as **oil prices** snapped a six-day winning streak. Utilities, phone companies and other high-dividend stocks were among the biggest gainers. **Bond prices** rose, sending yields lower.

The **Standard & Poor's 500-stockindex** slid 8.85 points, or 0.4 percent, to 2,344.93. The **Dow Jonesindustrial average** fell 59.44 points, or 0.3 percent, to 20,591.86. The **Nasdaq composite** index lost 30.61 points, or 0.5 percent, to 5,836.16.

"The market is kind of on hold until we start getting earnings reports and you start to read the body language on what managements are saying," said Thomas Martin, portfolio manager at Globalt Investments in Atlanta. "We're getting this slow churning really until we start getting some information."

The yield on the benchmark United States Treasury's 10-year note fell to 2.25 percent from 2.35 percent on Tuesday, its lowest yield since November.

Companies will begin disclosing their latest quarterly results over the next few weeks, beginning on Thursday with several big banks.

Among the stocks that helped pull the market lower Tuesday was Tractor Supply, which sank 8.3 percent. The farm equipment retailer said sales of seasonal goods fell during the first quarter. The stock fell the most among companies in the **S**.**&P**. **500**, shedding $5.86 to $64.61.

Industrials sector stocks saw the largest declines in the **S&P 500**. Fastenal led the sector slide, tumbling 8 percent after the company, which makes industrial coatings and construction fasteners, disclosed that its business was hurt by higher freight expenses and inventory costs. The stock lost $4.05 to $46.29.

Benchmark crude snapped a six-day winning streak, losing 29 cents to close at $53.11 a barrel in New York.

Among metals, gold rose $4.10 to $1,275.30 an ounce.

The dollar took a downward turn on Tuesday afternoon after President Trump said in an interview with The Wall Street Journal that the dollar was "getting too strong."

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

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

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The New York Times

Business Day; DealBook
Movers: Paulson Leaves A.I.G. Board and Banks Report Earnings

By THE NEW YORK TIMES
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13 April 2017
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We're following major developments in the markets throughout the day. Check below for the latest updates.

Paulson to Leave A.I.G. Board

The hedge fund billionaire John A. Paulson is leaving the board of American International Group, the insurance giant said in a filing on Thursday. Mr. Paulson had joined Carl C. Icahn in pushing for a breakup of the company before they were given seats on the board. But Mr. Paulson's hedge fund, which once had a 1 percent stake in A.I.G., has been selling off its shares in the company.

With Mr. Paulson's departure and the retirement of two other directors, George L. Miles Jr and Robert S. Miller, the board of A.I.G. will shrink to 13 from 16. The A.I.G. board's chief task will be selecting a successor to Peter D. Hancock, who announced last month that he would resign as chief executive. The company also said in its proxy filing that Mr. Hancock would not receive a bonus award for 2016.

Treasuries Rally

Treasury prices climbed on Thursday, sending their yields, which move in the opposite direction, lower. The yield on the benchmark **10**-**year Treasury** note fell as much as 5 basis points. United States **stock market** indexes were slightly lower in early afternoon trading.

Canada Pot Stocks Steady After Trudeau Unveils Legalization Bill

Pot stocks have been hot in Canada.

Over the past year, the stocks of many of the 11 publicly traded marijuana growers in Canada have appreciated by as much as 400 percent. Canopy Growth Corporation, the largest producer currently licensed to grow and sell medical marijuana in Canada, is up more than 300 percent compared to a year ago.

But the news on Thursday that Prime Minister Justin Trudeau had introduced legislation to legalize the recreational use of marijuana in Canada didn't move the marijuana market much.

Canopy, Maple Leaf Green World, Aurora Cannabis and Aphria — each of which has had huge gains over the past year – were all down 1.5 to 5 percent on Thursday. That may be because investors had already baked in the expected legalization news. Another possible factor: insiders at many of these companies, including Bruce Linton, the chairman and chief executive of Canopy, have recently unloaded shares. – Ian Austen

Two Brazil I.P.O.'s Test the Waters

Two Brazilian companies made their public trading debuts this week after years of frustrating delays and setbacks.

Azul Linhas Aéreas Brasileiras, the Brazilian airline company started by the JetBlue founder David Neeleman, surged on its market debut on Tuesday. After rising nearly 7 percent on Tuesday, the shares, which trade on the Brazilian market and the New York Stock Exchange. were down modestly on Thursday.

Another new stock, the nearly two-decade old e-commerce retailer Netshoes, got off to a rockier start.

After pricing its initial public offering at $18 per share, the lower end of the $18 to $20 range it estimated in its preliminary prospectus last month, it opened on Wednesday on the New York Stock Exchange at $16.35. On Thursday, the shares were off 6 percent by midday.

Still, as a rare Brazilian internet company to go public, its debut is expected to provide a psychological boost to other start-ups in Brazil.

“It is a fantastic event for the Brazilian internet start-up ecosystem,” said Edson Rigonatti, a founding partner at Astella Investimentos, a SãoPaulo venture capital firm not involved with Netshoes. Vinod Sreeharsha

Markets Hold Steady

The dollar recovered from an earlier slump, while United States **stock market** indexes were slightly higher in morning trading on Thursday after opening lower.

Wells Fargo’s Profit Flat for Quarter

Wells Fargo has been trying to rebuild its reputation after revelations that employees, under pressure to meet sales targets, opened thousands of unauthorized accounts. The scandal continued to weigh on the bank’s consumer businesses in the first quarter of 2017.

On Thursday, Wells Fargo said revenue and profit were essentially flat in the quarter compared with the same period a year earlier. The bank was hurt by lower mortgage banking revenue, which fell 23 percent from a year ago.

Shares of Wells Fargo were down more than 2 percent in trading before the market open.

“Wells Fargo continued to make meaningful progress in the first quarter in rebuilding trust with customers,” Timothy J. Sloan, the Wells Fargo chief executive, said in a statement.

Trading Lifts Citigroup

Trading, which bolstered JPMorgan Chase’s results, also helped drive a rise in first-quarter earnings at Citigroup.

The bank said on Thursday that it earned $4.09 billion, or $1.35 a share, up 17 percent from $3.5 billion, or $1.10 a share, in the quarter a year earlier. Revenue rose 3 percent, to $18.1 billion from a year earlier.

Trading in bonds, currencies and other financial products was strong, with revenue rising 19 percent, to $3.6 billion, in the quarter from a year ago.

Citigroup also reported a big jump in revenue and profit from Europe. The bank is something of a barometer for the state of the world economy because it gets well over half of its revenue from overseas.

Sales from Europe, the Middle East and Africa rose 30 percent to $2.8 billion compared with a year earlier, while profit from the region more than doubled to $855 million.

JPMorgan’s Earnings Climb

JPMorgan Chase kicked off a day of financial results for three of the nation’s biggest banks with first-quarter earnings that were stronger than expected. The bank reported a nearly 17 percent increase in net profit thanks to rising loans and a bump from its trading business. The bank earned $6.4 billion, or $1.65 a share — more than $1.52 a share that analysts had expected, according to Thomson Reuters.

“We are off to a good start for the year,” Jamie Dimon, JPMorgan’s chief executive, said.

The numbers could presage similar results from other banks with big trading operations, as last year’s presidential election set off a flurry of trading and sent markets higher, though stocks have steadied a bit in recent weeks. A shift in the United States toward higher interest rates could also help bank results.

China Posts Strong Trade Figures

China’s exports surged in March in a potential sign of strengthening global demand. Beijing released data on Thursday showing exports increased 16.4 percent in March compared with a year earlier. Imports also strengthened, rising 20.3 percent. Part of the rise in imports came from oil, as China topped the United States as the world’s largest overseas buyer.

For the first quarter, China's trade surplus with the United States shrank slightly but remained high, in a reminder that — even though President Trump backed off from his threat to label China a currency manipulator — the trade issue is not likely to go away.

Trump Weakens the Dollar

About that trade gap...

The dollar fell against a number of other currencies overnight on Thursday after President Trump told The Wall Street Journal that he thought the dollar was "getting too strong." A stronger dollar makes American exports less competitive, complicating Mr. Trump's pledge to close the trade gap with China and other countries.

"It's very, very hard to compete," he said, "when you have a strong dollar and other countries are devaluing their currency."

What to Watch For: Report on Consumer Confidence; Markets Are Closed Friday

■ The University of Michigan's monthly survey of consumer confidence will offer an indication of whether Americans' sentiment is still improving.

■ Many markets will be closed for the Good Friday holiday.

■ And don't forget to read today's DealBook newsletter.

Crowds celebrated National Marijuana Day last year on Parliament Hill in Ottawa. | Chris Roussakis/Agence France-Presse — Getty Images | Jamie Dimon, chief executive of JPMorgan Chase, speaking before the U.S. Chamber of Commerce this month. On Thursday, the bank reported strong quarterly results. | Paul Morigi/Associated Press | A cargo ship in Qingdao, China. The country's exports rose in March. | Agence France-Presse — Getty Images

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THE WALL STREET JOURNAL.
U.S. EDITION

Indexes Beat Stock Pickers Even Over 15 Years

By Daisy Maxey and Chris Dieterich
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13 April 2017
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J
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Corrections & Amplifications

S&P Dow Jones Indices publishes semiannually the S&P Indices Versus Active scorecard. A Page One article on Thursday about U.S. funds and their market benchmarks incorrectly said S&P Global publishes it.

(WSJ April 14, 2017)

(END)

Most actively managed U.S. stock funds were beaten by their market benchmarks over the past decade and a half, a record of underperformance that helps explain why stock pickers are losing billions of dollars in assets each month to low-cost passive investments that track indexes.

Over the 15 years ended in December 2016, 82% of all U.S. funds trailed their respective benchmarks, according to the latest S&P Indices Versus Active funds scorecard. This was the first year that the analysis included 15 years of data, helping smooth out periods of **volatility** that can affect the performance of active managers.

The results coincide with the rise of passive investing and a growing view among investors and financial advisers that active managers can't pick stocks well enough to justify the fees they charge over extended periods and that even those managers who do outperform their passive counterparts can't sustain it year after year.

"We often hear from active managers, 'You need to measure us over a longer-term cycle,'" said Aye Soe, managing director of research and design at S&P Dow Jones Indices. "Even over a full market cycle, which includes peaks and troughs, we still see the majority of active managers performing unfavorably against their benchmarks."

The debate over whether passive management is as good or better than active management is a long-running and contentious one, but it has heated up in recent years. Active managers' struggles to beat the market over recent years amid a long-term **bull market** in stocks have resulted in fee pressure, fund closings, business overhauls and mergers.

Investors have spoken with their wallets, turning to index-tracking funds in droves. Some $1.2 trillion has been withdrawn from actively managed U.S. stock funds since the start of 2007 through March, according to Morningstar Inc. Nearly the same amount, $1.1 trillion, has moved into passive U.S. stock funds over the same period.

Index giant Vanguard Group pulled in a net $33 billion in February, $29.6 billion of which went into index products, and $40.5 billion in March, $35.5 billion of which went into index products, a spokeswoman said.

Among more than a dozen categories tracked, 95.4% of U.S. mid-cap funds, 93.2% of U.S. small-cap funds and 92.2% of U.S. large-cap funds trailed their respective benchmarks, according to the data. The performance analysis, known as Spiva, is published semiannually by S&P Global using a methodology that includes funds that have been liquidated or merged out of existence. S&P Dow Jones Indices is a joint venture of S&P Global and CME Group Inc. It is a major participant in the indexing business with more than $2.1 trillion indexed to the **S&P 500 index** as of 2015.

A committee composed of three representatives of S&P Dow Jones Indices and two representatives of The Wall Street Journal determine the composition of the **Dow Jones Industrial Average**. Dow Jones & Co., a unit of News Corp, sold a majority stake in its index business in 2010 and sold the remaining stake in 2013.

S&P Dow Jones Indices pulls performance data on active funds from a database maintained by the Center for Research in Security Prices, a research and learning center at the University of Chicago Booth School of Business.

The latest Spiva survey period ended during a year of geopolitical tumult of the sort that sometimes is thought to benefit active managers, with market-churning events including Britain's vote to exit from the European Union and Donald Trump's surprise election to the U.S. presidency. Not even the **volatility** that came with those events was enough to give many more active fund managers the edge over indexes.

Even stock funds that manage to top the market for many years can stumble badly. One high-profile example is Sequoia Fund, operated by Ruane, Cunniff & Goldfarb, a firm co-founded by William Ruane, a value investor and friend and mentor to famed investor Warren Buffett.

Until the end of 2015, Sequoia Fund was the top performing large-cap growth mutual fund tracked by Morningstar over the previous 15 years, nearly doubling the annual performance of the **S&P 500**. But the fund was badly burned by a heavy position in Valeant Pharmaceuticals International Inc. Valeant's **stock price** has plunged 96% from its peak in August 2015 amid questions about its accounting practices.

Steep losses in Valeant have left the fund near the bottom of all large-cap growth funds over the past one, three and five years.

"We're working very hard to restore the track record that our investors have come to expect from us," said David Poppe, co-manager of the fund.

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THE WALL STREET JOURNAL.
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Bitcoin's Use Is No Match to the Hype

By Paul Vigna
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A few years ago, a Spice Girl and an NFL star accepted bitcoin to sell their wares. Comedian Drew Carey tweeted about trying to buy breakfast with it, and Federal Reserve Chairwoman Janet Yellen testified about bitcoin in front of Congress.

Now, the virtual currency still feels more virtual than real.

More than eight years after it started, bitcoin isn't living up to early hype as the payment system of the future. It has failed to emerge as a mainstream payment method among consumers. The Securities and Exchange Commission denied two applications last month for bitcoin-related funds, nixing an avenue for widespread investor adoption that could have boosted bitcoin's relevance and profile.

And while an array of technologists are trying to adopt bitcoin's open-ledger "blockchain" tracking system, it is mostly to transact in items besides bitcoin.

"It doesn't feel like it's going in the right direction," said Brian Hoffman, chief executive of OB1, which runs an online marketplace called OpenBazaar that accepts bitcoin.

Bitcoin, introduced in 2008 by an anonymous creator calling himself Satoshi Nakamoto, is a digital currency that operates through a computer network. It is designed to allow for users to transact with each other directly, bypassing governments and banks that act as middlemen in financial transactions.

To a certain extent, bitcoin has found an audience. It has a core group of dedicated backers who believe in its future, and it has attracted traders who like the challenge of an asset that never stops trading. It has also found a home among people who want to move money without being detected.

These groups have pushed the price up by more than 100% over the past year, currently trading at about $1,215, and the currency's network is handling more transactions on a daily basis than ever, roughly 250,000 a day, up from 164,000 a year ago, according to data from the news site Coindesk.

Still, bitcoin faces an existential question -- what exactly is it for? Some of the early adopters pushed for it to be a viable alternative to government-backed currencies such as dollars, yen or euros. Others see a digital version of gold or a payment system to rival Visa Inc. or Mastercard Inc. Proponents envisioned bitcoin as a way for poorer countries and citizens to bypass banks.

So far, it hasn't fulfilled any of those goals.

Another fan base has been largely driven offline. More than 90% of global bitcoin trading last year took place in China. That has changed significantly since the Chinese government earlier this year forced domestic bitcoin exchanges to add transaction fees -- trading on these platforms before that was free -- and adhere to anti-money-laundering regulations. The move has pushed more trading to Japan and the U.S., with China's share falling to 13%, according to research site CryptoCompare.

Meanwhile, a battle among bitcoin's insiders has erupted over its future. One side wants to keep it small and outside the purview of governments. The other side wants bitcoin to go mainstream and is willing to accept more transparency and government oversight to make it happen.

Bitcoin hasn't caught on with U.S. consumers. That is in part because bitcoin's followers are diffuse and never really had a champion committed to persuading both businesses and individuals of its merits.

At CheapAir.com, an online travel agency, bitcoin purchases constitute less than 10% of overall purchases, roughly flat in recent months, said Chief Executive Jeff Klee. "If you step back and look at the big picture," he said, "it certainly hasn't taken off."

Mr. Klee was personally involved in the decision to accept bitcoin in 2013 -- after a customer suggested it -- and praises its utility and advantages for merchants, but said it hasn't been able to find a large audience outside loyal core backers. The typical customer staying away from bitcoin "loves their points and their miles," he said, referring to credit-card perks. "That alone is tough to compete with."

At satellite-TV company Dish Network Corp., which began accepting bitcoin in 2014, bitcoin represents less than 1% of its total payments, the company said. "We have not seen growing enthusiasm," Dish Chief Marketing Officer Jay Roth said.

As an investment, bitcoin has drawbacks as well. Even though its **volatility** is down compared with its eight-year history, it is still far too **volatile**, and opaque, for many mainstream investors. In March, the SEC rejected two proposed exchange-traded funds, the Winklevoss Bitcoin Trust and SolidX Bitcoin Trust, citing the lack of transparency around trading on bitcoin exchanges, many of which are overseas.

The SEC said that without the ability to monitor trading activity, it couldn't approve an investment product aimed at individual investors.

Other government regulators are also taking a harder line.

The Internal Revenue Service recently ordered bitcoin-services company Coinbase to turn over all records of its customers between 2013 and 2015, a sweeping summons the government said was intended to root out potential tax evaders. The company is fighting the order.

Competitors aren't standing still.

In February, a consortium of banks and tech giants including Microsoft Corp. and J.P. Morgan Chase & Co. announced a new financial platform based on Ethereum, a bitcoin competitor.

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THE WALL STREET JOURNAL.
U.S. EDITION

Ahead of the Tape
Inflation Returns to Economic Sweet Spot

By Steven Russolillo
432 words
13 April 2017
The Wall Street Journal
J
B11
English

Good news: Inflation just topped a key milestone. Even better news: It doesn't look poised to zoom much higher from here.

Consumer inflation in February jumped above the Federal Reserve's 2% annual target for the first time in nearly five years, according to the central bank's preferred personal-consumption expenditures price index. Two additional inflation readings this week should tell a similar story.

Economists surveyed by The Wall Street Journal expect readings on March producer and consumer prices, due Thursday and Friday, respectively, will remain unchanged from elevated levels a month earlier. Producer prices in February notched their biggest year-over-year advance since 2012. Consumer prices are also coming off their biggest increase in more than three years.

Firming prices are a big change from the past few years when inflation stayed stubbornly low. The increase hasn't been enough to get the market, consumers or the Fed worried about a serious bout of inflation. Inflation expectations are important because when people perceive inflation is headed higher, they tend to increase spending ahead of the price increases. That can drive actual inflation higher.

As Adam Slater of Oxford Economics puts it, one of the key factors driving expectations higher isn't the fact that prices are soaring, but that people have stopped worrying so much about deflation. The chances of inflation falling below 1% on average over the next five years have fallen to just 12%, near the lowest levels over the past decade, according to market-based probabilities analyzed by the Federal Reserve Bank of Minneapolis. The chances were as high as 40% in February 2016.

"Markets were pricing a very high risk of something close to Japanese-style deflation in the U.S. a year ago," Mr. Slater said.

Conversely, inflation isn't expected to surge much higher from current levels either. Chances of inflation jumping to 3% on average over the next five years are just 18%, the market probabilities say. In 2015, the chance of inflation hitting 3% was in the single digits by that measure. "There is not much evidence of long-term inflation expectations becoming unanchored," Mr. Slater said.

That is also evident in the bond market. Yields on 10-year Treasurys fell below 2.3% on Tuesday, their lowest close in more than four months. Higher inflation would lead investors to push up bond yields.

For now at least, inflation appears to be in the sweet spot for both the Fed and **financial markets**.

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OPEC Output Falls Further --- Members tightened compliance with agreed-upon cuts in March, group says

By Benoit Faucon
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13 April 2017
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B11
English

OPEC said its output kept falling in March as members tightened compliance to agreed-upon cuts. It added, though, that U.S. producers were enjoying a revival thanks to higher **oil prices**.

The 13-member Organization of the Petroleum Exporting Countries committed last year to cut about 1.2 million barrels of oil a day to bring a vast global oversupply of crude back in line with demand and raise petroleum prices.

The agreement helped raise **oil prices** about 20% after it was announced Nov. 30. Russia and 10 other non-OPEC producers also pledged to trim a further 558,000 barrels a day.

In its closely watched monthly oil report, OPEC said Wednesday that its production decreased by 153,000 barrels a day to an average of 31.93 million barrels a day. The group uses independent observers -- such as analysts and shipping trackers -- to assess its output.

The decrease was largely driven by lower production in the United Arab Emirates and Venezuela, by 33,000 barrels a day and 26,000 barrels a day, respectively.

Three OPEC members exempted from the cuts also experienced production losses. Libyan production fell in March by 61,000 barrels a day after its largest oil field, Sharara, was blocked by guards over wage arrears.

Nigeria, whose fields are producing less due to maintenance and sabotage, saw its output fall 30,000 barrels a day.

Iran, which is struggling to sell its oil due to U.S. banking sanctions, lost 29,000 barrels a day.

Saudi Arabia, which has carried the brunt of the effort, increased its production by 42,000 barrels a day, according to the independent observers used by OPEC.

Saudi output remains below its quota of about 10 million barrels a day. Saudi Arabia is set to support an extension of the production cuts when OPEC next meets May 25, people familiar with the matter said this week.

The group is still pondering how to deal with rising U.S. production, which is filling the vacuum left by its output curbs.

In its monthly report, OPEC raised its U.S. supply growth forecast by 200,000 barrels a day for 2017.

"The number of drilling rigs and the reactivation of companies' spending are the two most important factors leading to an expected output surge in the coming months," it said. It cited a year-over-year rise in drilling rigs by 374 units, to 824 rigs in the week of March 31.

Some OPEC officials have expressed concerns over the commitment of Russia -- the biggest non-OPEC participant in the production cuts -- to pursue the effort.

Russia is holding consultations with local companies to decide if it will renew its pledge to cut production in May, one OPEC official said.

The OPEC report said Russia only carried cuts of 130,000 barrels a day in March, compared with a pledged 300,000 barrels a day.

It also reversed its forecast for annual Russian production to increase by 40,000 barrels a day from a previously expected contraction of 20,000 barrels a day in 2017, following the startup of three new projects.

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Heard on the Street
Overheard

158 words
12 April 2017
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J
B14
English

[Financial Analysis and Commentary]

You don't usually get three exclamation points on a bond market research report. Maybe it was the quiet holiday week, or maybe it was just that the bond market types were annoyed that the **stock market** was getting all of the attention for low **volatility**.

In a report titled, "The Most Boring Year Ever !!!" Deutsche's strategists base their assessment on the range of moves in corporate-bond spreads over government bond yields. The tiny moves in 2017 are among the smallest on record: U.S. investment-grade corporate bond spreads have moved in a 0.09 percentage-point range this year; in Europe the range is just 0.08 point. Both mark the third-quietest start to a year since 2000.

The bad news is there was more boredom in 2006 and 2007. Things got very interesting -- perhaps too interesting -- quickly after that.

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THE WALL STREET JOURNAL.
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Heard on the Street
Business Lending Is Slowing and No One Is Certain Why

By Aaron Back
514 words
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J
B14
English

[Financial Analysis and Commentary]

One of the great mysteries and biggest concerns in the economy right now is the slowing growth in bank lending. Economists are searching for answers, but none are entirely satisfying.

Total loans and leases extended by commercial banks in the U.S. this year were up just 3.8% from a year earlier as of March 29, according to the latest Federal Reserve data. That compares with 6.4% growth in all of last year and a 7.6% pace as of late October.

Loans to businesses have slowed most sharply, with the latest data showing commercial and industrial loans up just 2.8% from a year earlier, compared with 8.9% growth in late October. Economists at Goldman Sachs Group estimate the slowdown in commercial and industrial lending alone equates to a $100 billion shortfall in loans.

Investors may start to get more clarity on what is causing the slowdown when banks start reporting first-quarter earnings Thursday.

One explanation is that many companies have been tapping corporate-bond markets to lock in low rates and in some cases to pay down more expensive bank debt. In the first quarter of this year, corporate-bond issuance rose 18% from a year earlier, according to the Securities Industry and **Financial Markets** Association. But one reason for the increase is that the first quarter of 2016 was dismal because of market turmoil. The rise isn't enough to explain the entire shortfall in lending.

Goldman's economists also point to dynamics in the oil-and-gas industry. When **oil prices** were falling sharply in the first quarter of 2016, many energy companies couldn't tap capital markets for financing. Instead, they drew on bank lines of credit. Now that **oil prices** have rebounded, many of these companies are paying down their bank lines, Goldman says.

As the Goldman economists admit, this hypothesis is hard to verify because the Fed lending data aren't broken down by industry. Using data from the Office of the Comptroller of the Currency on the total size of credit facilities, they assume commodities companies borrowed around one-third of loan commitments available to them by March last year, then paid down about 35% of that balance over the rest of the year. They figure this would account for roughly the entire $100 billion shortfall in commercial and industrial lending.

But others are skeptical. Paul Ashworth at Capital Economics says the oil thesis doesn't explain why there was such a sudden deceleration starting in November. Moreover, he notes that lending has slowed across the board, not just in commercial and industrial but also in mortgages, consumer loans and commercial real estate.

Political uncertainty may be one cause. Consumers and businesses have shown greater confidence since the election, but with major policy changes in taxes, trade and health care still in limbo, they might want more clarity before they take out big loans for new projects.

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The New York Times

Business/Financial Desk; SECTB
Indexes Hold Steady on a Day of Light Trading

By THE ASSOCIATED PRESS
728 words
12 April 2017
The New York Times
NYTF
Late Edition - Final
7
English

Major Wall Street stock indexes barely budged Tuesday on another day of mostly light trading ahead of the Easter holiday weekend.

Technology stocks declined the most, while real estate companies notched the biggest gains. **Oil prices** recovered after an early slide. Bond yields fell and the price of gold rose as investors kept an eye on rising geopolitical tensions.

The **Standard & Poor's 500**-**stockindex** fell 3.38 points, or 0.1 percent, to 2,353.78. The **Dow Jonesindustrial average** slipped 6.72 points, or 0.03 percent, to 20,651.30. The **Nasdaq composite** index slid 14.15 points, or 0.2 percent, to 5,866.77.

Major indexes started off in the red and held their course as traders monitored the latest headlines on North Korea and Russia-United States relations.

North Korea said there could be "catastrophic consequences" after the United States ordered an aircraft carrier and battle group to waters off the Korean Peninsula.

At the same time, the secretary of state, Rex W. Tillerson, was in Moscow to meet with Russian officials about Syria's civil war.

Wall Street's so-called "fear index," known as the VIX, surged 7.3 percent to its highest level since November. Government bonds also reflected growing unease among investors. The yield on the benchmark United States 10-year note fell to 2.35 percent from 2.37 percent late Monday. As **bond prices** rise, yields drop.

Gold, often sought by investors in times of global uncertainty, rose $20.10, to $1,271.20 an ounce.

"One of our predictions this year is we're going to have higher **volatility**," said Bob Doll, chief equity strategist at Nuveen Asset Management. "It's to be expected with all the economic uncertainties, all the geopolitical uncertainties."

A dash of favorable economic news failed to lift the market. The Labor Department reported that job openings rose 2.1 percent in February to a seasonally adjusted 5.7 million. Job openings have increased 3.2 percent over the past 12 months.

Weak forecasts from some companies weighed on the market.

MTS Systems slumped 13.2 percent after company, which makes mechanical testing systems, issued disappointing earnings and sales forecasts for the year. The stock shed $7.10 to $46.70.

Hub Group, a transportation management company, sank 14.2 percent after it forecast weak first-quarter results, citing high truck capacity that has led to big price cuts. The stock lost $6.70 to $40.55.

The fallout from a video showing a United Airlines passenger dragged off an overbooked flight in Chicago on Sunday continued to pull down shares of United Continental. The stock slid 81 cents, or 1.1, to $70.71.

Investors cheered the latest batch of corporate deal news.

Supervalu climbed 5.5 percent after the supermarket chain agreed to buy grocery distributor Unified Grocers for $375 million, most of which will go to pay Unified Grocers' debt. Shares in Supervalu added 21 cents to $4.

RetailMeNot vaulted 48.4 percent after the online coupon company agreed to be acquired by payment and marketing company Harland Clark Holdings for $11.60 a share, or $555 million. RetailMeNot picked up $3.75 to $11.50.

Major stock indexes overseas were mixed.

In Europe, the DAX in Germany fell 0.5 percent, while the CAC 40 in France slipped 0.1 percent. The FTSE 100 in Britain gained 0.2 percent. Earlier in Asia, the Nikkei 225 **stock index** in Japan slipped 0.3 percent, while in Hong Kong, the Hang Seng sank 0.7 percent. The Kospi in South Korea fell 0.4 percent. In Australia, the S&P ASX 200 gained 0.3 percent.

Rebounding from an early slide, benchmark crude oil rose 32 cents to close at $53.40 a barrel in New York, its sixth gain in a row. Brent crude, the standard for international **oil prices**, added 25 cents to close at $56.23 a barrel.

The dollar fell to 109.7 yen from 110.94 yen late Monday. The euro rose to $1.0604 from $1.0591.

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

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The New York Times

Op-Ed Contributor
Opinion
Don’t Politicize the Federal Reserve

By ROBERT E. RUBIN
943 words
12 April 2017
03:21 AM
NYTimes.com Feed
NYTFEED
English

I was in the room when President Bill Clinton decided to reappoint Alan Greenspan, a lifelong Republican originally appointed by Ronald Reagan, as chairman of the Federal Reserve Board. A political adviser urged Mr. Clinton to choose an administration ally, but that was never seriously considered. The president’s choice was not determined by party, or politics or ideology.

That’s how it has been for decades: Federal Reserve chairmen and governors have been selected based on their ability to serve the country. President Barack Obama reappointed George W. Bush’s nominee, Ben Bernanke, as chairman. President Reagan reappointed Jimmy Carter’s nominee, Paul Volcker.

The Federal Reserve System was created by statute in 1913, but the independence of its monetary policy from congressional or presidential influence is not codified by law — and it wasn’t always inviolable. In recent years, so-called reforms have been proposed to subject Fed monetary policy to congressional review, but its independence has so far been preserved.

For good reason: An independent Federal Reserve led by governors who are committed to pursuing its dual mandate of price stability and full employment, as well as effective regulation — and who make decisions based on facts and analysis — is critically important to our economy, the well-being of the people and the market credibility of Fed policy making.

But that independence is about to be severely tested. Daniel K. Tarullo stepped down from the Federal Reserve Board last week, adding to the board’s two existing vacancies. Instead of remaining as governors, Chairwoman Janet Yellen and Stanley Fischer, the vice chairman, could step down when their terms expire next year. President Trump has already said that he will not reappoint Ms. Yellen as chairwoman because she’s not a Republican.

Mr. Trump could therefore fill as many as five of the board’s seven seats within the next year. I fear that he may appoint governors who lack a commitment to the Fed’s dual mandate and will instead seek to please the White House.

There could also be an effort to scapegoat the Fed if (or rather, when) the administration’s unrealistic economic growth estimates fail to materialize. The recent rejection of Congressional Budget Office health care estimates is a troubling sign. The administration could use rigged economic projections to attack the Fed over its decisions, rather than respecting its integrity and independence.

The Fed is not always right — no one can be on these matters. But it is staffed by, and the board consists of, immensely capable professionals who work with absolute intellectual integrity. That’s why the Fed’s work is highly and widely respected in the United States and around the world. This credibility keeps market interest rates lower and liquidity greater. That, too, could change.

Efforts to denigrate the integrity of the Fed’s work, and to inject groundless opinion, politics and ideology, must be rejected by the board — and that means governors and other members of the Federal Open Market Committee must be willing to withstand aggressive attacks.

In the short run, these attacks could occur if the Fed raises rates when the administration would prefer to avoid impediments to its wishful thinking on growth or to the continued run-up of the **stock market**. The Fed is expected to raise rates two or three times during the coming year, based on its widely shared view that unemployment is as low as it can be without triggering inflation. There is undoubtedly still some room to bring those who have dropped out of the labor market back in, but mainstream labor economists say not much, especially given the skills gap.

The path to greater growth over time is productivity-enhancing policy. While a small fiscal stimulus might increase real growth and wages, a highly expansive fiscal policy is very unlikely to meaningfully increase real growth, and the rest of the effect is likely to be inflationary, absent countervailing Federal Reserve action. Waiting until inflation gains momentum could force the Fed to take more dramatic action that could induce recession. With the administration's unwillingness to appreciate these realities, Fed rate hikes could provoke political backlash.

During my years as secretary of the Treasury, I had a weekly breakfast with Mr. Greenspan and Larry Summers, the deputy secretary. We discussed everything under the sun, from the outlook for the United States economy to the latest political gossip. But never once did Mr. Summers or I, even in the privacy of those meetings, raise monetary policy, nor did anyone in the Clinton administration comment on monetary policy.

As a result, the Fed chairman knew that the White House would not try to advance an agenda on that policy. And this trust enabled the Federal Reserve and the Treasury to engage fully with each other on other matters, such as the Mexican and Asian financial crises. Sooner or later, there will be other financial crises — in the United States and abroad — and maintaining a framework of trust for the Treasury and the Fed to work together is critical.

The administration's relationship to the Fed, and its appointment of governors, must be based not on politics but on the same question every president ought to ask: Who and what will best serve our country?

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Robert E. Rubin, the Treasury secretary from 1995 to 1999, is a co-chairman of the Council on Foreign Relations.

Janet Yellen at a press conference in March. | Al Drago/The New York Times

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