THE WALL STREET JOURNAL.

World

For China, the American Team of Trade Rivals Won't Be Easy to Please; Beijing is likely to suggest buying more American goods, but chances of a quick resolution of tensions are slim

By Bob Davis in Washington and Lingling Wei in Beijing
1,420 words
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China is looking to dazzle a visiting U.S. trade delegation this week, arranging a session with President Xi Jinping and planning pledges to cut tariffs and ease regulations. It will likely take more than that to impress the visiting Americans and head off a looming trade war.

It will be a high-stakes meeting, starting Thursday. U.S.-China economic relations have sunk to their lowest point in decades with the U.S., angry over alleged Chinese pressure on U.S. firms to transfer technology to Chinese partners and other misdeeds, threatening tariffs on $150 billion in Chinese goods and prohibitions on Chinese purchase of U.S. technology.

The trade mission gives both sides a chance at easing those tensions, but chances of a quick resolution are slim.

The U.S. team plans to take tough positions, say U.S. officials, who are skeptical that China's pledges will amount to much. The U.S. hasn't sent an advance team to Beijing for preliminary negotiations, as is typical. Rather, when the two sides meet, the U.S. may simply note President Donald Trump 's threats of tariffs and U.S. complaints, and wait to see what the Chinese offer, figuring that will force China to offer even deeper structural changes and faster action.

It is a risky strategy that could help produce deep changes in China's economy if successful, but deepen hostilities if the tactics backfire.

"If the trip isn't well coordinated and China doesn't have a sense of U.S. red lines, the discussions are unproductive," said Michael Hirson, a former U.S. Treasury representative in Beijing who is now a Eurasia Group analyst. He figures it is likely that the U.S. will levy tariffs on tens of billions of dollars of Chinese imports over the coming months.

Mr. Trump's announcement on April 24 that he would send a team of negotiators to Beijing helped ease rattled markets and led to hopes the two nations could come to an agreement. In Beijing, officials scurried to figure out what the U.S. would ask and what they could offer.

Among the ideas that Chinese are likely to put forward, say Chinese officials: Cutting a 25% tariff on foreign vehicles; easing the quota on the number of imported films which are shown in China on a revenue-sharing basis; buying more U.S. goods to help cut the vast U.S. trade deficit; and offering to negotiate a U.S- China free-trade deal, which could cover many structural issues and be enforced by trade sanctions.

But there are limits to how far Beijing will go. It won't halt its plans to develop advanced technology through domestic subsidies and other assistance, seeing the move as crucial to China's competitiveness. It won't prop up the value of the yuan to help U.S. exports. China feels the U.S. forced Japan to do that in the 1980s and 1990s, hurting the Japanese economy.

"China is not Japan," said a senior Chinese government official.

On the U.S. side, the Trump administration faces divisions about how to handle China.

Treasury Secretary Steven Mnuchin has wanted to head to Beijing since he had a phone conversation with Chinese economic envoy Liu He in late March, say people involved in the trip. It would be a natural follow-up to an earlier visit by Mr. Liu to Washington, Mr. Mnuchin argued, and could lead to a deal liberalizing China's **financial markets**. He is in charge of negotiating a financial services deal with China and more broadly wants to de-escalate trade tensions with China.

High-profile negotiations would help Mr. Mnuchin stake out a bigger role in U.S.-China economic relations, reclaiming the position Treasury had in prior administrations. Former Treasury Secretary Hank Paulson , who has deep ties to top Chinese economic officials and favors negotiations, has been urging Mr. Mnuchin to make the trip, said people familiar with the discussions. Mr. Paulson, who was Mr. Mnuchin's boss when the two were at Goldman Sachs , will be in Beijing this week on what his spokeswoman said is a long-planned trip.

U.S. Trade Representative Robert Lighthizer is the administration's main China strategist . He has used tariff threats, as Mr. Trump wanted, to press China to cut excess capacity of steel and other metals, which adds to a global glut, and to end its pressure on U.S. firms to transfer advanced technology to Chinese partners.

Mr. Lighthizer opposed traveling to Beijing now, say people involved in the discussions, feeling that U.S. leverage increased as the U.S. drew closer to imposing tariffs. He has wanted to focus on completing negotiations to rewrite the North American Free Trade Agreement .

He is also deeply involved in deciding whether to extend temporary exemptions for steel and aluminum tariffs to Mexico, Canada, Australia, the European Union and other nations. Those exemptions expire at 12:01 a.m. Tuesday.

In a White House meeting on April 20, Mr. Trump approved Mr. Mnuchin's trip, saying that it would be good to explore Chinese offers, say people involved with the decision. He added Mr. Lighthizer and White House trade adviser Peter Navarro , a longtime critic of China, to the team, along with National Economic Council director Larry Kudlow , a Mnuchin ally, creating a team of rivals.

The negotiators could operate in good cop/bad cop fashion, with Mr. Mnuchin and Mr. Kudlow taking a less adversarial approach than Mr. Lighthizer and Mr. Navarro. But divisions could mean the team won't be able to agree on anything.

Looming over the talks is a failed effort by Commerce Secretary Wilbur Ross last year to strike a deal on Chinese steel production. Mr. Trump dismissed the concessions Mr. Ross brought home as insignificant and ordered him to shut down talks. The mission isolated Mr. Ross, who isn't scheduled to join this week's China mission.

Mr. Navarro's involvement upsets Beijing. Author of books with provocative titles, "Death by China," and "The Coming China Wars," Mr. Navarro is viewed in Beijing as a China-basher.

"We'll not engage with Navarro," a senior Chinese official said at a closed-door meeting last year, according to a person with knowledge of the event.

Some U.S. business groups say Mr. Navarro's participation could help win over a skeptical Mr. Trump back home. "Navarro is there to strengthen Lighthizer's hand," said Dan DiMicco, a former steel industry executive.

China thinks it has made clear its willingness to deal—only to be rebuffed. When Mr. Liu traveled to Washington, he presented a package that included tariff cuts, commercial deals, financial-sector liberalization and a plan for a bilateral free-trade deal. The offer was dismissed as insubstantial by the U.S. and Mr. Liu couldn't score a meeting with the president.

During the past few weeks, China's ambassador to the U.S., Cui Tiankai , and the U.S. Chamber of Commerce's executive director, Myron Brilliant, operating as a backchannel between the two governments, called on their extensive contacts in Washington to try to get talks going again.

In Beijing, the government has lined up the country's most prominent politicians to meet with the U.S. team, including Mr. Xi, his closest economic adviser, Mr. Liu, and Vice President Wang Qishan . Some in the government think that Mr. Trump's deal-making persona will eventually lead to an agreement, particularly since Chinese retaliation would target U.S. farmers , an influential part of the Republican party's base.

"The important thing is that he's a businessman," said Lou Jiwei, China's former finance minister who now heads the country's national pension fund, at a high-level forum in late March. "We fight a bit. Then we could talk it through."

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THE WALL STREET JOURNAL.

World

The 10-Point. A personal, guided tour to the best scoops and stories every day in The Wall Street Journal, from Editor in Chief Gerard Baker.

By Gerard Baker
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English

Good morning,

Dial M for Merger

T-Mobilestruck a $26 billion deal to buy Sprint —a combination that, if allowed by antitrust enforcers, would leave the U.S. wireless market dominated by three national players. The Journal reported earlier this month that the rivals had rekindled merger discussions, after two failed attempts to combine in the past four years. The last one collapsed in November in part over the reluctance of SoftBank founder Masayoshi Son to give up control of Sprint , which his company took over for $22 billion in 2013. A sale to T-Mobile would accelerate the Japanese billionaire's turn away from what was once his core business , selling mobile-phone service. In other deals news, Marathon Petroleum , the second-largest refiner in the U.S., plans to buy pipeline and refining company Andeavor , the second-largest refiner in the U.S., plans to buy pipeline and refining company for more than $20 billion . And Walmart is to merge its British arm, Asda Group, with rival J Sainsbury , creating the U.K.'s largest grocer.

Trust but Verify

Top U.S. officials expressed caution about North Korean leader Kim Jong Un 's pledge to shut down Pyongyang's nuclear-test site , saying the dismantling of the weapons program must be "irreversible" and verifiable. The pledge, revealed by South Korea on Sunday—following Friday's summit meeting between Mr. Kim and South Korean President Moon Jae-in —came ahead of a planned summit between Mr. Kim and President Trump. The Journal's Jonathan Cheng writes that skeptics are getting a case of déjà vu. Much of the language in the declaration signed by the two leaders Friday echoes agreements reached at similar summits in 2000 and 2007, still unrealized.

The Mighty Dollar Is Back

The dollar is rallying after floundering for most of the past year, another sign that global growth momentum may be shifting back to the U.S. from other major economies. As economists grow more doubtful that Europe can keep up last year's pace, signs of stronger U.S. economic growth and inflation are becoming a focus of **financial markets**, helping lift the dollar to its highest level since January . A rising dollar has broad implications for markets and the economy. While it can attract more foreign capital to U.S. bond markets, it can also bruise the earnings of U.S. multinationals by making their products less competitive abroad. But some see the dollar's rebound as a **bear-market** rally—though even so, it could last for months—and think growth momentum will likely shift back to Europe in the coming months, spurring the European Central Bank and other central banks to continue normalizing monetary policy.

Let's Stay Together

With numerous studies showing loneliness can negatively affect health, particularly among the elderly, health-care providers are taking steps to help them feel less alone, writes Journal reporter Sumathi Reddy . CareMore, a California-based subsidiary of Anthem that provides health care to 150,000 Medicare and Medicaid patients across the country, is screening its elderly patients and offering those deemed lonely a "togetherness" program. It is also remodeling clinics to make them more like community centers, and encouraging seniors to socialize even when not waiting for a medical appointment. Elsewhere, AARP Services is testing ways to combat loneliness, including animatronic pets that can imitate real cats and dogs.

Today's Video

Robots Need Managers, Too

As machines get smarter, there is a persistent fear in the minds of economists, policy makers and, well, everybody: Millions of people will be left obsolete and jobless. Yes, jobs will be lost. But experts say the picture has a surprisingly bright silver lining .

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Number of the Day

$630 million

The estimated global box-office take of "Avengers: Infinity War" during its debut weekend, smashing the $541 million record set by last year's "The Fate of the Furious."

Today's Question

Going back to our story above , what are your thoughts on a tie-up of T-Mobile and Sprint ? Send your comments, which we may edit before publication, to 10point@wsj.com . Please include your name and location.

—Compiled by Jessica Menton

Reader Response

Responding to Friday's question on the meeting between North Korea and South Korea, Jane Park of South Korea weighed in: "While the peninsula brims with high hopes for the reunification between the North and South, it is unlikely that Kim Jong Un has any altruistic motives to end the armistice so quickly.…If President Trump and President Moon Jae-in manage to have Kim Jong Un relinquish his alliance with China, that alone would be a remarkable accomplishment which could ultimately lead to the reunification of two Koreas in future decades." Russ Hagberg of Illinois shared: "The potential for a reunified Korea is real, and this is an impressive diplomatic achievement by the Trump administration." And Ben Richmond of Washington, D.C., wrote: "The Trump administration should view this as a sign not to resort to military force if the upcoming negotiations do not end in the administration's sought-after 'denuclearization.'"

This daily briefing is named "The 10-Point" after the nickname conferred by the editors of The Wall Street Journal on the lead column of the legendary "What's News" digest of top stories. Technically, "10-point" referred to the size of the typeface. The type is smaller now but the name lives on.

Sign up here for a curated weekly tour of WSJ's unique take on the sports world including news, smart features, data and Jason Gay.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Stocks Have an Earnings Problem; Strong first quarter earnings aren't pushing stocks higher. What's next?

By Charley Grant
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30 April 2018
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English

U.S. companies lately have only good news to share with their investors. That might actually foretell a problem for stocks.

First-quarter earnings season is shaping up to be a particularly strong one. More than half of companies in the **S&P 500** have reported results and about 80% of those have topped analyst profit expectations. On average, earnings per share in those companies have grown by about 23% from a year ago, according to FactSet.

Yet that ostensibly **bullish** backdrop hasn't done anything to lift stock prices: The **S&P 500** is essentially flat so far this year.

The nonreaction from stocks can be explained by the reality that markets are forward-looking. Shareholders essentially had been paid in advance for this quarter. Today's strong results in large part reflect December's tax-overhaul bill, which helped stocks shoot higher throughout 2017.

Companies have driven tax rates lower for years, thanks to tactics such as booking profits overseas. That trend might be reaching its limit. Google-parent Alphabet Inc. reported an effective tax rate of 11%, down from 20% a quarter ago. Pharmaceutical manufacturer AbbVie reported a first-quarter tax rate of just 7.6%, though the company said it anticipates that figure to increase to 13% by 2023. Those savings, plus large sums multinationals repatriated from abroad, have freed up cash for increased dividends and share buybacks.

The problem for investors is that those low tax rates take a future source of earnings growth off the table. What is more, there isn't an obvious marketwide boost to follow in the tax overhaul's wake that investors can clearly envision.

Meanwhile, some potential market negatives loom. For example, corporations might choose to spend more of the tax overhaul benefits on capital expenditures than investors currently anticipate. And certain political threats, such as potential trade restrictions and tariffs, may intensify.

That doesn't necessarily mean a selloff is in store. The **S&P 500** now trades at about 17 times forward earnings forecasts, according to FactSet, down from more than 19 times at January's record high price. The current valuation isn't far from the five year average multiple of earnings.

But don't be surprised if investors need to see a few more earnings seasons like the current quarter for another leg higher for the **stock market**.

Write to Charley Grant at charles.grant@wsj.com

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WSJ PRO CENTRAL BANKING

Economy
U.S. Inflation Hit Federal Reserve's 2% Target in March; Strengthening U.S. inflation pressures could encourage the Fed to continue lifting interest rates this year

By Harriet Torry and Andrew Tangel
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RSTPROCB
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WASHINGTON—Inflation hit an important milestone on Monday for Federal Reserve officials as they prepare for a policy meeting in Washington, fresh evidence that the long economic expansion is rousing dormant consumer prices.

The Commerce Department's price index for personal-consumption expenditures, the Fed's preferred inflation gauge, was up 2% from a year earlier in March, the first time in more than a year it was on target. Inflation is now above the median of Fed officials' projections from their March meeting, which put it at 1.9% by the end of this year.

Makers of everything from sticky notes, household paint and washing machines are signaling they plan to raise prices to offset rising bills for steel, oil and other inputs amid pressure from higher labor and transportation costs.

3M Co., the St. Paul, Minn., maker of myriad products including office supplies like Post-it Notes as well as industrial adhesives and films, highlighted the cost of crude oil as a major driver of inflation. 3M said higher prices world-wide contributed 0.7 percentage point of its global sales increase of 7.7% in the first quarter.

"For the year, we expect price growth to remain strong and that it will more than offset raw material inflation," 3M Chief Financial Officer Nick Gangestad said in a call with analysts in April.

The PCE index was flat on the month from February, thanks in part to a decline in energy prices. But prices show some signs of rising outside that **volatile** sector. Excluding food and energy costs, prices rose 0.2% in March from February and were up 1.9% from a year earlier.

Six months earlier, core year-over-year inflation stood at 1.4%. The gains have been driven in part by higher services inflation as firms compete to hire scarcer workers. Services inflation rose 2.8% in the year to March, while prices for long-lasting durable goods were down 2.4% from a year earlier.

Anemic inflation has been a key factor behind the Fed's policy of raising rates only gradually in recent years.

Several factors are pointing toward a sustained pickup in inflation in the months ahead. A weak dollar and trade tariffs could push up prices on imported goods. Meantime, low unemployment could put modest upward pressure on wages. Consumer spending also could pick up as households feel the impact of the $1.5 trillion tax-cut package signed into law in December.

Inflation softened last year, in part because mobile phone service providers slashed prices. That has now washed through the system and Steven Blitz, chief U.S. economist at TS Lombard, said "the great disinflation scare of 2017 appears to have ended" in a recent note to clients.

Some American manufacturers say they plan to pass along mounting raw-material costs to their customers in the months ahead.

"It's a scramble," said Nicholas Heymann, an industrials analyst at William Blair. "They're raising prices big time."

New U.S. tariffs on steel and aluminum have boosted costs for the metals as global economic growth has been fueling increasing demand for oil and other commodities. The cost run-up has been faster than some firms expected.

Appliance maker Whirlpool Corp. said earlier this month it began raising prices on washers and dryers in the U.S. as it expects to pay more for steel, resin and other raw materials this year.

"U.S. steel is right now significantly elevated versus the rest of the world, and that's just the reality," Chief Executive Marc Bitzer told analysts in a call in April.

United Technologies Corp. said a price increase of up to 6% for its Carrier Corp. and other heating and air-conditioning systems would start in July as the company grapples with increased input costs.

"Copper has gone up, aluminum has gone up, steel has gone up, second-tier supply has gone up," Chief Executive Gregory Hayes said in a call with analysts in April.

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THE WALL STREET JOURNAL.

Opinion

Red States Are Tickled Pink Over the Economy; But blue-state investors have the blues, because tax reform helps Main Street more than Wall Street.

By Jason DeSena Trennert
675 words
30 April 2018
05:58 PM
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'If it bleeds, it leads"—the old journalistic saying is true among the financial media. The most recent source of media-inspired economic anxiety is the idea that earnings growth is too good and American companies are reaching "peak" earnings. The assumption is that the tax cut's impact on the economy and markets will be ephemeral, a small dose of adrenaline before a return to the "new normal" of subpar growth.

True, the tax cut created some one-time earnings benefits. But it is unreasonable to expect the stimulative effects of a major tax reform to realize themselves fully within a few months.

It has been intriguing to my colleagues and me, at a firm that provides research to institutional investors around the world, that a disproportionate share of pessimism about the tax cut is coming from blue states. Meanwhile, some investors in red states are positively giddy about the country's economic potential.

Some of this no doubt reflects feelings toward President Trump. But there are three additional reasons for such divergent attitudes among professional investors whose job is to get it right regardless of politics:

• Blue-state investors benefit less. Many highly compensated financial professionals, and their clients, live in high-tax states like New York, Massachusetts and California. Because of the new limit on deductibility of state and local taxes, their overall tax cut is smaller.

• Geographic bias. "Wall Street is the only place that people ride to in a Rolls Royce to get advice from those who take the subway," Warren Buffett famously observed. At least part of Mr. Buffett's success as an investor is because he still lives in Omaha, Neb., far from the madding crowd and its groupthink. If you personally don't know someone who makes his living in the industrial economy, it is harder to appreciate fully the inducements for capital expenditures embedded in the newly passed tax plan.

• The investment industry's own headwinds. Although the major stock indexes have registered gains for the past nine years, these have been tough times for the money-management business and the firms like ours that service them. A surfeit of easy money has contributed to higher correlations among stocks and lower dispersion of stock returns, making active managers vulnerable to low-priced passive-investment vehicles like exchange-traded funds. The profitability of an industry that has seen nearly 35 years of uninterrupted growth has come under pressure. Our own difficulties can sometimes make it difficult to appreciate the good fortune of others.

The most contrarian investment view today is that the tax cut has the potential to extend the business cycle. After nine years, it is natural to believe that the economy is late in its current expansion. Still, this was a very unusual business cycle. Until recently, a combination of perpetually low interest rates and an uncertain regulatory environment prompted many companies to seek opportunities to boost earnings through financial engineering—issuing bonds and buying back stock—rather than genuine long-term capital investment.

The ability of corporations to fully deduct capital expenditures for the next five years, along with a move to a territorial tax system that frees up trillions of dollars in unrepatriated corporate profits, provides enormous incentives for companies to invest in their own businesses. That, in turn, could boost productivity (conspicuously absent in the expansion), support profit margins, and keep unit labor costs low enough so that the Fed has little need to choke off an expansion at a time when wages are finally starting to rise.

One casualty of the financial crisis and its aftermath appears to be the ability for many of us to enjoy good fortune. Investors, and the media who cover the **financial markets**, should consider the possibility that the best for the economy may be yet to come.

Mr. Trennert is chairman and CEO of Strategas.

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The New York Times

Business Day
Investment Boom From Trump's Tax Cut Has Yet to Appear

By Matt Phillips and Jim Tankersley
1,600 words
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NYTimes.com Feed
NYTFEED
English

After years of costly layoffs and plant closings, things are looking up for the heavy-machinery giant Caterpillar, which forecasts solid global sales growth and increased demand this year. Yet despite the corporate investment incentives at the center of President Trump's tax overhaul, the company's executives have no plans to supercharge investment or expansion.

Caterpillar's plans for new investment remain low by historical standards. Instead, the company has started using cash to repurchase its own stock as a way to return cash to shareholders, something it hadn't done since 2015.

"We feel we have the necessary bricks-and-mortar capacity that we need," Brad Halverson, the company's chief financial officer, said in a post-earnings conference call last Tuesday.

Republicans sold the 2017 tax law as "rocket fuel" for American investment and growth, saying that corporations — flush with cash from lower tax rates — would channel money back into the economy by building factories and offices and investing in equipment, which would help companies grow and provide winnings for workers.

Economists say that may happen as companies readjust their spending plans over the coming months to take advantage of the new law, and they note that it is too early to tell how much the tax law will spread into the broader economy.

But, so far, hard evidence of such an acceleration has yet to appear in economic data, which show more of a steady investment roll than a rapid escalation. And while there are pockets of the economy where investment is picking up — among large tech companies and in shale oil business, for example — corporate spending on buying back stock is increasing at a far faster clip, prompting a debate about whether the law is returning money to the overall economy or just rewarding a small segment of investors.

Data on the gross domestic product, released Friday, showed that business investment grew at a 6.1 percent annual clip during the first three months of 2018, down from 7.2 percent during the first quarter last year. Excluding oil and gas investment, which is particularly **volatile**, the investment pace grew slightly over the past year.

While the first-quarter investment numbers were more robust than they were in 2015 and 2016 — when a bust in **oil prices** curtailed a large chunk of American corporate spending — they weren't radically different from the roughly 5 percent rate of growth for business investment that has prevailed since 2010.

The White House celebrated those numbers, and the administration's Council of Economic Advisers said in a tweet on Friday that the G.D.P. report reflected "strong business investment" as companies responded to the tax overhaul.

Representative Erik Paulsen, a Minnesota Republican who chairs the Congressional Joint Economic Committee, attributed the G.D.P. growth to the tax cuts. "Americans are better off today than they were 16 months ago," he said in a statement on Friday. "Business investment is strong, wages are growing, and disposable income is climbing thanks to tax reform and pro-growth policies."

Analysts were more cautious in drawing conclusions.

"Even regardless of the tax plan kicker, we would have seen a pickup in business investment," said Keith Parker, head of United States equity strategy at UBS. Capital spending, he said, "typically follows profits with a lag."

Scott Greenberg, a tax analyst at the conservative Tax Foundation, warned that it was “always difficult to identify an economic trend from just one quarter’s data.”

Senator Marco Rubio, Republican of Florida, told The Economist in remarks published last week that after the tax cuts passed, corporations “bought back shares, a few gave out bonuses; there’s no evidence whatsoever that the money’s been massively poured back into the American worker.” A spokeswoman said Monday that Mr. Rubio’s criticism was that the law could have done more to help working families while also stimulating corporate investment.

While overall business investment in the American economy was up 6.1 percent in the first quarter, business spending by the larger corporations included in the **Standard & Poor**’**s 500**-**stockindex** — as measured by their announcements of capital expenditures so far this earnings season — is up 23.5 percent from the first quarter of 2017, according to S&P Global Market Intelligence. That would be the fastest pace since 2012.

Large tech companies are among some of the biggest spenders. Google’s parent, Alphabet, nearly tripled its first-quarter capital spending to $7.3 billion on real estate and computing capacity and data centers. Amazon increased investment by more than 40 percent to more than $3 billion as it builds out its network of fulfillment centers.

But with roughly a quarter of the companies in the **S**.**&P**. **500** having reported first-quarter results, their spending on buybacks is even higher, up 43 percent from the first quarter of 2017, to $43 billion, according to data from Howard Silverblatt, an analyst at S&P Dow Jones Indices.

Traditionally when companies have more cash than they think they can invest productively, they return it to shareholders either by paying them cash dividends or by going into the market and repurchasing shares. Those buybacks tend to push the price of a stock up, making shareholders wealthier, at least on paper.

Republicans, and some Democratic economists, say this can help the economy, if those shareholders sell their stock and then use their profits to make other investments. But critics argue that buybacks disproportionately benefit the wealthy — the richest 10 percent of Americans own 84 percent of all stock — and executives who are often compensated with shares.

Boeing said it had bought back $3 billion worth of its stock in the first quarter. (It expects to buy $15 billion over the next two years.) Facebook expanded its plans to buy back its shares to the tune of $9 billion. the appliance maker Whirlpool said it would sell its Brazilian refrigerator compressor business for roughly $1 billion, and then use that money to buy its own shares. The railroad operator CSX said it had bought back more than $800 million in shares in the first quarter, as part of plans to buy $5 billion in shares by the first quarter of next year.

As they anticipated a windfall from tax cuts, the nation’s banks increased their pace of buybacks by more than 50 percent last year, to $77.5 billion from $51 billion in 2016, according to data compiled by S&P Global Market Intelligence. The 10 largest banks, led by JP Morgan Chase and Citigroup, accounted for 70 percent of those buybacks.

Republicans have highlighted the buybacks as a boost for the economy, saying they will put money in the hands of investors who will find productive and widespread ways to use it. Many Democrats say those buybacks undermine Republican claims about the tax law and prove the overhaul will reward only corporations and the wealthy.

“The whole theory was to lavish corporations and the already wealthy with tax cuts, and maybe the benefits will trickle down to everyone else,” Senator Chuck Schumer of New York, the minority leader, said in a floor speech in April. “We’re already seeing the balloon burst on that idea, as corporations dedicate an enormous percentage of the tax savings to stock buybacks, and only a sliver to worker compensation.”

A recent surge in oil and gas investment is largely a result of the recovery in oil and gas prices and easing of regulations over the last year, rather than incentives put in place by the tax overhaul. Economists believe those incentives — such as allowing companies to immediately and fully deduct the cost of capital spending in order to lower their taxes — could help stimulate investment for companies.

A survey by the National Association of Manufacturers in April found record-high expectations among members for capital investments this year. Historically, that survey is a strong predictor of future investments, though over the past two years actual investment has underperformed what the survey predicted. A survey by the National Association for Business Economics also finds capital spending expectations rising from a year ago — but two-thirds of respondents said the new tax law did not cause them to change hiring or investment plans. Morgan

Stanley said Monday that its Capex Plans Index for future capital expenditures fell slightly in April, from what had been a record high.

Verizon, in its quarterly earnings report last week, said it had increased capital expenditures to $4.6 billion in the first quarter, up $1.5 billion from the same period in 2017. But the company plans to stick to its target of spending at most $17.8 billion on investment this year — a level that has not budged much for the past four years.

“I don’t see us having a massive acceleration in capex,” Verizon’s chief financial officer, Matt Ellis, told analysts on its post-earnings conference call.

* Fed Officials Worry the Economy Is Too Good. Workers Still Feel Left Behind.

* Spreadsheets at Dawn: The New Tax Battle Is All About Data

President Trump’s tax cuts have not yet translated into expanded investment by companies like Caterpillar, which provided a front-end loader for Made in America Day last year. | Tom Brenner/The New York Times | Boeing said it had bought back $3 billion worth of its stock in the first quarter. It expects to buy $15 billion over the next two years. | Randall Hill/Reuters

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WSJ PRO CENTRAL BANKING

Economy

U.S. Consumer Spending Bounced Back in March; Personal income increased 0.3% in March, adding fuel to consumers' spending power

By Sarah Chaney
445 words
30 April 2018
10:22 AM
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RSTPROCB
English

WASHINGTON—Americans' spending regained momentum in March while their incomes continued to grow, a sign consumers could drive better economic growth this year.

Personal-consumption expenditures, a measure of household spending on everything from dishwashers to books, increased a seasonally adjusted 0.4% in March from the prior month, the Commerce Department said Monday.

The increase in spending reflects some renewed momentum after a slowdown earlier this year, when expenditures edged up 0.2% in January and were flat in February. This earlier pullback came after strong holiday spending coupled with hurricane-induced purchases—such as replacements for ruined cars—in the fourth quarter.

Consumer spending accounts for more than two-thirds of U.S. economic output, making it a key driver of the economy.

In March, durable-goods spending rose 0.8%. Growing worker paychecks also likely helped propel March's spending gains.

Personal income, reflecting Americans' pretax earnings from salaries and investments, rose 0.3% in March, broadly in line with increases clocked in recent months.

Wages and salaries edged up 0.2%. A larger increase of 0.9% came from dividend income, which PNC chief economist Gus Faucher attributed to businesses boosting dividends in line with lower corporate tax rates.

The overall increase in income positions spending to gain momentum this year, though headwinds persist.

"Income growth should lead consumers to boost their spending throughout 2018, although the need to increase saving and higher interest rates will constrain growth," Mr. Faucher wrote in a note to clients.

In March, consumers saved less. The personal saving rate in March was 3.1%, compared with 3.3% in February. Still, the March saving rate remains well above the 2.4% December rate.

While low unemployment and signs of rising wages bode well for consumer spending in the months ahead, Americans' paychecks might not go as far, given rising inflation.

The price index for personal-consumption expenditures, the Federal Reserve's preferred inflation measure, was up 2.0% from a year earlier, but was flat from February. Excluding **volatile** food and energy costs, prices rose 0.2% in March. Core inflation was up 1.9% in March from a year earlier.

The Federal Reserve targets 2% year-over-year inflation and has been raising short-term interest rates to prevent the economy from overheating. Stronger underlying price gains could encourage the Fed to be slightly more aggressive in lifting its interest rates in an effort to keep inflation in check.

Write to Sarah Chaney at sarah.chaney@wsj.com

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
Shale Boom Fuels Refinery Deal; Marathon Petroleum's acquisition of Andeavor will benefit from surge in U.S. oil production

By Spencer Jakab
416 words
30 April 2018
12:42 PM
The Wall Street Journal Online
WSJO
English

Until last year Andeavor was known as Tesoro, which means treasure in Spanish. The oil refiner that is being acquired by rival Marathon Petroleum for over $23 billion hadn't produced that very consistently for most of its half-century history, though.

The U.S. shale boom smoothed the returns for what was a classic boom-and-bust industry. North American refining and logistics, the dowdier "downstream" part of the business, is now the place to be.

In the past five years, the three leading independent refiners—Andeavor, Marathon and current No. 1 Valero—have produced an average total shareholder return of 195%, about 110 percentage points better than the **S&P 500**. An index of oil producers is down by over 27% over the same period.

The deal, which should face few hurdles given minimal geographical overlap, would give the combined company 16% of U.S. refining capacity and is expected by management to lead to over $1 billion in annual synergies. If that holds up, Marathon projects that they are paying a modest 4.2 times projected 2020 cash flow for Andeavor.

The early years of the shale boom were helpful to U.S. refiners in a way that couldn't be sustained. As supply of light, sweet U.S. crude surged amid a longstanding export ban, it went from a premium of over $1 a barrel over global benchmark Brent to an average discount of over $17 by 2012. Refiners benefit because different types of crude mean a price differential can create opportunities as refined products are priced much more uniformly on the global market. That situation acted as a subsidy for U.S. refiners. The end of that ban has brought the discount down to an average of over $4 a barrel this year.

But there is much more. Marathon and Andeavor are deeply invested in the logistics business and America's transformation into the world's top crude producer and possibly a net exporter within a few years makes existing and planned transport and processing infrastructure even more valuable. Having a big footprint in four of the nation's five major refining regions will give the new company flexibility to exploit market dislocations wherever they arise and will make the overall business less choppy.

This deal looks like a winner.

Write to Spencer Jakab at spencer.jakab@wsj.com

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THE WALL STREET JOURNAL.

Business
Companies Feel the Impact of Rising Oil Prices; Some are looking to pass on the extra energy costs to their customers, which would push inflation higher

By Doug Cameron and Bradley Olson
986 words
30 April 2018
12:06 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

The graphic included with this story has been replaced to fix the **oil-price** chart. The chart in the earlier version of this article incorrectly stated that the price was per gallon.

The highest **oil prices** in years are increasing expenses for companies that had grown used to low energy costs since crude's 2014 tumble, while the turnabout is proving to be a boon for some businesses.

Giant outfits from American Airlines Group Inc. to 3M Co. have warned this week about how persistent higher **oil prices** are boosting their expenses this year.

In response, some companies are looking to pass on the costs to their customers, which would push inflation higher. That, in turn, could slow growth and weigh on an already vulnerable **stock market**.

"I do believe that consumers will pay more," said American Airlines Chief Executive Doug Parker.

The airline on Thursday lowered its profit outlook for the year, citing in part a 12% increase in the average price of jet fuel over the past two weeks. Fuel is airlines' second-largest expense after labor, and fare changes tend to lag movements in oil by several months. Mr. Parker said he didn't think higher fares would hurt demand.

The increased energy costs hurt in the first quarter because West Texas Intermediate crude prices have remained above $60 for much of the year, something not seen since late 2014. Higher energy prices hit different industries over time, and it can take weeks or months before they can pass their higher costs on to consumers or vendors.

Railroad operator Union Pacific Corp. reported Thursday that its fuel expenses surged 28% to $589 million in the latest quarter, with most of the increase coming from a 22% increase in diesel prices. However, Union Pacific passed along some of that higher cost to customers through fuel surcharges, which totaled $353 million, up 67% from the year-earlier period.

The company, though, also benefited from higher demand for sand used in shale-oil extraction and a surge in shipments of crude, as higher **oil prices** spurred production. Union Pacific, which operates in the western U.S. where much of the shale exploration occurs, said its energy revenue jumped by 15% in the March quarter from the year-ago period, growing twice as fast as its overall business.

Elsewhere, United Parcel Service Inc. said its fuel expenses jumped 21%, or $129 million, in the March quarter. But the company said fuel surcharges and higher prices helped offset rising delivery costs in its U.S. ground business.

Rising diesel prices are weighing on trucking companies despite a surging freight market, though some of those costs also get passed on through fuel surcharges.

On Thursday, Schneider National Inc., a large trucking company based in Green Bay, Wis., reported its fuel expenses rose 16% in the first quarter to $84.7 million. The carrier's revenue from fuel surcharges to customers jumped by 31% to $117.8 million.

USA Truck Inc., another national carrier, reported $13.5 million in fuel expenses for the quarter, up 25% year-over-year. The Van Buren, Ark.-based company said rising fuel was among several factors offsetting strong freight demand.

Meanwhile, earnings at energy companies have surged. Royal Dutch Shell PLC on Thursday posted its highest quarterly profit since 2013, when **oil prices** were peaking above $100 a barrel. In addition, earnings jumped by more than half at ConocoPhillips and Schlumberger Ltd., where officials noted that drilling activity picked up in the second half of the quarter as prices stayed above $60.

Exxon Mobil Corp. and Chevron Corp. are expected to post similar gains when they report Friday.

Consumers are seeing the effects at the gas pump, where the average price of $2.80 is the highest since June 2015. The U.S. Energy Information Administration has estimated that the average household will spend about $190 more on fuel in 2018 compared with 2017—a 9% increase.

Executives at both 3M and Caterpillar Inc. said this week that they would raise prices to offset the hit to profits from rising commodity prices.

"We are seeing some increases in raw material prices, in fact, more than what we originally estimated," 3M Chief Financial Officer Nicholas Gangestad said, adding that the maker of Scotch tape and Post-it Notes faced higher transportation and material costs as **oil prices** rose.

As was the case for Union Pacific, rising **oil prices** were at the same time a positive for Caterpillar, which provides the pumps for shale-well drilling and extraction. Caterpillar said sales of its equipment and parts used in the oil and gas industries rose 50% from the prior year to $1.2 billion in the first quarter.

"At the end of the day, higher commodity costs benefit many of our customers. and they are one of the reasons we have seen several of our end markets begin to recover," Caterpillar Chief Financial Officer Brad Halverson said.

One factor that can blunt the impact of rapid oil-related cost inflation is hedging, or locking in future prices, which is common for airlines and other sectors where fuel costs can weigh heavily on the bottom line.

Gary Kelly, chief executive of Southwest Airlines Co., was more sanguine than American's Mr. Parker about the impact of the recent rise, in part because the largest carrier of domestic passengers has a longstanding hedging program.

"I think we're very well positioned to manage our way through a real fuel price shock," he said. "What we have now is not an issue. If we get to 100-plus dollars a barrel, then I think we have something else to talk about."

Andrew Tangel and Jennifer Smith contributed to this article.

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* Is Big Oil Back? Investors Aren't So Sure

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THE WALL STREET JOURNAL.
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U.S. News: Inflation Puts Scrutiny on Fed's Rate-Rise Plans

By Nick Timiraos
601 words
30 April 2018
The Wall Street Journal
J
A2
English

Federal Reserve officials meeting this week are likely to hold interest rates steady, but signs of stronger price and wage pressures point to more difficult discussions over how much more they should raise rates in the next few years.

Data to be released Monday are expected to show inflation has risen close to the central bank's 2% target, using its preferred gauge, after years of falling short.

Wages and salaries of private-sector workers rose 2.9% for the year ended in March, the strongest gain in nearly a decade, the Labor Department reported Friday.

Fed officials raised rates last month and penciled in two more increases this year. The inflation data will animate discussions about whether these moves will be enough to keep price pressures under control.

The Fed is closer than it has been in years to meeting its mandates to foster the best labor market possible without fueling too much inflation. Officials want to keep gradually raising rates to keep the economy on an even keel, which could become more challenging as the economy absorbs a boost from recent tax cuts and federal spending increases.

Unemployment, at 4.1% since fall, is below the level officials regard as sustainable over the long run while keeping price pressures contained.

The Commerce Department is likely to report Monday an upturn in inflation because weak March 2017 figures will fall out of the 12-month measure. Fed officials say this increase alone won't change their interest-rate plans. A recent rise in the cost of hospital services has also been giving the inflation reading an extra pop.

Economists estimate so-called core prices, which exclude **volatile** food and energy categories, rose 1.9% for the year ended in March, up from 1.6% in February.

Fed officials see 2% inflation as consistent with an economy with healthy demand for goods and services. Projections released at their meeting last month show all 15 participants expected annual core inflation of at least 2% by 2020, and more than half of them see it rising to at least 2.1% next year and staying there through 2020.

This was the first time officials have projected inflation exceeding the Fed's 2% target, signaling they don't expect to pick up the pace of rate increases in the case of a modest and temporary overshoot.

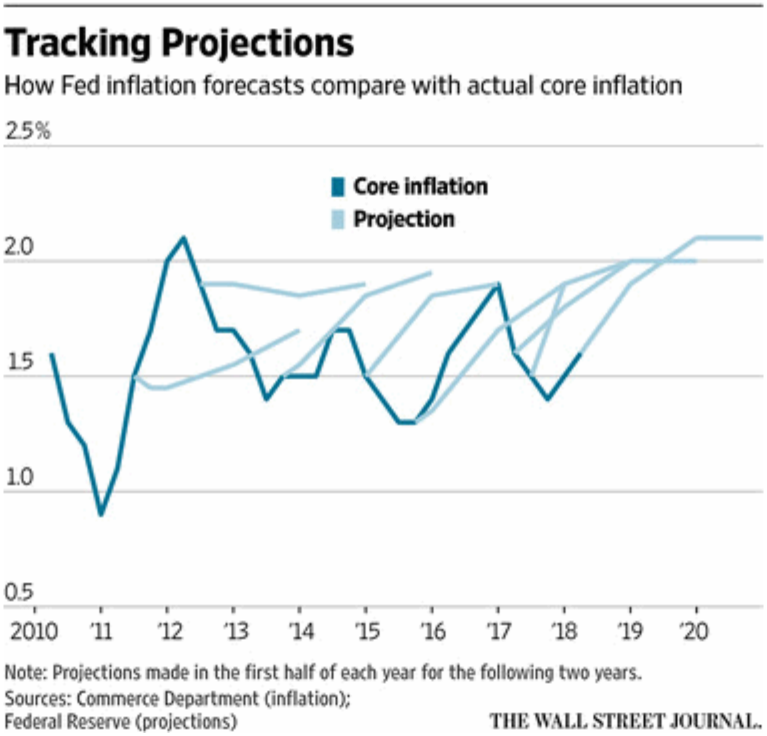
"We're going to see the Federal Reserve emphasize that we missed the target on the downside for a while and for that reason we're willing to accommodate inflation somewhat above target for a while," said Nathan Sheets, chief economist at PGIM Fixed Income and a former Fed economist.

Still, officials haven't said how much or for how long they would let inflation go above 2% before moving to raise rates more aggressively to bring it down.

"We haven't agreed on that," said Fed Chairman Jerome Powell at a news conference last month.

Officials are also likely to keep a close eye on inflation expectations. If they remain anchored even as core inflation rises to 2.5%, "I'm not going to be worried about it," said Minneapolis Fed President Neel Kashkari in a recent interview. If expectations start to rise, however, the Fed might need "to send some kind of signal that we are not going to let that get out of control," he said.

Fed officials have made few changes to their interest-rate forecasts over the past two years.



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THE WALL STREET JOURNAL.
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Bitcoin's New Hub Rises in The Swiss Alps

By Brian Blackstone
655 words
30 April 2018
The Wall Street Journal
J
B9
English

ZUG, Switzerland -- When 24-year-old Ian Worrall launched his crypto-investment startup MyBit last year, he chose this Swiss lakeside city as its home.

It was an odd fit: the no-holds-barred corner of the **financial markets** meeting button-down Switzerland.

Yet this nation, as closely tied to its ultrasafe Swiss franc as it is to the Alps, is entranced by **volatile** digital currencies. Buildings in Zug and in Zurich, Switzerland's financial center, are blossoming into crypto-finance hubs.

Four of the 10 biggest initial coin offerings last year were in Switzerland, according to PwC, more than any other country.

The hope is the country's banking prowess, low taxes, elite universities and the Swiss brand itself will do for Switzerland what Silicon Valley did for the U.S.

Efforts to expand the "Crypto Valley" into what Switzerland's economics minister has called Crypto Nation have seen some success and may offset the country's shrinking banking sector. The number of banks here has fallen 20% in the past decade, according to the Swiss Bankers Association.

Switzerland "is the best from a tax, legal and operational standpoint," Mr. Worrall said from the MyBit headquarters in a startup hub called Crypto Valley Labs.

MyBit is an investment platform to fund Internet of Things devices such as self-driving automobiles. It raised the equivalent of some $3 million in an initial coin offering last summer.

The number of companies at Crypto Valley Labs and another location jumped from 15 early last year to over 100, said Mathias Ruch, managing partner at Lakeside Partners, which developed the site. "I'm signing contracts on a daily basis," he said.

The canton of Zug, with a population of around 120,000, has emerged as the heart of Switzerland's Crypto Valley. Its population grew at the fastest rate of all Swiss cantons in 2017, and its jobless rate is 2.3%, below Switzerland's 2.9% average and down 0.2 percentage point from a year ago. Its corporate tax rate is 14.6%.

Matthias Michel, Zug's economics minister, said Crypto Valley wasn't a grand plan. Rather, it began five years ago when pioneers of blockchain platforms like Monetas put down roots in Zug, attracted by the business-friendly environment. Others followed, and an ecosystem developed.

In the process, Zug became a pilgrimage destination for global crypto devotees, complete with guided tours. There is a "Bitcoin accepted here" sign at city hall.

"You cannot copy and paste [what Zug has done], it's a systematic approach which makes it strong," said Mr. Michel.

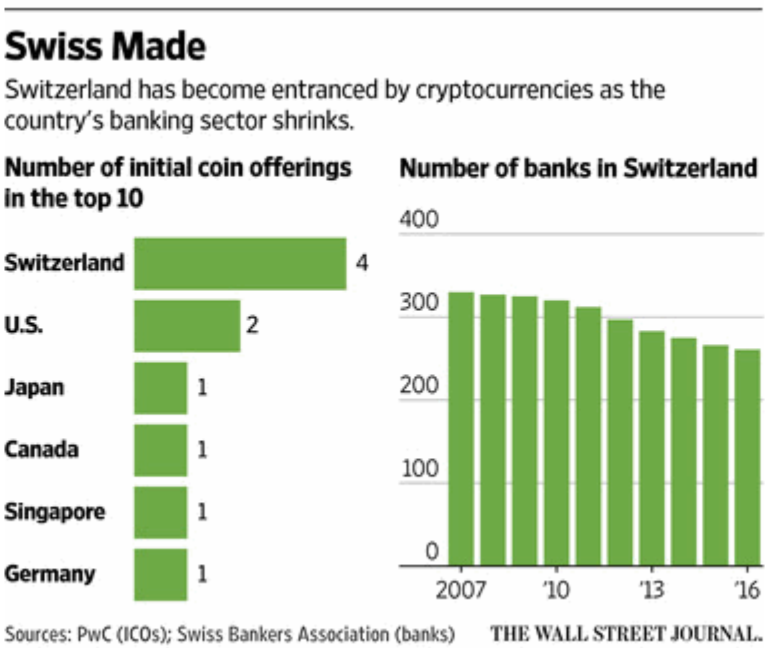
Recently, officials from Finma, the Swiss financial regulator, met industry representatives at a packed conference here. The meeting showcased another Swiss advantage -- nimble regulators, or as Mr. Worrall described the approach: "Do your best, and if you mess up, we'll work with you."

While Finma is receptive to cryptocurrencies, the Swiss National Bank is skeptical and has warned of the risks associated with them. Executives from large banks echo those worries.

There are other drawbacks for Switzerland. Despite a skilled workforce, the country lacks a startup culture. There is a greater stigma attached to failing at a new business in Switzerland than there is in the U.S. High living costs will make it hard to scale up. If Mr. Worrall expands, it will probably be in Berlin.

The biggest fear, though, isn't the central bank or living costs, industry participants say, but rather the potential to run afoul of U.S. regulators.

Switzerland has spent years distancing itself from a reputation as a shady-money haven. Banks have spent billions of dollars settling damaging charges from U.S. authorities related to tax evasion and mortgage-backed securities. Crypto startups say it is hard to open a business bank account.



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THE WALL STREET JOURNAL.
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Regional Banks in Fight for Deposits

By Christina Rexrode and Rachel Louise Ensign
717 words
30 April 2018
The Wall Street Journal
J
B1
English

Last year, businesses started pulling money from their bank accounts at Fifth Third Bancorp.

In response, the Cincinnati-based lender started offering higher interest rates to some consumers. But the bank still ended 2017 with slightly fewer deposits, the first drop in seven years.

Welcome to the new world of Main Street banking, where deposits are starting to head out the door after years of growth. This month, major regional banks reported the increasing competition for deposits in their first-quarter earnings. Some lenders, including Dallas-based Comerica Inc. and Birmingham, Ala.-based Regions Financial Corp., lost deposits compared with a year ago. Others are still adding deposits, but at a much slower pace than recent years.

The drain represents another consequence of the Federal Reserve's decision to raise short-term rates, which influences the mortgage market, stocks and other corners of the economy. The higher rates now available in money-market funds and other investments are luring clients to move their money out of bank accounts that still offer minimal interest rates.

In 2017, 10 of 22 major regional banks experienced declining U.S. deposits, compared with only two the year before, according to a Wall Street Journal analysis of Federal Deposit Insurance Corp. data. The smallest U.S. banks, which tend be community lenders with a handful of branches, have also seen deposits decline, according to an analysis by investment bank FIG Partners.

The deposit declines aren't big enough yet to hurt bank earnings, which have broadly been strong thanks to the recent U.S. corporate tax cut.

Also, banks have accumulated so many deposits in recent years that they still have far more than they need to fund loans. At the end of last year, U.S. banks lent out only about 72% of their deposits. That is why some banks experiencing deposit declines say that they were fine with losing some less-desirable customers, such as those holding high-yielding certificates of deposit.

But the declines could mark the start of an important industry shift in which deposits become less plentiful and Main Street banks do more to compete for them. Regional banks lack the national footprint of JPMorgan Chase & Co., Bank of America Corp. and Wells Fargo & Co., which attract consumers through their ubiquitous branch networks and flashy mobile-banking apps.

The three biggest banks added a combined $118 billion in U.S. deposits last year. As a group, the nearly two-dozen regional banks added a net amount of roughly $55 billion.

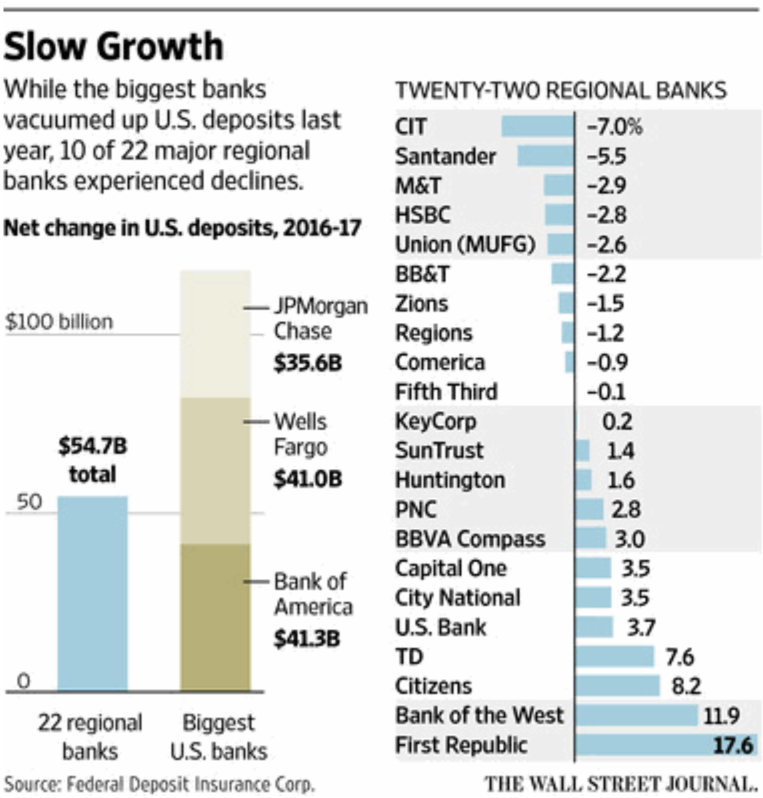
"It's a big concern for us and the industry," said Darren King, chief financial officer of Buffalo, N.Y.-based M&T Bank Corp., where deposits fell 6% to roughly $91 billion in the first quarter. The bank said about half of its year-over-year decline was intentional and tied to a past acquisition.

Deposits are the lifeblood of banks and a key factor in profitability. Banks use deposits to make loans, so when they pay higher deposit rates, they make less money.When a bank loses too many deposits, it could be forced to rein in lending or pursue more expensive funding.

For years after the financial crisis, banks have been flush with deposits.The Fed kept interest rates at historic lows and customers had few other choices about where to put their savings. The central bank's bond-buying program also pumped more money into the financial system, which brought more deposits to banks.

But in recent years, the Fed has raised a key interest rate six times and started unwinding its bond portfolio, which generally takes deposits out of the financial system. Rising interest rates have given savers and businesses more alternatives to earn a yield on their money. Now banks are preparing to fight each other for deposits. "The arms race is under way," said Gerard Cassidy, an RBC Capital Markets analyst.

Continued declines in deposits could pose a major challenge for regional lenders at a moment investors are otherwise bullish on their prospects. The banks are among the biggest winners of the new low corporate tax rates and the Senate recently passed a bill that would loosen their regulations.



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THE WALL STREET JOURNAL.
U.S. EDITION

Junk Bonds Withstand Falling Treasurys --- Fund outflows, stock volatility fail to dent demand for riskier corporate debt

By Sam Goldfarb
793 words
30 April 2018
The Wall Street Journal
J
B10
English

The market for riskier corporate bonds is picking up again, showing the resilience of investor appetite for high-yielding junk debt in the face of rising Treasury yields, large fund outflows and **volatility** in stocks.

After two months of negative returns, bonds rated speculative grade, or "junk," by credit-rating firms have returned 0.6% in April, counting price changes and interest payments, according to Bloomberg Barclays data, compared with minus-1.3% for investment-grade bonds.

The average junk-**bond yield** was 3.33 percentage points above the comparable Treasury yield on Friday, up from a postcrisis low of 3.11 percentage points on Jan. 11 but down from its recent peak of 3.69 percentage points on Feb. 9.

A shrinking spread signals greater confidence in the credit quality of the bonds, which sometimes have picked up signs of economic stress earlier than other assets. A strong and stable junk-bond market has been the norm in recent years, but its performance of late is notable given the obstacles it has faced.

Since the end of last year, the yield on the 10-year U.S. Treasury note has climbed to around 2.96% from 2.41%. When Treasury yields rise, yields on corporate debt generally must rise as well -- as their prices fall -- because even the strongest companies carry greater default risk than the U.S. government. Rising rates also can enhance the appeal of Treasurys relative to corporate bonds and spook investors, leading to cash outflows that can further drag down the market.

So far this year, investors have pulled more than $14 billion from high-yield mutual funds and exchange-traded funds, according to Thomson Reuters Lipper. Along with the threat from rising interest rates, analysts have attributed the outflows to broad concerns about the value of riskier assets.

Due to their risk profile, junk bonds often move in tandem with major U.S. stock indexes, which have swung sharply this year between gains and losses. They also tend to be less **volatile** than stocks, thanks in part to the relatively large coupons that they pay out, which can offset price declines.

Investors and analysts say that the outflows from publicly accessible high-yield funds have likely been mitigated by stable or even increased demand from institutional sources, such as pension funds, that see opportunity in rising yields.

High-yield bonds also have gotten an assist from a somewhat unlikely source: leveraged loans, which are the secured, floating-rate debt often issued by the same junk-rated companies that borrow in the bond market.

Though the leveraged loans can sometimes compete for investor dollars with high-yield bonds, the two assets also can help each other. This year, retail investors have poured more than $4 billion into loan funds, highlighting the appeal of their adjustable coupons while interest rates are rising. Demand from other investors, such as managers of collateralized loan obligations, also has been robust, creating an incentive for companies to borrow in the loan market instead of the bond market.

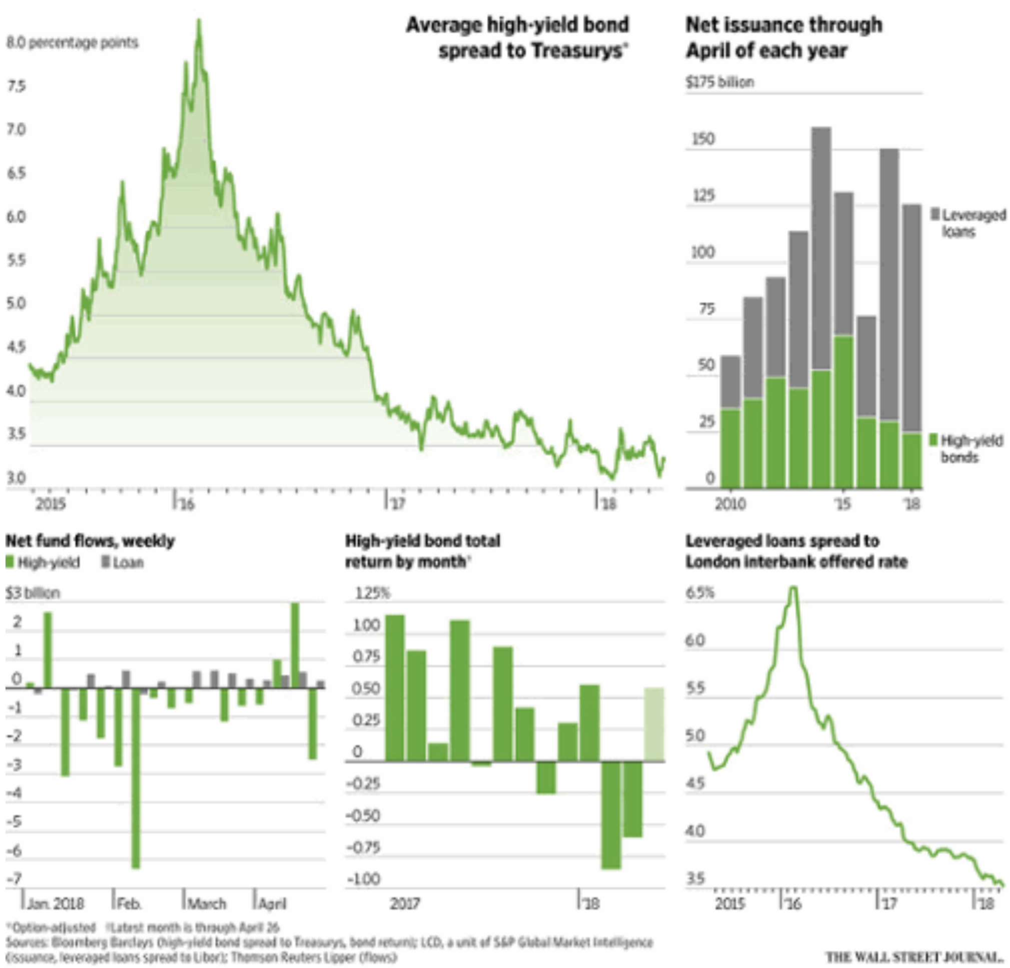
Net supply of high-yield bonds -- or total new issuance excluding bonds that were used to refinance old debt -- has dropped this year to around $25 billion from $30 billion through April of last year and $68 billion three years ago, according to LCD, a unit of S&P Global Market Intelligence. That means that even as demand for junk bonds has fallen, supply has decreased as well, creating a market that is more or less in balance.

Through April 25, bonds accounted for 19.6% of net issuance of syndicated high-yield debt, according to LCD, compared with 23.4% last year and 49.9% in 2010.

"If you're an issuer who was going to go to the bond market," it is easy to say, "I'll just do a bigger loan, because there's a massive amount of demand for loan paper," said Andrew Susser, head of high yield at MacKay Shields.

In addition, Mr. Susser said, many junk-bond investors also hold loans, which they can sell if **bond prices** are falling and they want an alternative way of raising cash to meet redemptions or buy new bonds.

In the meantime, high-yield investors have generally been welcoming to the relatively small number of companies that have sold new bonds this year. In recent sessions, two debut issuers, Jagged Peak Energy LLC and WeWork Cos., both increased the size of their bond deals to match strong demand, while Netflix Inc., a frequent borrower, increased a sale to $1.9 billion from $1.5 billion.



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Economy
Fed's Plans Under Pressure | Shaking Up Bank Loans | China Adopts Tighter Lending Rules | Switzerland Wants to Be Capital of Cryptocurrency | Timiraos's Take: The Fed Might Finally Face an Upside Move on Inflation; The Wall Street Journal's central banking newsletter for Monday, April 30, 2018

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30 April 2018
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Timiraos's Take: The Fed Might Finally Face an Upside Move on Inflation

Fed's Interest-Rate Plans Come Under Pressure

Shake-Up Considered on How Banks Lend to the Poor

China Formally Adopts Tighter Lending Rules

Switzerland Wants to Be the World Capital of Cryptocurrency

The Fed Might Finally Face an Upside Move on Inflation

Fed officials didn't overreact to one-off price declines that pulled inflation gauges lower last year. Now they may get a chance to prove they won't overreact to one-off price increases, either.

No one should be surprised to see an annual rise in consumer prices when the Commerce Department releases March inflation data Monday morning.

A jump is widely anticipated because weak March 2017 figures will fall out of the 12-month measure. Additionally, and less widely known: A recent rise in hospital services prices has been giving the inflation reading an extra pop.

The figures are unlikely to prompt a big shift in Fed policy, though they will certainly color the debate over the future rate path.

Officials showed last year they were willing to look through surprisingly slow inflation because they attributed the sluggishness to temporary factors—much as they typically look through swings in **oil prices**. This year, they'll likely take the same view of faster inflation if it is primarily due to idiosyncratic factors, rather than stronger demand or wage gains.

Inflation sagged due to a string of idiosyncratic price declines beginning last March with wireless phone plans. Those effects should vanish from the figures to be released Monday.

At the same time, hospital service costs, measured by the Commerce Department's price index for personal-consumption expenditures, have been on a tear since October, notes Ian Shepherdson of Pantheon Macroeconomics. They are up 3.8% on the year ended February, up from 1.3% over the 12 months ended in September.

Mr. Shepherdson says the culprit is likely the cancellation of so-called bundling rules that forced hospitals serving Medicare and Medicaid patients to perform certain procedures at fixed costs. The cancellation of those rules, he says, has given hospitals "a green light to hike prices."

It is unclear how long the increases in hospital prices, which account for one 12th of the core PCE basket, which excludes energy and food prices, will persist.

Mr. Shepherdson says average monthly gains in the core inflation gauge of 0.16% would boost annual core inflation to 2.1% by July, a level the index has reached in just three months since October 2008. (Core inflation has been rising at an average 0.2% every month since last October, when hospital service costs began their outsize climb).

While Fed officials aren't likely to overreact to such movements, faster price rises could reinforce market concerns about how the balance of risks around inflation have shifted after many years of surprisingly slow inflation.

And if the report Monday shows core inflation above 2%, Fed officials may also feel compelled to explain more clearly how they view their 2% goal, which they have described as a target and not a ceiling.

Key Developments Around the World

Fed's Interest-Rate Plans Come Under Pressure

Federal Reserve officials meeting this week are likely to hold interest rates steady, but signs of stronger price and wage pressures point to more difficult discussions over how much more they should raise rates in the next few years. Data to be released Monday are expected to show inflation has risen close to the central bank's 2% target, using its preferred gauge, after years of falling short.

Shake-Up Considered on How Banks Lend to the Poor

A Trump-appointed federal bank regulator has floated no longer enforcing lending rules for the poor based on the location of a bank's physical branches, a change likely to be opposed by community groups. People familiar with the matter said the Office of the Comptroller of the Currency privately sought other regulators' input on eliminating the concept of geographic "assessment areas" when deciding whether banks comply with the 1977 Community Reinvestment Act. It isn't clear whether other regulators will go along with the comptroller's idea or if the agency will formally propose it. Community groups that work on affordable lending matters are likely to worry it would reduce incentives for banks to lend in poor areas.

U.S. Tax Revamp Weakens Case for Companies to Shift Profit Overseas

The U.S. tax law passed in December aimed to remove the features of the old tax system that gave American companies a strong incentive to put their profits, factories and headquarters overseas. Under the old system, a 35% domestic corporate tax rate, highest among major countries, coupled with a tax on repatriated profits, drove corporate decisions. The new tax law's 21% corporate rate and revised system of rules for money earned at home and abroad were a message to American companies: Come invest at home. Will it work? Yes, tax experts say—but with limitations and caveats.

China Formally Adopts Tighter Lending Rules

China's central bank formally adopted far-reaching rules to rein in risky lending in the financial system, though regulators are giving banks and asset managers longer than expected to comply. Friday's release of the asset-management regulations followed five months of delay and pushback by commercial lenders, which warned that a forced unwinding of products could touch off market **volatility**. The rules require financial institutions to set aside more capital for loans repackaged as investments and closes off regulatory loopholes that banks used to collaborate with nonbank, or "shadow," lenders and move loans off-the-books. Analysts have described the regulations as important to a government campaign to control the country's level of debt.

Russian Central Bank Keeps Rates Unchanged

Russia's central bankheld its key interest rate at 7.25% Friday, citing uncertainty following ruble weakening and geopolitical tensions. The bank said further moves would be guided by inflation risks and economic developments, but noted that monetary policy in 2018 would become neutral, implying further rate cuts this year. It also said the weakening of the currency would bring inflation more quickly to a target of 4%, but said there was no risk of inflation overshooting that. Russian markets were shaken following new U.S. sanctions earlier this month that targeted business magnates and Russian officials, pushing the currency to a 16-month low. The ruble has since clawed back some losses due to higher **oil prices**. "Uncertainty remains over the potential impact of the recent developments on inflation expectations," the bank said.

Final Greek Bailout Talks Kick Off

A final round of diplomacy meant to smooth Greece's exit from eight years of bailouts kicked off Friday, as eurozone finance ministers pushed to ensure Athens doesn't backslide on promised reforms. The ministers, meeting in neighboring Bulgaria, called for Greece to speed up on the remaining changes that need to be completed before the bailout regime ends in August. "There is still quite some work to be done," said European Central Bank executive board member Benoît Cœuré.

Switzerland Wants to Be the World Capital of Cryptocurrency

Four of the 10 biggest initial coin offerings last year were in Switzerland, according to PwC, more than any other country. The hope is the country's banking prowess, low taxes, elite universities and the Swiss brand itself will do for Switzerland what Silicon Valley did for the U.S. Efforts to expand the so-called Crypto Valley into what Switzerland's economics minister has called Crypto Nation have seen some success and may offset the country's shrinking banking sector. The number of banks here has fallen 20% in the past decade, according to the Swiss Bankers Association.

Monday

8:30 a.m. EDT

U.S. Commerce Department releases March personal income and outlays

Tuesday

12:30 a.m. EDT

Reserve Bank of Australia releases policy statement

2:45 p.m. EDT

Bank of Canada's Poloz speaks

How Income Gains From Globalization Are Distributed

Although some blame globalization for worsening inequality, Valentin Lang and Marina Mendes Tavares find in a VoxEU column "that globalization is associated with income convergence across countries and income divergence within countries." They write that targeted "redistributive policies and investments in education are needed to ensure that the benefits of globalization are enjoyed by all."

Keep Your Eye on the Fed's Overlooked Jobs Target

"There's tension at the Federal Reserve that won't be resolved at next week's meeting of officials to set interest rates…The strain is over what to do about the central bank's forecast of an unemployment rate of 3.6 percent for next year and 2020," Daniel Moss writes for Bloomberg View. "The new estimate of 3.6 percent is a big reduction from the prior projections of 3.9 percent in 2019 and 4.0 percent in 2020. (This is one of the few instances when a cut in a forecast is a good thing!) It is even more startling when you consider that the same Fed document also puts the longer-run sustainable number at 4.5 percent…Median projections showed officials anticipated three rate increases this year and three next year. A growing minority favored four this year, but given a forecast of such low unemployment, one might have expected a broad shift in favor of faster rate increases." The Fed "has already tipped its hand with that employment forecast, and corresponding rate increases are likely to follow."

Fed and Other Central Banks Can't Tighten Monetary Policy Much More

"Economic indicators are all showing that monetary tightening won't be possible for much longer, despite the recent spate of Federal Reserve rate hikes," Nicholas Spiro writes for the South China Morning Post. While "there is little doubt that the Fed will increase rates significantly in the near term, parts of the bond market are signalling that it will jump the gun and be forced to halt its rate-hiking cycle in a couple of years' time as the U.S. economy slows, possibly forcing the Fed to start loosening policy. In a striking development which throws the difficulties faced by major central banks in exiting their ultra-accommodative policies into sharp relief, an esoteric indicator in the US debt market is showing that yields will be lower three years from now than they will in two years, suggesting that the Fed will stop tightening policy as early as 2020."

The BOE Moved Too Fast

The Bank of Englandhas put its credibility at risk by being too eager to raise its key interest rate in the absence of solid evidence that an apparent pickup in growth would be sustained, writes Ferdinando Giugliano for Bloomberg View. "The bank seems to have made a classic policy mistake: It pressed on the brakes without waiting to see if the acceleration was real," he writes. "Carney's change of mind will only cement his reputation as the "unreliable boyfriend" of the British economy. That was the name he was given in June 2014, when he quashed expectations over an increase in interest rates which he had just helped to build. When facts change, central bankers should change their minds. But every time a central bank governor makes a U-turn, his message becomes less credible and, as a result, less powerful. For the sake of the British economy and of its reputation, the Bank of England could have done with some more patience."

Americans' confidence in the economy slipped this month but remains high compared with historical levels. The University of Michigan said Friday its index of consumer sentiment dropped 2.6 points from a month earlier to a reading of 98.8 in April. Still, that figure was nearly 2 points above the level posted a year ago.

The U.S. economy lost some momentum in the first quarter after a spurt of faster growth last year, with consumers hunkering down after several months of robust demand while businesses powered ahead with stronger profits, revenue and investment.

Compensation for American workers grew at a fast clip in the first quarter, signaling historically low unemployment might be starting to put upward pressure on companies' labor costs. The employment-cost index increased 2.7% over the past year, the strongest annual pace since the third quarter of 2008, the Labor Department said Friday.

China's factory activity decelerated a tick in April due to weakening demand that economists said is clouding the economic outlook along with trade tensions with the U.S.

Bank lending to eurozone businesses and households picked up in March, data from the European Central Bank showed on Monday, a sign that the region's economic upswing continues to broaden.

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WSJ PRO CENTRAL BANKING

Economy

Inverted U.S. Yield Curve Unlikely a Portent of Recession; S&P Global Ratings Chief Economist Paul Gruenwald notes risk from rising trade tensions

By James Glynn
528 words
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WSJ Pro Central Banking
RSTPROCB
English

SYDNEY—An inverted U.S. yield curve needn't be the portent of recession some are warning about, although risks for U.S. economic growth have increased recently due to rising global trade tensions, according to S&P Global Ratings Chief Economist, Paul Gruenwald.

"An inverted yield curve as a predictor of recession is a rule of thumb, but you have to dig a few layers down to see if it makes sense," he said in an interview with the Wall Street Journal Monday.

"I would be a little hesitant about reading a recession" into the fact that the U.S. yield curve could become inverted in the near term, he added.

Structural factors, rather than a lost of confidence, appear to account for why U.S. long-dated yields are historically low, he added.

There remains great demand for longer maturities, and a time when they are scarce globally, Mr. Gruenwald added. That is something that is not going to ease as a factor for the bond market any time soon, he added.

Mr. Gruenwald remains confident in the U.S. economic outlook, expecting on-year GDP growth in the world's largest economy to exceed 3% for a few quarters this year, assisted by stimulus from the Trump administration.

While that is the case, the U.S. Federal Reserve will remain on track to deliver higher interest rates over the next year, a move that by its very nature will tip the yield curve closer to a point where yields on shorter-dated securities exceed those at the longer-end, he adds.

The condition of the U.S. yield curve, where the spread between 2- and **10**-**year Treasury** yields is the narrowest in over a decade, has been a recent focus of markets.

John Williams, who takes the helm of the powerful Federal Reserve Bank of New York in June, recently played down risks the yield curve would become inverted as the U.S. central bank gradually raises interest rates.

Still, Mr. Williams admitted a truly inverted yield curve "is a powerful signal of recessions" that historically has occurred "when the Fed is in a tightening cycle, and markets lose confidence in the economic outlook." That is not the case now, Mr. Williams said.

Still, S&P's Gruenwald said the balance of risks around U.S. growth has shifted toward the negative given the U.S.'s trade spat with China.

While the tit-for-tat response from the both the U.S. and China in raising tariffs on certain products won't amount to a big impact on growth, it is the secondary effects, such as reduced investment and falling confidence, that need close monitoring, Mr, Gruenwald warned.

He said the Fed looks on track to deliver another four interest rates increases over the medium term, but the uncertainty brought about by trade tensions might have the Fed biased to do less at the moment.

Write to James Glynn at james.glynn@wsj.com

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THE WALL STREET JOURNAL.

Markets

Dollar Roars Back as U.S. Growth Story Wins Over World Markets; Economists more skeptical that Europe can keep growing at last year's pace while recent Japanese economic data has been mixed

By Ira Iosebashvili
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The Wall Street Journal Online
WSJO
English

The dollar is rallying again after floundering for most of the past year, another sign that global growth momentum may be shifting back to the U.S. and away from other major economies.

Signs of stronger U.S. economic growth and inflation are becoming a central focus of **financial markets**, helping lift the dollar to its highest level since January. Yields on the U.S. **10**-**year Treasury** note last week crossed over 3% for the first time since 2014, evidence that part of the economy is returning to more normal conditions after a long stretch when bonds yields had hovered near historic lows.

The U.S. economy grew at 2.3% in the first quarter, according to government data released on Friday, expanding faster than the 1.8% analysts were expecting. A rise in the employment-cost index also signaled rising wages, analysts said. If Friday's closely watched jobs report shows wage growth approaching 3%, as it did in January, that could provide more support that inflation may be beginning to stir.

Economists, meanwhile, are turning more skeptical that Europe can keep growing at last year's pace. Recent data like German manufacturing and weaker Eurozone inflation have signaled a slowdown. U.K. growth also eased in the first quarter, while recent Japanese economic data has been mixed.

"Many people were **bearish** the dollar because they thought the rest of the world was doing quite well," said David Woo, head of global rates and currencies at Bank of America Merrill Lynch. "It's very clear that this theory has been severely challenged."

The bank recently urged investors to bet the euro will decline to $1.15 in coming months, from around $1.21 Friday.

In Friday's trading, the **Dow Jones Industrial Average** was flat, and stocks were slightly down for the week following one of the busiest periods of the first-quarter corporate earnings season. Investors will be watching next week for earnings from blue chips like Apple Inc. and McDonald's Corp.

When the dollar was weakening, analysts were puzzled why the interest rate differential between Treasurys and foreign bonds didn't support a stronger U.S. currency. But now that dynamic may be playing out. The gap between U.S. **10**-**year Treasury** yields and those on German bunds is at its widest since 1989, according to DWS.

With investors increasingly believing the Federal Reserve may raise interest rates four times this year, that spread could continue widening and offer additional dollar support.

The WSJ Dollar Index rose 1.1% last week, its best weekly-performance since 2016, and the dollar ranks as one of the currency market's top performers in April. Last year, the dollar fell 7.5% as investors came to believe that growth would accelerate faster abroad as the U.S. economy reaches the end of its cycle.

Dollar bulls have another reason for hope. The futures market is still highly skewed against the U.S. currency, with the largest **bearish** dollar position since 2011 earlier this month, according to data from the CFTC. Further dollar gains could force some of those investors to cover their bets and buy back the dollar, pushing it higher, analysts said.

Rising yields are making it expensive to remain short the dollar, as investors have to borrow in the U.S. currency to bet against it, said Ugo Lancioni, head of global currency at Neuberger Berman.

A rising dollar has broad implications for markets and the economy. While it can attract more foreign capital to U.S. bond markets, it can bruise the earnings of U.S. multinationals by making their products less competitive abroad. Around 60% of companies reporting first quarter results said that dollar weakness had helped boost their earnings, according to FactSet data gathered in mid-April.

Facebook said last week that "foreign exchange tailwinds" contributed $536 million to its first quarter revenue, while pharmaceutical company Bristol-Myers Squibb also indicated favorable foreign exchange dynamics provided a 4 percentage point boost to revenue.

Some investors believe the dollar rebound could prove temporary. For one, the U.S. economy is later in the economic cycle and the European Central Bank has barely begun tightening its monetary policy. Analysts expect the ECB to make a decision in June or July to phase out the bond-buying program by December—four years after the Federal Reserve halted its own quantitative-easing program.

Moreover, many analysts also believe the dollar's **bullish** and **bearish** cycles tend to last between five and seven years, on average. That would mean the U.S. currency is in the early stages of an extended period of decline, after a **bull market** that began in 2011 and peaked in early 2017.

But a temporary dollar rally can last months, even in the midst of a **bear market** period. That is what happened during a seven-year dollar slump during the previous decade: in 2005, the dollar rose 13% over 11 months, before returning to a downward trend the following year.

Some think growth momentum will likely shift back to Europe in the coming months, spurring the ECB and other central banks to continue normalizing monetary policy.

The dollar's move "is a **bear market** rally," said Jason Draho, head of tactical asset allocation Americas at UBS Wealth Management.

Write to Ira Iosebashvili at ira.iosebashvili@wsj.com

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* Analysis: China and Dollar Test Emerging Markets' Bull Run

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THE WALL STREET JOURNAL.

Business

Saudi Aramco Shakes Up Board, Adds First Female Director; State oil giant adds former executives from U.S. companies to its board ahead of planned IPO

By Summer Said
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English

DUBAI—Saudi state-oil giant Aramco reshuffled its board, adding five members including its first-ever female director, as it prepares for a public listing.

Aramco said Sunday it was adding three non-Saudi board members, including Lynn Laverty Elsenhans, the former chairwoman, president and chief executive of U.S. oil refiner Sunoco Inc. She is now among the top-ranking women in business in Saudi Arabia and adds a female voice to Aramco, where few women hold leadership roles.

Aramco appointed former Chevron Phillips Chemical Co. President and Chief Executive Peter Cella and Andrew Liveris, former executive chairman of chemical giant DowDuPont Inc. All three non-Saudi appointments underline Aramco's focus on building its petrochemicals and refining business.

Aramco's 11-member board now has five non-Saudi members but remains packed with government officials, which could limit its options for listing on Western exchanges like New York and London.

Saudi Energy Minister Khalid al-Falih remains the company's chairman, and the board added two powerful senior government ministers on Sunday: Finance Minister Mohammed al-Jadaan and Economy Minister Mohammed al-Tuwaijri. All three men are playing key roles in Crown Prince Mohammed bin Salman's plans to remake the Saudi economy, using its oil wealth to jump-start other industries.

The centerpiece of those plans is raising money through the initial public offering of Saudi Arabian Oil Co., as Aramco is officially known. Saudi officials have said they want to raise as much as $100 billion, though a growing number of analysts and Aramco insiders say that figure is unrealistic.

Saudi Arabia had planned to hold the IPO this year but officials now appear to be backtracking from firm targets, even for a local listing on the Saudi Tadawul exchange. Prince Mohammed most recently said the IPO would happen when "the time is right," and that market conditions and demand would ultimately dictate the timing.

"You could argue that the new board of directors, especially having someone like Lynn, indicates that the government still wants an international listing, but I would say the appointment just fits well with the social and economic reforms," said a senior Saudi oil official. "But you still have a board that features mostly senior government officials."

Privately, Saudi officials have said that an international IPO for Aramco has become much more complicated than they initially believed. **Oil prices** near $75 a barrel shored up the kingdom's budget and bought it more time to determine whether an international offering remains a good idea. Prince Mohammed first suggested the idea of an IPO in early 2016, when **oil prices** had fallen below $30 a barrel.

The departing board members are Majid Al-Moneef, adviser to the Saudi Royal Court; Khaled al-Sultan, rector of King Fahd University of Petroleum and Minerals; and Peter Woicke, former managing director of the World Bank and former vice president of the International Finance Corp.

Write to Summer Said at summer.said@wsj.com

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THE WALL STREET JOURNAL.

Markets

Switzerland Wants to Be the World Capital of Cryptocurrency; Four of the 10 biggest initial coin offerings last year were in Switzerland, more than any other country

By Brian Blackstone
1,003 words
28 April 2018
03:00 PM
The Wall Street Journal Online
WSJO
English

ZUG, Switzerland—When 24-year-old Ian Worrall launched his crypto-investment startup MyBit last year, he chose this Swiss lakeside city.

It was an odd fit: the no-holds-barred corner of the **financial markets** meeting button-down Switzerland.

Yet this nation, as closely tied to its ultrasafe Swiss franc as it is to the Alps, is entranced by **volatile** digital currencies. Buildings in Zug and in Zurich, Switzerland's financial center, are blossoming into crypto-finance hubs.

Four of the 10 biggest initial coin offerings last year were in Switzerland, according to PwC, more than any other country.

The hope is the country's banking prowess, low taxes, elite universities and the Swiss brand itself will do for Switzerland what Silicon Valley did for the U.S.

Efforts to expand the so-called Crypto Valley into what Switzerland's economics minister has called Crypto Nation have seen some success and may offset the country's shrinking banking sector. The number of banks here has fallen 20% in the past decade, according to the Swiss Bankers Association.

Switzerland "is the best from a tax, legal and operational standpoint," Mr. Worrall said from the MyBit headquarters in a startup hub called Crypto Valley Labs, where the "California Republic" state flag hangs in his office.

MyBit is an investment platform to fund Internet of Things devices like self-driving automobiles. It raised the equivalent of some $3 million in an initial coin offering last summer.

The space once housed an energy-technology company. There's a circus school next door.

The number of companies at Crypto Valley Labs and another location jumped from 15 early last year to over 100, said Mathias Ruch, managing partner at Lakeside Partners, which developed the site. "I'm signing contracts on a daily basis," he said.

The canton of Zug, population around 120,000, has emerged as the heart of Switzerland's Crypto Valley. Its population grew at the fastest rate of all Swiss cantons in 2017, and its jobless rate is 2.3%, below Switzerland's 2.9% average and down 0.2 percentage points from a year ago. Its corporate tax rate is 14.6%.

Matthias Michel, Zug's economics minister, said Crypto Valley wasn't a grand plan. Rather, it began five years ago when pioneers of blockchain platforms like Monetas put down roots in Zug, attracted by the business-friendly environment. Others followed, and an ecosystem developed.

In the process, Zug became a pilgrimage destination for global crypto devotees, complete with guided tours. There's a "Bitcoin accepted here" sign at city hall.

"You cannot copy and paste [what Zug has done], it's a systematic approach which makes it strong," said Mr. Michel.

Recently, officials from Finma, the Swiss financial regulator, met industry representatives at a packed conference here. The meeting showcased another Swiss advantage—nimble regulators, or as Mr. Worrall described the approach: "Do your best, and if you mess up, we'll work with you."

While Finma is receptive to cryptocurrencies, the Swiss National Bank is skeptical and has warned of the risks associated with them. Executives from large banks echo those worries.

"From our standpoint, until you are able to trace all of these transactions and subject them to strict rules on anti-money laundering, this is a huge risk," said UBS Chief Executive Sergio Ermotti.

There are other drawbacks for Switzerland. Despite a skilled workforce, the country lacks a startup culture: There is a greater stigma attached to failing at a new business in Switzerland than there is in the U.S. High living costs will make it hard to scale up. If Mr. Worrall expands, it will probably be in Berlin.

The biggest fear, though, isn't the central bank or living costs, industry participants say, but rather the potential to run afoul of U.S. regulators.

Switzerland has spent years distancing itself from a reputation as a shady-money haven. Banks have spent billions of dollars settling damaging charges from U.S. authorities related to tax evasion and mortgage-backed securities. Crypto startups say it's hard to open a business bank account.

This reputational risk was highlighted in January by U.S. Treasury Secretary Steven Mnuchin, who warned that cryptoocurrencies can't be allowed to become the equivalent of "the Swiss-numbered bank account."

And even the Swiss are starting to add some nuance to their crypto ambitions. Economics minister Johann Schneider-Ammann, who caused a stir when he called Switzerland "Crypto Nation" a few months ago, has recently backtracked, telling a conference in Zug Thursday that he should have called Switzerland "Blockchain Nation," a nod to the technology underpinning digital money.

Still, cryptocurrencies are taking hold. One sign: A building housing blockchain and crypto-finance companies called Trust Square opened on Zurich's ritzy Bahnhofstrasse across from the central bank—just a few blocks from banking giants Credit Suisse and UBS and kitty corner from Tiffany & Co.

Daniel Gasteiger, who developed Trust Square, launched his first blockchain startup from his apartment two years ago, after having spent two decades at UBS and Credit Suisse. Now he has 16 employees, and Trust Square's 200 workspaces rented in one week. As for his neighbors at the Swiss National Bank, "they need to have an open spirit toward innovation," he said.

Mr. Gasteiger has positioned Trust Square as a research hub for "Swiss made" blockchain. The offices—which once housed a bank—include space for universities. He thinks even if the digital-currency craze fizzles, Switzerland's diversified economy will thrive. The banking system is another matter, he says.

"Switzerland will be fine. There will still be watches, chocolate and tourism. It is a question of a new financial center based on trust," Mr. Gasteiger said.

Write to Brian Blackstone at brian.blackstone@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

Consumers Cool U.S. Growth, but Business Thrives

By Harriet Torry and Theo Francis
1,236 words
28 April 2018
The Wall Street Journal
J
A1
English

WASHINGTON -- The U.S. economy lost some momentum in the first quarter as consumers hunkered down after several months of robust demand, but businesses powered ahead with stronger profits, revenue and investment.

Gross domestic product -- the value of all goods and services produced in the U.S., adjusted for inflation -- expanded at an annual rate of 2.3% for the months January through March to $17.4 trillion, the Commerce Department said Friday. That was slower than the 3% growth rate registered during the final nine months of 2017.

The report is an important marker because it is the broadest measure available of the economy's health and President Donald Trump has set out a goal of growing output at a 3% rate or faster. The annual growth rate has been below 2% on average since 2000.

The first-quarter report was also the first comprehensive measure of the economy's performance since the $1.5 trillion tax cut package was signed into law by Mr. Trump in December. The latest growth report offered a snapshot of its initial impacts, though the full impact of those tax cuts likely won't play out for years and the tax plan itself encouraged some business activity to be pulled into 2017 from 2018.

The growth measures released Friday suggested that for households the initial spending impetus from the tax cut was modest at best. Consumer spending -- which drives nearly 70% of U.S. economic output -- rose at the slowest pace in nearly five years in the first quarter.

The business sector, on the other hand, showed signs of thriving.

A key category of business spending moderated slightly from the fourth quarter but remained robust. Nonresidential fixed investment, reflecting business investment in buildings, equipment, software and more, grew at a 6.1% rate. That was faster than the expansion's 4.6% average. Business investment is a key driver of worker productivity and longer-run wage growth.

Businesses also spent on stocking shelves, potentially to meet anticipated demand.

"Our end markets are strong. We are experiencing robust commercial activity," Honeywell International Inc. Chief Executive Darius Adamczyk said during an April 20 call with analysts.

The industrial conglomerate boosted its expectations for earnings and sales growth for 2018 after it reported higher profit and sales in the first quarter.

Household outlays increased at a 1.1% rate in the first quarter, pulling back from the fourth quarter, when they rose at a 4% rate on strong holiday spending and consumers replacing property such as cars damaged by late-summer hurricanes.

The saving rate rose from the fourth quarter to the first, as households pocketed added disposable income from tax cuts rather than spent it.

Spending on home building was flat, a development that likely reflected winter storms, higher short-term interest rates and tax-code changes that diminished decades-old perks that had encouraged homeownership.

Still, low unemployment and signs of rising wages bode well for consumer spending in the months ahead.

The White House is confident growth will top 3% this year, Council of Economic Advisers Chairman Kevin Hassett told The Wall Street Journal Friday. "Weakness in the first quarter is probably related a little bit to the spending binge in the fourth quarter," he said.

First-quarter growth has tended to be weaker than other quarters in recent years, potentially from seasonal quirks in the data that dissipate in subsequent months. That suggests a rebound in the second quarter could be due. The first-quarter growth rate of 2.3% was the best for the quarter since 2015.

The Federal Reserve expects economic output to expand by 2.7% for the year as a whole and the Congressional Budget Office expects even better.

The current expansion, which began in mid-2009, is now the third-longest on record and set to become the second-longest in May.

Buoyed in part by corporate tax rate cuts from 35% to 21%, companies are enjoying robust after-tax first-quarter profits. Earnings per share at large U.S. companies are estimated to be up 25% in the first quarter from a year earlier, the strongest per-share profit growth since late 2010 and the seventh straight quarter of growth, according to Thomson Reuters.

Revenue is also growing, but less rapidly, rising 8.1% over the year-earlier first quarter, Thomson Reuters data show. The figures reflect actual results for about half the companies in the **S&P 500**, and analyst estimates for the rest.

Profits are growing most robustly at companies in the energy, technology, financial and industrial sectors, and weakest among real-estate and consumer-discretionary companies.

United Rentals Inc. Chief Financial Officer William Plummer on April 19 attributed about 50 cents of the company's $1.24 gain in per-share earnings to the tax overhaul. The company reported adjusted profit of $2.87 a share in the first quarter.

Still, some companies say they have yet to see consumers ramp up spending.

"While we see renewed optimism, coupled with tax reform, we haven't yet seen a significant pickup in customer spending beyond current economic trends," Blake Moret, chief executive of Rockwell Automation Inc., a Milwaukee, Wis., maker of industrial software and hardware, said Thursday.

Companies aren't just investing. They also appear to be buying back their own shares at a rapid pace. Share repurchases for the quarter were up about 34% compared with the fourth quarter, and up 43% from the first quarter of 2017, based on the 25% of **S&P 500** companies filing quarterly reports so far, according to data from S&P Dow Jones Indices.

Growth was mixed elsewhere in the world during the first quarter, a period in which concerns about rising protectionism and trade tariffs triggered **financial-market** selloffs. Reports Friday showed GDP slowed down sharply in France and the U.K. But Spain produced steadily strong growth, while Austria and Belgium slowed only slightly.

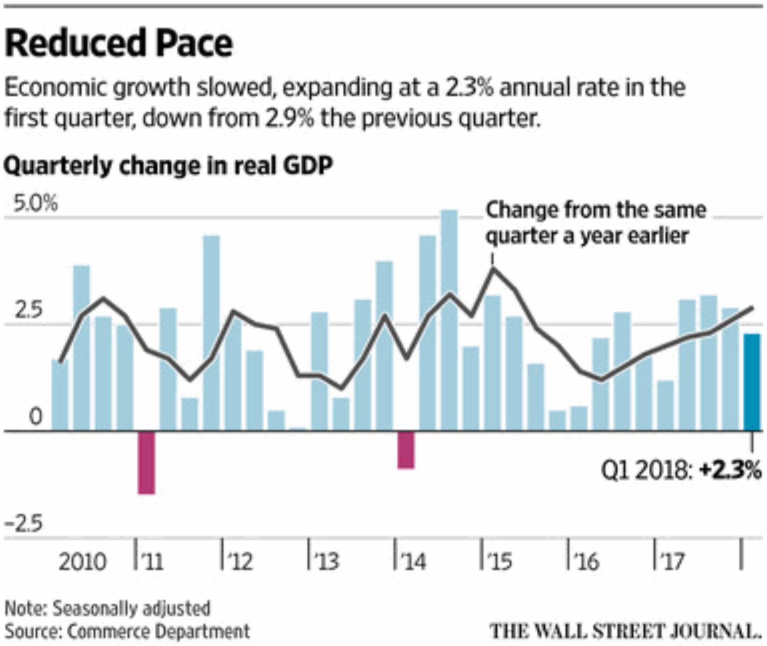
Despite the slowdown, the U.S. performed well on the trade front, clocking a 4.8% growth rate in exports, while imports slowed to a 2.6% growth rate.

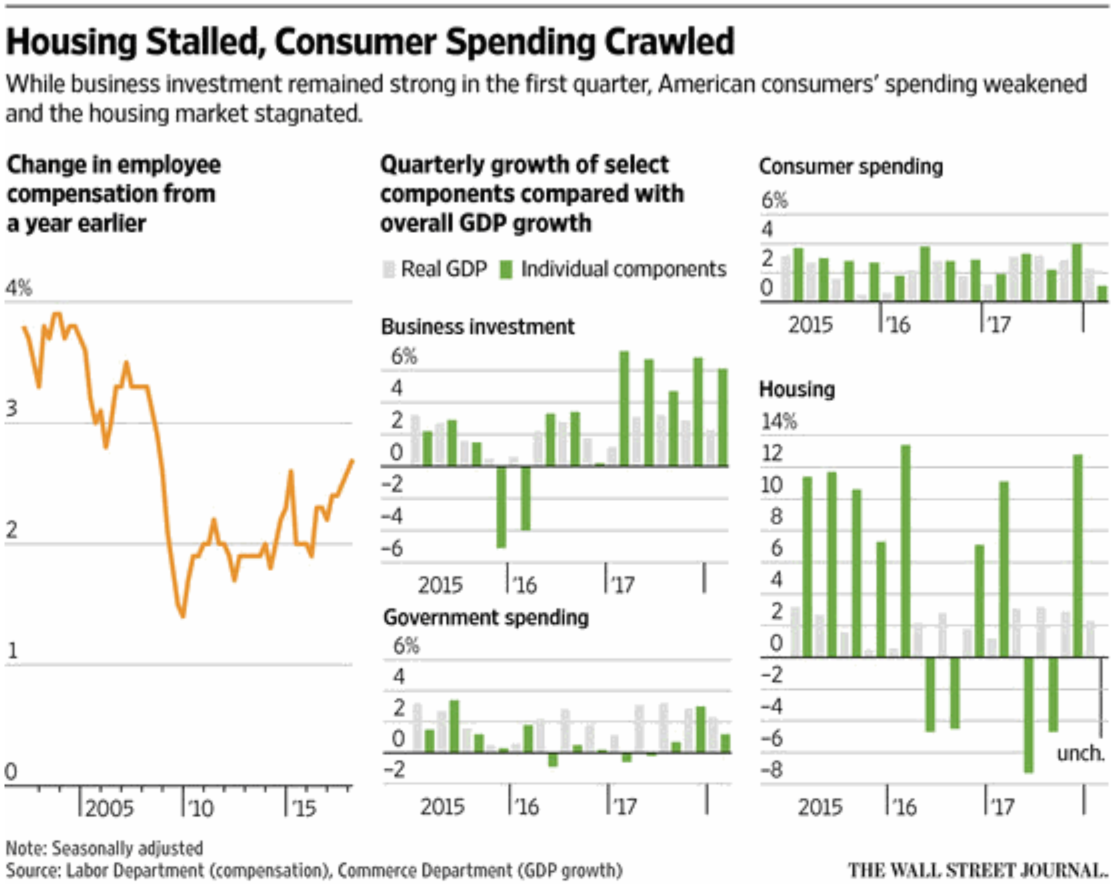
The potential for escalating disputes between the U.S. and major trading partners such as China has rattled **financial markets** and could hit consumer sentiment if it persists. Trade protectionism also could prompt higher inflation by making imports more expensive.

The U.S. economy's stronger growth in the past year as a whole already appears to be adding to inflation pressures. The price index for personal-consumption expenditures increased at a 2.7% pace in the first quarter, matching the fourth quarter's pace. Core prices, which exclude **volatile** food and energy categories, rose at a 2.5% rate. The Federal Reserve targets 2% year-over-year inflation and has been raising short-term interest rates to prevent the economy from overheating.

Precision parts and components manufacturer Atlas Tool & Die Works Inc. is stocking up on raw materials, due to concern about price increases and material shortages. The Lyons, Ill.-based company entered the second quarter with nearly as many orders as it booked in the whole of 2017, according to Chief Alignment Officer Zachary Mottl, meaning the company is "scrambling to find capacity to meet that demand."

Andrew Tangel contributed to this article.





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The New York Times

Business/Financial Desk; SECTB
Era of Very Low Inflation and Interest Rates May Be Near an End

By NEIL IRWIN
1,034 words
28 April 2018
The New York Times
NYTF
Late Edition - Final
2
English

For years, the world economy has been trapped in a low-inflation, low-interest-rate rut. Yet the latest shifts in global markets suggest that this could, at long last, be ending.

The evidence isn't definitive. This could be a false dawn, of a type that has happened a couple of times in recent years. But let's put it this way: If the world economy was coming out of its low-inflation funk, this is probably what it would look like.

In recent days, the rate the United States government must pay to borrow money for two years has reached its highest level since 2008, and on Tuesday the yield on **10**-**year Treasury** bonds rose above 3 percent for the first time in four years. As recently as September, that rate was near 2 percent.

You see a similar pattern in the **bond prices** of other advanced nations. For example, German 10-year yields rose to 0.64 percent Wednesday from 0.31 percent in September.

If this really is the start of a resetting of inflation and interest rates toward more historically normal levels, it will be mostly good news for the world economy. Central bankers have spent years trying unsuccessfully to get inflation to the 2 percent level many of them aim for.

In many ways the low interest rates of recent years have been a reflection of economic weakness around the globe. So as long as the moves don't go too far, increases in inflation and interest rates would be a sign the global economy is returning to a more prosperous equilibrium like the one that prevailed before 2008.

The shift looks to be driven mostly by a rise in investors' expectations for future inflation. In the United States, prices of inflation-protected bonds imply that investors currently expect consumer prices to rise 2.09 percent annually over the next five years, up from 1.65 percent expected in September.

That, in turn, partly reflects a sharp run-up in **oil prices** over the same period, which seems likely to push up consumer prices for gasoline and other fuels in the months ahead. But strikingly, inflation expectations for the period between five and 10 years from now have also risen, when the impact of the recent **oil price** rise should have long since passed.

A number of factors are involved in this shift. Economic growth is solid across almost all of the world's major economies for the first time in a decade, meaning there should be upward pressure on demand for all sorts of raw materials.

And with the United States closing in on full employment (or arguably already there), the Federal Reserve is looking more confident than it has in years in its intentions to keep raising interest rates.

Trump administration policies may also be playing a role.

New tax cuts and spending legislation will result in hundreds of billions of dollars more in Treasury bonds being issued in the years ahead than had seemed likely not that long ago. This means the government may need to pay higher interest rates to find buyers of that debt.

And if threats of a trade war with China or other countries turn into reality, this will tend to increase inflation, driving up prices both directly through new tariffs on imported goods and indirectly by encouraging less efficient production.

All of those forces are doing battle with longer-standing pressures in the other direction that have been in place since the global financial crisis a decade ago. This includes a chronic shortage of demand for goods and services and declining growth in the working-age population in many rich countries.

There have been fake-outs in bond and commodity markets on this front before, including in the second half of 2013 and in the months surrounding President Trump's 2016 election victory. This could be another one, and reverse itself soon enough.

But in the meantime, you can view the higher **volatility** in the **stock market** in the last couple of months as a consequence of this standoff between forces of inflation versus deflation, between higher interest rates and lower rates, and between a world economy straining against the limits of its capacity versus one that still is working through chronic oversupply.

On Tuesday, when long-term Treasury rates soared, the **stock market** fell, as investors tried to assess the consequences of this higher-rate environment for stocks.

After nine years of economic expansion and rising stock prices, the market is richly valued relative to earnings. Each $100 invested in the Standard & Poor's 500 currently generates only $4.78 in earnings at Tuesday's closing price. That low return might be tolerable when money invested in an ultrasafe Treasury bond -- or even in a savings account -- generates very low returns.

If higher interest rates are caused by higher economic growth, that's a dynamic stock investors would probably be fine with, in that more growth should translate into more corporate earnings. But if the rates are being driven by inflationary pressures, that's a different story, and suddenly the assumptions behind sky-high stock prices could fall into doubt.

As a reminder, **stock market volatility** skyrocketed in early February upon publication of new wage data suggesting that inflation pressures might be building, which could prompt the Federal Reserve to raise interest rates faster.

In the short run, markets can be shaped by all kinds of things, whether algorithmic trading or a run of bad news for a major company or a presidential tweet.

But in the longer run, economic fundamentals are powerful forces. And if this really is the turning point toward something more closely resembling the pre-2008 inflation and interest rate environment -- still a big if -- it will have an impact for nearly everyone, not just people with money to invest.

Gas prices on display last week in New York. A rise in the price of oil is likely to be passed along to consumers in the months ahead. (PHOTOGRAPH BY MARK LENNIHAN/ASSOCIATED PRESS)

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The New York Times

Business/Financial Desk; SECTB
Indexes Finish Mixed; Amazon Leads Retail Rally

By THE ASSOCIATED PRESS
599 words
28 April 2018
The New York Times
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2
English

U.S. stocks finished with a split decision on Friday after a wobbly day of trading. Amazon led a rally among retailers, but Exxon Mobil dragged energy companies lower to end an uneven week on Wall Street.

So far the first-quarter earnings season has been a strong one for American companies, but it hasn't thrilled investors. On Friday Amazon, Microsoft and Expedia all climbed after reporting earnings, but Exxon, Charter Communications and Starbucks all slumped. According to FactSet, about 80 percent of the companies on the **Standard & Poor's 500-stockindex** that have reported their results have announced a larger per-share profit than analysts expected.

High-dividend companies like utilities rose as bond yields slipped, but defense contractors fell. Asian stocks rose after the summit meeting of the leaders from North and South Korea.

This week investors worried that rising raw materials costs, as well as higher interest rates and wages, could eat into corporate profits. But they were pleased with strong results from Facebook, Amazon, Microsoft and others. The **S.&P. 500** finished the week almost exactly where it started.

Karyn Cavanaugh, senior market strategist for Voya Investment Strategies, said investors haven't regained their confidence since the market plunge in February. But in her view, the economy continues to do well, and there are few signs that inflation or wages are about to rocket higher, an outcome that could dent corporate profits.

''There's reason to think things are very, very good, but not overheating. That's a great environment for earnings,'' she said. ''The market is getting a little bit spoiled.''

The **S.&P. 500** gained 2.97 points, or 0.1 percent, to 2,669.91. The **Dow Jonesindustrial average** lost 11.15 points, or less than 0.1 percent, to 24,311.19. The **Nasdaq composite** rose 1.12 points to 7,119.80. The Russell 2000 index of smaller-company stocks lost 1.66 points, or 0.1 percent, to 1,556.24. Most of the stocks on the New York Stock Exchange finished higher.

Amazon said its first-quarter profit more than doubled as consumers shopped more online and revenue from its cloud computing business continued to rise. The results were far stronger than Wall Street expected, and the stock jumped 3.6 percent to $1,572.62, adding to Thursday's 4 percent gain.

The United States economy grew 2.3 percent in the first quarter, better than experts had forecast. While consumer spending turned in the weakest performance in nearly five years, experts think it will pick up later in the year thanks to continued low unemployment and Republican-backed tax cuts.

Bond prices rose again. The yield on the **10-year Treasury** note fell to 2.96 percent from 2.98 percent Thursday.

Even with help from climbing **oil prices**, Exxon Mobil's results still fell short of estimates, and its stock dropped 3.8 percent to $77.79. The cable company Charter Communications tumbled 11.7 percent to $263.33.

The pound fell sharply, to $1.3785 from $1.3924. The dollar slipped to 109.02 yen from 109.36 yen. The euro rose to $1.2121 from $1.2106.

Benchmark U.S. crude fell 0.1 percent to $68.10 a barrel in New York.

Gold rose 0.4 percent to $1,323.40 an ounce.

CHART: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Friday. (Source: Reuters)

Document NYTF000020180428ee4s0004q

The New York Times

Business/Financial Desk; SECTB
Slowed Growth In the Economy May Be a Blip

By PATRICIA COHEN
1,185 words
28 April 2018
The New York Times
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1
English

The economy grew at an annual rate of 2.3 percent in the first quarter, the government reported Friday, offering a preliminary glance at how last year's sweeping package of tax cuts is affecting consumers and businesses this year.

During the first three months of 2018, the economy was whacked around like a pinball. The **stock market** took investors on a giddy up-and-down ride. President Trump imposed tariffs on allies and rivals alike, stoking fears of a trade war. And the revamped tax code shifted business incentives and started to put more money in workers' paychecks.

Still, the economy ended up puttering along just a bit above the average yearly growth rate that it had registered since the recession ended nearly nine years ago.

While the pace is equal to the performance for all of last year, it is below the 2.9 percent annualized rate recorded in the fourth quarter of 2017, and short of Mr. Trump's goal of at least 3 percent. Most forecasters, however, expect quarterly growth to float around the 3 percent mark for the rest of the year.

''This is not too bad,'' said Carl R. Tannenbaum, chief economist of Northern Trust in Chicago. ''The 2.3 percent figure is moderately encouraging.'' Economists had expected economic growth to ease in the quarter.

''The rest of 2018 seems well assured given the substantial support that is going to come from government fiscal policy,'' Mr. Tannenbaum said, referring to the $1.5 trillion cost of the tax cuts.

He noted, however, that ''longer term, the immediate benefits of tax reform will fade, and what we'll be left with is the bill.''

Economists on Wall Street and in Washington have repeatedly warned that the economy's upward streak is unlikely to extend beyond the next year or two. The nation's debt has topped $21 trillion and is growing, a level many view as unsustainable. And if the Federal Reserve follows through on its plan to raise interest rates, the cost of paying off that debt will grow larger.

In the longer run, the Fed expects real annual growth in the United States to fall to 1.8 percent. The Congressional Budget Office's 10-year outlook comes to the same disappointing conclusion.

The Winter's Tale

Expectations about the first-quarter figure had fluctuated as pieces of the puzzle emerged. Imports fell and exports rose more than expected, narrowing the merchandise trade deficit for the first time in six months. Orders of durable goods remained sluggish, but revived somewhat as commercial aircraft orders surged in March. And although consumers continued to express a lot of confidence, they pulled back on their spending.

Holiday shopping in the final quarter of 2017 had revved up consumer spending -- which accounts for more than two-thirds of the nation's economic activity -- to 4 percent. Businesses responded by replenishing depleted inventories. But the shopping surge receded when the new year started; consumer spending grew only 1.1 percent in the first quarter.

Although the tax overhaul promised to increase take-home pay, its effects may have been blunted for several reasons, including the time it took for the Internal Revenue Service to produce updated withholding tables and for payroll managers to adjust their systems. A poll of registered voters done in April and released this week by Politico/Morning Consult found that only about a fifth of those surveyed were noticing more money in their paychecks.

''I think the fact that we didn't see a big spurt in spending after the tax cut suggests it's either too early in the game or consumers are going to continue to be a bit cautious,'' said Kathy Bostjancic, chief United States financial economist at Oxford Economics. Nonetheless, she added, ''I think there is a legitimate question as to how much of the tax cuts get saved to pull down debt, and how much actually gets spent.''

As for business spending, many of the tax incentives were aimed not at immediate investment decisions, but at those in the medium term. ''It does take time for that to filter through,'' Ms. Bostjancic said. Some businesses may have also sped up their timetables for purchases at the end of 2017 in order to take advantage of bigger deductions before the tax changes went into effect.

For several years, first-quarter growth rates have been weaker than the longer-term trends indicated, only to rebound in later months. This year, the result could reflect a falloff in spending after an unusual surge that followed the havoc wrought by late-summer hurricanes. Severe winter weather could have also slowed consumption. But some analysts wonder if data adjustments are part of the problem.

Government economists try to account for seasonal changes, but the corrective measures may be only partially successful. ''There's a little weakness in Q1 and then the other quarters are artificially inflated because of that,'' Ms. Bostjancic said.

Looking Ahead

In any case, the gross domestic product estimate released Friday by the Commerce Department is not the final word on the first quarter. The estimate will be revised twice in the next couple of months. In the past, the final number has been higher or lower by as much as a percentage point.

This G.D.P. report, though, is the latest that the Federal Reserve will have when its policymakers meet next week. At last month's meeting, Fed officials raised interest rates and affirmed that they expected two more increases this year. Their concern is that a tight labor market will push up inflation as employers increase wages to compete for workers.

The number of workers applying for jobless benefits last week fell to its lowest level in nearly 50 years. Salary and benefit costs to employers also increased, according to new figures released Friday.

For most Americans, who have seen little income growth in recent decades, though, fears of steeper inflation seem overblown. That is why some economists warn against raising rates too much and too fast, arguing that the increases will choke off the recovery.

At the conclusion of the March meeting, Jerome H. Powell, the new Fed chairman, said, ''We're trying to take that middle ground.''

Michael Pearce, a senior economist at Capital Economics, said he did not expect the Fed's outlook to change much, regardless of Friday's report.

''The Fed already acknowledged some of the incoming data and that they think it could strengthen this year,'' he said. Last month, the central bank announced that it had raised its median estimate for annual growth this year to 2.7 percent, from 2.5 percent.

Shipping containers in Shanghai. The first-quarter G.D.P. estimate released Friday will be revised twice in the next couple of months. (PHOTOGRAPH BY ALY SONG/REUTERS) (B4) CHART: Real Economic Growth: Annual rate of change in the gross domestic product, based on quarterly figures adjusted for inflation and seasonal fluctuations. (Source: Commerce Department) (B4)

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Pay on Rise; Spending, Not So Much

By Justin Lahart
289 words
28 April 2018
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

Americans are making more money, but they are also hanging onto more of it.

With a tightening labor market making it harder to hire and keep workers, companies are signing bigger paychecks. The Labor Department on Friday reported that the employee cost index was up 2.7% from a year earlier, its biggest gain since 2008.

That increase doesn't reflect the extra money many people are taking home as a result of the tax cut.

More cash coming in the door hasn't translated into more spending, though. Friday's gross-domestic-product report showed the economy expanded at a 2.3% rate in the first quarter but that consumer spending rose just 1.1%, its weakest in nearly five years. This might represent a temporary setback due to factors such as tough winter weather. But households may have reached a point at which they will be devoting more of what they make toward saving and paying down debt.

Indeed, while the personal saving rate rose to 3.1% from 2.6% in the first quarter, it was north of 5% just two years ago.

Households that save more now can spend more later. But if consumers are getting paid more but not spending it, then their buying won't offset the increases in many companies' labor costs. That would count as a drag on earnings.

For the moment, a profit squeeze isn't something investors are worried about. First-quarter earnings for companies in the **S&P 500** are on pace for a gain of 25% from a year earlier. That could change.

page,5043
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THE WALL STREET JOURNAL.
U.S. EDITION

Firms Feel Impact of Oil Rise --- Companies look to pass on costs to customers, which would push inflation higher

By Doug Cameron and Bradley Olson
956 words
27 April 2018
The Wall Street Journal
J
A1
English

Corrections & Amplifications

A graphic with a Page One article Friday about rising **oil prices** showed the price of crude-oil futures in dollars per barrel. The chart was mislabeled as dollars per gallon.

(WSJ May 1, 2018)

(END)

The highest **oil prices** in years are increasing expenses for companies that had grown used to low energy costs since crude's 2014 tumble, while the turnabout is proving to be a boon for some businesses.

Giant outfits from American Airlines Group Inc. to 3M Co. have warned this week about how persistent higher **oil prices** are boosting their expenses this year.

In response, some companies are looking to pass on the costs to their customers, which would push inflation higher. That, in turn, could slow growth and weigh on an already vulnerable **stock market**.

"I do believe that consumers will pay more," said American Airlines Chief Executive Doug Parker.

The airline on Thursday lowered its profit outlook for the year, citing in part a 12% increase in the average price of jet fuel over the past two weeks. Fuel is airlines' second-largest expense after labor, and fare changes tend to lag movements in oil by several months. Mr. Parker said he didn't think higher fares would hurt demand.

The increased energy costs hurt in the first quarter because West Texas Intermediate crude prices have remained above $60 for much of the year, something not seen since late 2014. Higher energy prices hit different industries over time, and it can take weeks or months before they can pass their higher costs on to consumers or vendors.

Railroad operator Union Pacific Corp. reported Thursday that its fuel expenses surged 28% to $589 million in the latest quarter, with most of the increase coming from a 22% increase in diesel prices. However, Union Pacific passed along some of that higher cost to customers through fuel surcharges, which totaled $353 million, up 67% from the year-earlier period.

The company, though, also benefited from higher demand for sand used in shale-oil extraction and a surge in shipments of crude, as higher **oil prices** spurred production. Union Pacific, which operates in the western U.S. where much of the shale exploration occurs, said its energy revenue jumped by 15% in the March quarter from the year-ago period, growing twice as fast as its overall business.

Elsewhere, United Parcel Service Inc. said its fuel expenses jumped 21%, or $129 million, in the March quarter. But the company said fuel surcharges and higher prices helped offset rising delivery costs in its U.S. ground business.

Rising diesel prices are weighing on trucking companies despite a surging freight market, though some of those costs also get passed on through fuel surcharges.

On Thursday, Schneider National Inc., a large trucking company based in Green Bay, Wis., reported its fuel expenses rose 16% in the first quarter to $84.7 million. The carrier's revenue from fuel surcharges to customers jumped by 31% to $117.8 million.

USA Truck Inc., another national carrier, reported $13.5 million in fuel expenses for the quarter, up 25% year-over-year. The Van Buren, Ark.-based company said rising fuel was among several factors offsetting strong freight demand.

Meanwhile, earnings at energy companies have surged. Royal Dutch Shell PLC on Thursday posted its highest quarterly profit since 2013, when **oil prices** were peaking above $100 a barrel. In addition, earnings jumped by more than half at ConocoPhillips and Schlumberger Ltd., where officials noted that drilling activity picked up in the second half of the quarter as prices stayed above $60.

Exxon Mobil Corp. and Chevron Corp. are expected to post similar gains when they report Friday.

Consumers are seeing the effects at the gas pump, where the average price of $2.80 is the highest since June 2015. The U.S. Energy Information Administration has estimated that the average household will spend about $190, or 9% more on fuel in 2018 compared with 2017.

Executives at both 3M and Caterpillar Inc. said this week that they would raise prices to offset the hit to profits from rising commodity prices.

"We are seeing some increases in raw material prices, in fact, more than what we originally estimated," 3M Chief Financial Officer Nicholas Gangestad said, adding that the maker of Scotch tape and Post-it Notes faced higher transportation and material costs as **oil prices** rose.

As was the case for Union Pacific, rising **oil prices** were at the same time a positive for Caterpillar, which provides the pumps for shale-well drilling and extraction. Caterpillar said sales of its equipment and parts used in the oil and gas industries rose 50% from the prior year to $1.2 billion in the first quarter.

"At the end of the day, higher commodity costs benefit many of our customers. and they are one of the reasons we have seen several of our end markets begin to recover," Caterpillar Chief Financial Officer Brad Halverson said.

One factor that can blunt the impact of rapid oil-related cost inflation is hedging, or locking in future prices, which is common for airlines and other sectors where fuel costs can weigh heavily on the bottom line.

Gary Kelly, chief executive of Southwest Airlines Co., was more sanguine than American's Mr. Parker about the impact of the recent rise, in part because the largest carrier of domestic passengers has a longstanding hedging program.

"I think we're very well positioned to manage our way through a real fuel price shock," he said. "What we have now is not an issue. If we get to 100-plus dollars a barrel, then I think we have something else to talk about."

Andrew Tangel and Jennifer Smith contributed to this article.

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THE WALL STREET JOURNAL.

Markets
David Einhorn Finds Victories More Elusive Since Winning Lehman Bet; Hedge-fund manager's Greenlight Capital has missed out on some of market's best-performing stocks

By Ira Iosebashvili
730 words
27 April 2018
10:00 AM
The Wall Street Journal Online
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English

A decade after the financial crisis, The Wall Street Journal has checked in on dozens of the bankers, government officials, chief executives, hedge-fund managers and others who left a mark on that period to find out what they are doing now. Today, we spotlight hedge-fund managers David Einhorn and John Paulson.

Hedge-fund manager David Einhorn struck it big with his wager against Lehman Brothers Holdings Inc. before the bank's 2008 collapse, but his fund's performance has been much spottier since then.

His firm, Greenlight Capital, has suffered from bets against some of the market's best performing stocks, including Tesla Inc. and Amazon.com Inc. The main fund lost more than 10% between the end of 2014 and the end of 2017, The Wall Street Journal Reported. The **S&P 500 index** notched a 38% total return in that period.

This year, the fund lost 13.6% in the first quarter, according to people familiar with the matter, compared with a 0.8% loss for the **S&P 500**.

Yet Mr. Einhorn can still move a **stock price** just by announcing that he is targeting it. At the Sohn Investment Conference this week, he told a packed auditorium he was betting against the shares of Assured Guaranty Ltd., calling the bond insurer a "melting ice cube that is paying out the drops while it still can."

The company's **stock price** was down 6% at one point in aftermarket trading on Monday.

Some of Mr. Einhorn's most famous trades have taken a long time to pay off. A protracted battle with leveraged-buyout financier Allied Capital began in 2002, when Mr. Einhorn said the company was overvaluing its investments. Allied executives at the time called his claims unfounded, saying the company was committed to transparency.

He described the struggle with Allied in a book called "Fooling Some of the People All of the Time." Allied Capital shares eventually fell and it was acquired by fellow lender Ares Capital Corp. in 2010. Mr. Einhorn made millions on the investment.

Mr. Einhorn, 49 years old, has made his name by seizing on what he perceives as mispricing in stocks, often providing meticulous arguments for why he believes a particular company's shares are overvalued. In 2011, he blasted Green Mountain Coffee Roasters Inc., in an hourlong presentation which required more than 100 slides.

In 2008, he announced Greenlight Capital was betting against the stock of Lehman Brothers. He criticized the firm's accounting practices. The bank filed for bankruptcy protection later that year.

Not all of Mr. Einhorn's time has been spent on finance. He tried to buy a $200 million stake in the New York Mets in 2011 but was rebuffed by the team's owners. He is also a competitive poker player and in 2012 finished third in The Big One for One Drop, a charity event of the World Series of Poker, winning about $3.4 million.

On Monday, Mr. Einhorn compared his bet against Assured Guaranty to his triumph over Allied, noting that he was wearing the same tie he wore 16 years ago when announcing his Allied short at the same conference.

The success of that new bet is uncertain. Assured Guaranty's shares rose by the end of the day on Tuesday and are higher since then.

In response to the comments at the Sohn conference, Assured said "we reiterate our strong disagreement with Mr. Einhorn's assertions. He fails to acknowledge the positive implications of our significant financial strength and strong operating performance, and he demonstrates a fundamental lack of understanding of our business model and the municipal debt markets."

At the conference, Mr. Einhorn began discussing the frothy valuations for bond insurers back in 2008 and seemed to get nostalgic.

"Bubbles do pop, you know," he told the crowd. "Or at least they used to."

Write to Ira Iosebashvili at ira.iosebashvili@wsj.com

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THE WALL STREET JOURNAL.

Markets

Architect of Greatest Trade Ever Hit by Losses, Redemptions Postcrisis; John Paulson, known for his bearish bets against housing ahead of the financial crisis, has struggled to get much right ever since

By Gregory Zuckerman
714 words
27 April 2018
10:06 AM
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English

A decade after the financial crisis, The Wall Street Journal has checked in on dozens of the bankers, government officials, chief executives, hedge-fund managers and others who left a mark on that period to find out what they are doing now. Today, we spotlight hedge-fund managers David Einhorn and John Paulson.

The investor who made the largest fortune betting on the U.S. housing-market collapse has struggled to get much right ever since.

Hedge-fund manager John Paulson

made about $20 billion buying derivatives that served as insurance on risky mortgages and shorting, or betting against, financial companies ahead of the financial crisis.

For a while, his hot hand continued. His firm, Paulson & Co., was among the first to shift to gold, benefiting from a subsequent rally. The fund prematurely turned bullish on the U.S. economy, but its bullish bets eventually paid off as the market took off in 2009. Investors flocked and by 2011 his firm was managing $38 billion.

Then, Mr. Paulson's fortunes reversed. His touch has gone frigid in recent years, his firm's performance crippled by losses in drug stocks, collapsing gold companies, and even a Chinese fraud, forestry company Sino-Forest Corp.

He also bought four hotels in Puerto Rico at discounted prices. Hurricane Maria left the U.S. territory in ruins, making Puerto Rican investments more challenging, but someone close to the firm said the Paulson hotels are about 95% full.

Mr. Paulson, a 62-year-old Queens, N.Y., native who spent years as a merger arbitrager, was little known on Wall Street in 2006, the year he began executing the trade that would make his fortune.

He became convinced that problems were ahead for the U.S. economy, amid a frenzied pace of buying by homeowners, some strapped for cash. His firm bought boatloads of derivatives that served as protection against bundles of potentially toxic mortgages.

Some clients fretted. Mr. Paulson had little expertise in mortgage investing, but when the subprime market collapsed in value in 2007, the firm made $15 billion, the largest one-year payout in the history of the financial markets.

Mr. Paulson then took bearish positions on shares of Lehman Brothers Holdings Inc., British banks such as Royal Bank of Scotland Group PLC and Lloyds Banking Group PLC, and other firms with housing exposure, scoring another $5 billion in profits in 2008 as the U.S. dipped into a recession. That year, Mr. Paulson traded up in Southampton, N.Y., spending $41 million for a 10-acre lakefront estate.

Lately, Mr. Paulson is again seeing his biggest gains in debt investments and traditional merger-arbitrage investing. But he manages less than $9 billion, most of which is his own money, after client defections.

Paulson & Co. has been letting employees go and is moving into smaller New York offices in the headquarters of Steinway & Sons, the piano maker purchased by Mr. Paulson's firm for more than $500 million in 2013. Recently, Mr. Paulson made a historic $1.5 billion tax payment for gains from the subprime trade that had been deferred for a decade.

Even giving away some of his fortune, Mr. Paulson has taken some flak. After he pledged $400 million in 2015 to Harvard University's School of Engineering and Applied Sciences, the largest gift in the university's history, some noted that Harvard wasn't an especially needy cause. He also made a $20 million gift to New York University and a $100 million donation to the Central Park Conservancy. Mr. Paulson still walks through the park on his way home many evenings.

Write to Gregory Zuckerman at gregory.zuckerman@wsj.com

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Twin Surprises: Americans Are Getting Paid More But Not Spending it; Higher pay and lower taxes put more money in people's pockets in the first quarter, but consumption was weak

By Justin Lahart
366 words
27 April 2018
12:38 PM
The Wall Street Journal Online
WSJO
English

Americans are making more money—but spending less of it.

With a tightening labor market making it harder to hire and keep workers, companies are starting to issue bigger paychecks. The Labor Department on Friday reported that the employee cost index—its comprehensive measure of pay and benefits—was up 2.7% from year earlier. That was its biggest gain since 2008.

That increase doesn't reflect the extra money many people are taking home as a result of the tax cut.

More cash coming in the door hasn't translated into more spending. Friday's gross domestic product report from the Commerce Department showed the economy grew at a 2.3% rate in the first quarter, but that consumer spending grew just 1.1%—its weakest reading in nearly five years.

The weak spending might represent just a temporary setback due to factors such as tough winter weather. But while it is reasonable to expect better spending figures in the second quarter, it is possible that households have reached a transition point where they will be devoting more of what they make toward saving and paying down debt.

Indeed, while the personal saving rate—the share of after-tax income that doesn't get spent—rose to 3.1% from 2.6% in the first quarter, the savings rate was above 5% just two years ago.

Households that save more now can spend more later. But if consumers are getting paid more but not spending it, then their buying won't offset the increases in many companies' labor costs. That would count as a drag on earnings.

For the moment, a profit squeeze isn't something investors are worried about—thanks to the boost from the corporate tax cut, first-quarter earnings for companies in the **S&P 500** are on pace for a gain of 25% from a year earlier. But as the year wears on, that could change.

Write to Justin Lahart at justin.lahart@wsj.com

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Real Estate Stocks Are on Sale but No One Is Buying; Listed property companies are trading at discounts to their assets, yet investors are pouring cash into private funds

By Ken Brown
523 words
27 April 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

Investors hate real estate, and investors love real estate. Both statements are true right now, creating one of the oddest dichotomies in markets.

More specifically, investors hate real estate investment trusts, which have lagged behind the **S&P 500** by more than 15 percentage points over the past 12 months. REITs on average are trading a 16.4% discount to the assets they own, one of the widest gaps that has ever occurred outside of a recession, according to Green Street Advisors.

But investors love private real estate funds, which don't trade on the market and so never are valued at a discount to their assets. Institutions and rich investors poured $71 billion in equity capital into private real estate funds that closed last year, according to Preqin. Private-equity firms held $1.2 trillion in real estate assets at the end of 2016, according to consultants PwC.

"There's a big pile of private capital that wants to own real estate and a big pile of real estate trading at a discount," said Jonathan Litt, the chief investment officer of Land & Buildings, which invests in REITs and has pressured some companies to take steps to eliminate the discounts.

The love-hate situation is driven by two main factors. Investors have sold REITs because of rising interest rates, which have left their yields less attractive. Meanwhile, investors also have been pouring cash into private equity, hedge funds and other alternative investments on the belief they will outperform public markets.

Yet REITs historically have outperformed similar private funds, according to Green Street. And when REITs are trading at big discounts, as they are today, they outperform by a lot.

The question is why investors would choose to invest in private funds when publicly traded REITs are on sale. The likely explanation is that investors believe private funds are less risky because their values don't bounce around like stock prices do. Risk, though, isn't **volatility** but rather the chance of a permanent loss of capital.

Veteran real estate investors know that the better reason for avoiding REITs is that entrenched managements often do little to close the gap such as selling properties. "There aren't enough big sellers," Green Street's Peter Rothemund says.

There are several activist investors currently waging fights to force boards to act. At Forest City Realty Trust, which owns properties in New York and elsewhere, nine of 13 board members have stepped down and the company sold some assets and ended its dual-class share structure as activists pushed it to take action. Its shares have leveled off after a six-month decline.

But the best strategy for most investors is to grab the REITs at current discounts and wait for them to shrink, as they always have. With so much private cash primed to invest in real estate, that could happen pretty quickly.

Write to Ken Brown at ken.brown@wsj.com

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Post Weekly Loss; Corporate results have put firms in the S&P 500 on track to post earnings growth of 23% for the latest quarter

By Akane Otani and Mike Bird
732 words
27 April 2018
04:32 PM
The Wall Street Journal Online
WSJO
English

U.S. stocks stalled Friday, sending major indexes to weekly losses following one of the busiest periods of the first-quarter corporate earnings season.

Stocks struggled for traction at the start of the week, pressured by selling in government bonds that pushed the yield on the 10-year U.S. Treasury note above 3% for the first time since January 2014.

A string of mixed earnings reports also weighed on the **stock market**, with industrial bellwether Caterpillar sliding after the firm cautioned that its first-quarter results could prove to be the "high-water mark" for the year, and Alphabet shares tumbling on investor concerns about its ramp-up in expenses.

Yet strong results Thursday from a number of technology giants helped the **Nasdaq**end a five-session losing streak, chipping away at the losses major indexes accumulated earlier in the week.

Facebook shares edged down 57 cents, or 0.3%, to $173.59 Friday but rose 4.4% for the week, after the company's results showed revenue surging even after it weathered crises related to its handling of users' data. Amazon.com—which reported results after the closing bell Thursday—jumped 54.66, or 3.6%, to 1572.62 Friday after posting its best revenue growth in more than six years. For the week, the stock added 3%.

"We've seen Facebook and Amazon really deliver on the earnings side, and that's been a counterbalancing force there after the fear of regulation weighed that sector down," said Mark Heppenstall, chief investment officer at Penn Mutual Asset Management.

The **Dow Jones Industrial Average** fell 11.15 points, or less than 0.1%, to 24311.19 on Friday. The **S&P 500** edged up 2.97 points, or 0.1%, to 2669.91, and the **Nasdaq Composite** added 1.12 point, or less than 0.1%, to 7119.80.

All three indexes posted weekly losses, with the Dow industrials losing 0.6%, the **S&P 500** shaving off less than 0.1% and the **Nasdaq** falling 0.4%.

With more than half of **S&P 500** firms having posted first-quarter results, the broad index is on track to post year-over-year earnings growth of 23% for the latest quarter, according to FactSet estimates.

That has helped reassure investors that corporate profits remain on solid footing—although many warn that stock gains could stall, especially if bond yields continue their recent climb.

U.S. Treasury prices fell for a fourth consecutive week, with the yield on the benchmark **10**-**year Treasury** note settling at 2.959%, compared with 2.949% last Friday. Yields rise as **bond prices** fall.

Many analysts had attributed the return of **volatility** in the **stock market** this year to the rise in bond yields, which they say reflects investor bets on inflation nudging higher.

"Equity markets have been very highly priced, and everything really for the past few years has been predicated on very low bond yields and liquidity injections from central banks," said Jon Day, fixed-income portfolio manager at Newton Investment Management. "That's being pulled away, so you're likely to see things being repriced."

Elsewhere, European stocks wavered between small gains and losses for much of the day, with the Stoxx Europe 600 ending up 0.2%.

Stocks in Asia rose as the leaders of North and South Korea agreed to pursue a peace agreement—marking a historic step for the two countries.

The summit between North Korean leader Kim Jong Un and South Korean President Moon Jae-in "is a good step forward," said James Cheo, senior investment strategist at Bank of Singapore. But he added that it was too early to tell whether it would have a lasting impact on resolving tensions between the countries.

Japan's Nikkei Stock Average and South Korea's Kospi index added 0.7% apiece.

Joanne Chiu contributed to this article

Write to Akane Otani at akane.otani@wsj.com and Mike Bird at Mike.Bird@wsj.com

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THE WALL STREET JOURNAL.

Markets
Fresh Oversupply Worries Jolt Copper; Gold prices inch up

By Amrith Ramkumar and David Hodari
652 words
27 April 2018
03:39 PM
The Wall Street Journal Online
WSJO
English

Copper prices fell Friday on worries that the market will continue to be well supplied, limiting future gains.

Front-month copper for May delivery shed 2.2% to $3.0460 a pound on the Comex division of the New York Mercantile Exchange—its worst day since Feb. 7. Prices had risen in four-straight weeks entering this one but have tumbled of late and are down 7.1% in 2018, after hitting a nearly four-year high late last year.

Investors are worried that the supply disruptions that buoyed prices last year from mining labor contract renegotiations and other conflicts with host governments haven't materialized yet in 2018, meaning the market could continue to be well supplied.

On Friday, the International Copper Study Group said it now expects a small supply surplus in 2018, after previously projecting a deficit

"The switch to surplus is due to stronger than previously anticipated growth in refined copper production," the group said in a statement with its latest forecasts.

Traders were also reacting to news from U.S. giant Freeport-McMoRan Inc. that its latest spat with the Indonesian government regarding control over the world's second-largest copper mine, Grasberg, hasn't yet affected production. Indonesia recently said it wanted Freeport to meet new environmental standards in just six months, the latest barb in an extended back-and-forth between the two sides.

Another prominent copper producer, Norilsk Nickel, said Thursday that first-quarter copper production rose 18% from a year earlier.

Still, some analysts expect the uncertainty surrounding Freeport's negotiations with Indonesia and labor negotiations at the BHP Billiton-operated Escondida mine in Chile to boost copper moving forward as consumption data from China, the world's largest consumer, picks up steam.

Long-term investors have also been encouraged by the lack of growth projects that could boost copper supply in future years, and the ICSG reiterated Friday that it expects a supply deficit in 2019.

Elsewhere in base metals, aluminum for delivery in three months on the London Metal Exchange declined 2.3% to $2,223 a metric ton, continuing a recent bout of extreme **volatility** after news that Russian billionaire Oleg Deripaska has agreed to sell down his majority ownership in EN+ Group PLC, the U.K.-listed holding company that owns 48% of aluminum giant United Co. Rusal.

Prices surged Thursday on a Bloomberg report that Mr. Deripaska wants to keep control of the company, potentially creating a standoff with the U.S. government and further disrupting global supplies.

The U.S. has said it might relieve sanctions if Mr. Deripaska sells his stake. Rusal denied the report was accurate, and some analysts think it is a negotiating tactic by Mr. Deripaska to pressure the U.S. or get a better deal if he sells.

The U.S. has hinted it would relieve sanctions if Mr. Deripaska sells his stake. Rusal denied the report was accurate, and some analysts think it was a negotiating tactic by Mr. Deripaska to pressure the U.S. or get a better deal on a sale.

Worries about supply tied to Rusal has jolted the aluminum, palladium and nickel markets this month, but some analysts expect a resolution to calm traders moving forward. Nickel on the LME dropped 2.5% Friday, while the most-actively traded palladium futures in New York shed 1.6%.

Among precious metals, front-month gold for May delivery inched up 0.4% to $1,320.30 a troy ounce from its lowest close in more than a month. Prices have fallen recently with the dollar rising, as a stronger dollar makes commodities denominated in the U.S. currency more expensive for overseas buyers.

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com and David Hodari at David.Hodari@dowjones.com

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Economy

Americans' Confidence Slips But Remains Historically High; The latest monthly drop mostly reflected a decline in Americans' views of current economic conditions

By Josh Mitchell
308 words
27 April 2018
10:58 AM
WSJ Pro Central Banking
RSTPROCB
English

Americans' confidence in the economy slipped this month but remains high compared with historical levels.

The University of Michigan said Friday its index of consumer sentiment dropped 2.6 points from a month earlier to a reading of 98.8 in April. Still, that figure was nearly 2 points above the level posted a year ago.

The latest monthly drop mostly reflected a decline in Americans' views of current economic conditions. An index measuring their expectations of future growth slipped only slightly.

Some respondents in the latest survey voiced positive views of a tax cut law that took effect this year. Others voiced negative views on President Donald Trump's new tariffs on imported goods like steel and aluminum.

"Aside from the offsetting impact of Trump's tax and tariff policies, the best simple summary of the current state of consumer confidence is that the economy is; as good as it gets,'" Richard Curtin, chief economist for the survey, said in a statement. "While consumers do not anticipate an economic downturn anytime soon, the long expansion has made consumers (and economists) somewhat apprehensive about future trends.

Confidence fell sharply during the 2007-2009 recession but has steadily climbed since, driven by steady job growth, low inflation, a booming **stock market** and rising home values.

Friday's report also showed consumers' expectations for inflation in the near term dipped slightly. Consumers now expect inflation of 2.7% in the next year, down from the 2.8% they expected in last month's survey. They still expect inflation of 2.5% over the next five years, the same as the prior three months' surveys.

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THE WALL STREET JOURNAL.
U.S. EDITION

Streetwise: To Predict Next Crisis, Study the Last One

By James Mackintosh
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27 April 2018
The Wall Street Journal
J
B1
English

Countries hard hit by the financial crisis have spent much of the decade since trying to fix their banks. Countries that escaped unscathed have done the opposite, going on a borrowing binge that makes them prime candidates to be victims of any credit squeeze resulting from rising U.S. interest rates.

Leading the list are Australia, Canada and Sweden. They had all the benefits of the lowest global interest rates in history, without first suffering the economic meltdown and bank failures that led the U.S. and Europe to take emergency action.

Having come through the crisis in good shape, lenders in the three countries haven't learned the lesson pummeled into bank boards in other developed countries: Watch out for frothy housing markets and for trouble in foreign-currency financing.

The pattern is familiar to any student of financial history: After a bout of financial excess, borrowers who lost out are leery of repeating their mistakes, while regulators clamp down on the dodgy practices that led to the latest crisis. The next problem comes from the places, products or businesses that no one is worrying about.

It isn't quite fair to say that no one is concerned this time. The Riksbank, Sweden's central bank, has been warning about the risks from the housing market and worrying in public about the strength of its banks. It is in the unusual position among central banks of not having powers to limit lending -- such macroprudential rules are set by the government. Canada has repeatedly tightened rules on banks, only for borrowers to turn to nonbanks. And a high-profile investigation is showing up problems in Australia. None of this has fed through into higher rates or investors demanding significant action from banks, though.

Sweden offers a case study in financial crises: In the early 1990s its banking system had a catastrophe on the scale of Lehman Brothers when a housing bubble burst. All deposits were guaranteed by the government at a cost of about 4% of GDP -- in return for which Sweden demanded stock in the banks, later sold.

The lesson of 1992 kept the banks in check during the global boom of the 2000s and allowed Sweden to weather the crisis. Yet, an early-warning indicator of financial vulnerability developed by the Riksbank is now higher than it was before the early-1990s crash or in 2008.

Lots of lending, even into a rapidly rising housing market, doesn't mean disaster is inevitable. If loans are used productively, they can boost economic growth and be easily repaid, while a strong economy can cope with bad loans. But rising private debt in general and mortgage debt in particular is one of the most reliable indicators of trouble ahead because it makes a country more vulnerable to economic or financial shocks.

Look at house price-to-income ratios: In 2007, the housing bubbles of Ireland and Spain led the world on this measure, according to OECD data. Now Canada, Australia and Sweden, along with New Zealand and Norway, are well ahead of other developed countries -- and close to the Irish and Spanish 2007 levels.

Sweden, Australia and Canada have a multiplying factor if trouble hits: Banks are financing themselves abroad, often on a fairly short-term basis. This exposes them to any tightening of global funding conditions.

Foreign financing creates a dilemma for central banks when a disaster hits. If they cut rates to help domestic borrowers, the currency will weaken and banks will pay more for foreign funding. But if they raise rates to support the currency, domestic borrowers are more likely to default on the banks.

The Bank for International Settlements last month put Australia and Canada on amber alert for their banks' reliance on foreign financing in a set of early-warning indicators of a financial crisis. Norway is the only country on a red warning for foreign financing.

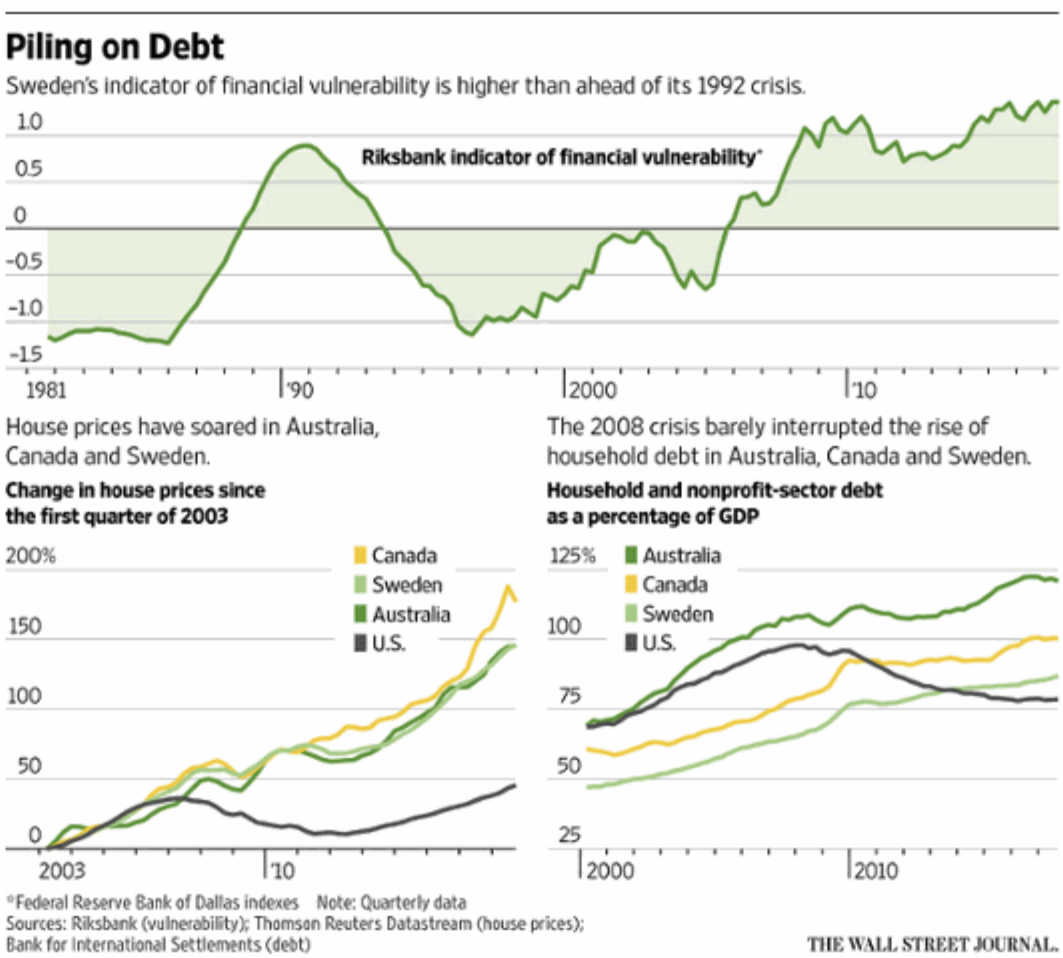
Australia and Canada also fare poorly on three other BIS debt signals. Canada is the only country in trouble on all four, flashing red on two and amber on two. Sweden has an amber warning for the amount households pay to service debt.

Housing markets tend to slow down some time before a financial crisis hits, and a slowdown seems already to have begun in some of the frothiest markets. In Sweden the price of apartments has plummeted, down more than 10% in the past 12 months in Stockholm, according to the **Nasdaq** OMX Valueguard index.

In Australia the slowdown is fairly minor so far, with prices in Sydney down about 2% year over year in March, according to CoreLogic calculations. In Toronto, prices have dropped 7% since last summer, Teranet indexes show, but the national slowdown has been more moderate.

The slowdown may be exacerbated by tighter regulations, with a royal commission in Australia expected to recommend more due diligence before loans are made. Canada has just tightened rules to ensure borrowers can cope with higher rates before taking a mortgage.

All three countries could grow their way out of lending trouble. But to find the most likely victims of tighter global money it makes sense to start by looking at the biggest beneficiaries of easy money.



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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. Stock Funds Are Losing Investors --- Flood of cash taken out reflects worries about rising inflation and market volatility

By Asjylyn Loder
720 words
27 April 2018
The Wall Street Journal
J
B12
English

Investors are dumping U.S. stock funds at one of the fastest paces in a decade as rising market turbulence erodes confidence in the nine-year-old **bull market**.

U.S. equity mutual funds and exchange-traded funds recorded $2.4 billion in outflows for the week ended April 18, according to the Investment Company Institute. That followed $41 billion in outflows from these funds in February -- the biggest monthly exodus since January 2008, ICI data show. Overall, investors have yanked $67 billion out of these stock funds since the start of February.

That rush for the exits marked a sharp reversal from January, when investors poured $10.8 billion into U.S. equity funds, helping propel major indexes to records.

"Suddenly it's changed, and everyone is trying to get out of the crowded theater first," said Darren Pollock, a portfolio manager for Cheviot Value Management, a Beverly Hills asset manager. "There was an opportunity to lock in gains from what had been such a strong rally, then step aside and see what happens next."

While the outflows account for less than 1% of assets in U.S. equity funds, the flood of cash leaving stock funds marks a shift from the buy-the-dip mentality that characterized much of last year.

Back then, markets were calmer, and nearly every decline was seized as an opportunity for bargain buying. Solid corporate earnings, the slow advance of interest rates and a pickup in global growth forecasts gave stocks an added boost.

But that benign backdrop for stocks began to crumble this year amid signs that the economic expansion is driving up prices of goods and services. Inflation has become the biggest hazard for the aging **bull market**, spurring an early February selloff that sent Wall Street's fear gauge soaring and shattered a prolonged period of market calm. The **S&P 500 stock index** has fallen 7.2% from the all-time high reached in January.

The appetite for U.S. equities may be stronger than fund flows indicate, said Shelly Antoniewicz, senior director of industry and financial analysis at ICI. Younger investors are buying U.S. stocks but have less money saved, while wealthier baby boomers are shifting out of stocks and into bonds as they near retirement. And some mutual-fund managers used February's selloff as a chance to buy $8.6 billion in U.S. stocks despite investors' withdrawals of $19.6 billion, she said.

The recent market tumult shows how inflation has made a liability out of good news, such as wage gains and a strengthening economy, since it could prompt the Federal Reserve to accelerate interest-rate increases. The prospect of rising rates has weakened a key justification for the sky-high corporate valuations, and has made stocks less appealing by offering higher returns on risk-free savings.

Inflation fears got an added jolt this week as **oil prices** rose to a three-year high and the yield on the 10-year U.S. Treasury note topped 3% for the first time since 2014.

"A lot of investors are really primed to see inflation coming in, and that freaks them out," said Megan Greene, chief economist at Manulife Asset Management. It is the biggest concern she hears from the firm's clients.

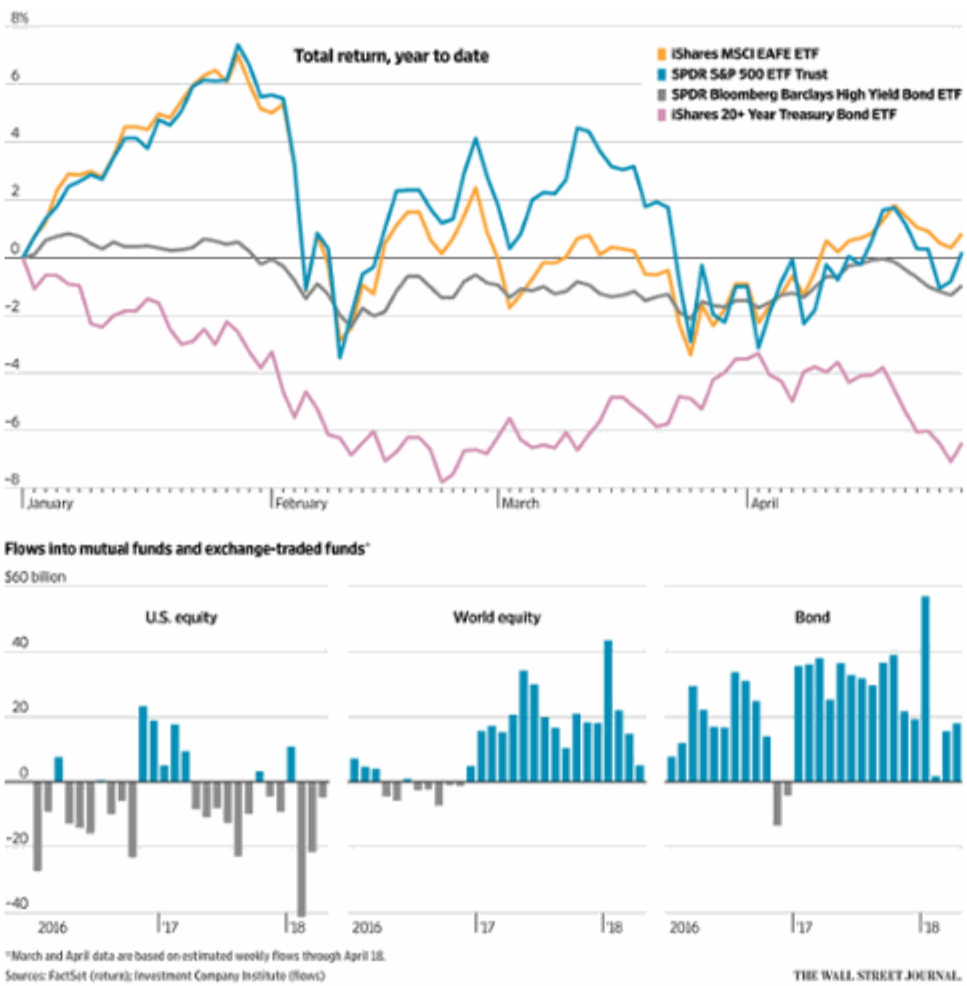
Rising **volatility** also has made investors skittish as markets have been whipsawed by the threat of a trade war, political upheaval and a technology-stock rout. After spending most of 2017 near historic lows, the Cboe **Volatility**

Index, a measure of traders' expectations for market moves, has risen 50% since the start of the year, according to FactSet.

Some say investors may be overreacting to headlines, ignoring the health of the U.S. economy and the strength of corporate earnings, when there is little to suggest that a recession is near.

"People overly focus on news flow, like trade concerns or geopolitical issues," said Jonathan Golub, chief U.S. equity strategist for Credit Suisse AG. "As long as the economy stays away from a recession, stocks are way more likely to surprise to the upside."

Daniel Kruger contributed to this article.



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WSJ PRO CENTRAL BANKING

Economy

ECB Seeks Clarity on Economy | BOJ Ditches Inflation Target Date | House Expected to Act on Bank-Deregulatory Bill | Jordan: Swiss Franc Remains ‘Highly Valued | Derby's Take: Was There An Error In The March FOMC Minutes? The Wall Street Journal's central banking newsletter for Friday, April 27, 2018

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Derby's Take: Was There An Error In The March FOMC Minutes?

ECB Seeks Clarity on Economy Before Next Move

Bank of Japan Ditches Inflation Target Date

House is Expected to Act on Bank-Deregulatory Bill

Swiss Franc Remains ‘Highly Valued,' Says SNB's Chairman

Was There An Error In The March FOMC Minutes?

The minutes of the Federal Open Market Committee's March meeting have produced a mystery.

The minutes noted "with regard to the medium-term outlook for monetary policy, all participants saw some further firming of the stance of monetary policy as likely to be warranted."

St. Louis Fed President James Bullard, speaking with reporters on April 13, was asked to reconcile that statement with his view that Fed policy is in the right place and that no rate rises are needed anywhere in the foreseeable future. He couldn't.

"The St. Louis Fed's position remains that the outlook for the policy rate is flat and that we're quite close to neutral right now," Mr. Bullard said. "And because of that, you know, I'm not quite sure the source of the statement all members supported additional firming over the horizon."

The Fed declined to comment on Mr. Bullard's comment. The St. Louis Fed said his remarks speak for themselves. There is no outright acknowledgment something is amiss, even though something is not adding up.

FOMC minutes are one of the most important ways the central bank communicates with the public. The document, released three weeks after each FOMC meeting, is vital in expanding on the relatively short, boiler plate-laden language of the Fed's postmeeting policy statements.

Small changes can mean big things. The March minutes, for example, saw the end of any officials' concern that inflation might weaken. That shift bolsters the collective confidence inflation and interest rates will rise.

If the minutes bungled the handling of Mr. Bullard's views, it doesn't mean much for Fed expectations right now. The markets and most officials anticipate more rate increases.

The picture could become clearer when the Fed releases the minutes of its May meeting. Watch to see how that document portrays the collective policy view.

Key Developments Around the World

ECB Seeks Clarity on Economy Before Next Move

European Central Bank President Mario Draghi put off a decision on the future of the bank's giant bond-buying program on Thursday, saying officials want to better understand a recent slowdown in the eurozone economy before taking any fresh steps to phase out easy money. A recent "moderation in growth" across the 19-nation currency union probably reflected temporary factors such as cold weather or the timing of public holidays, Mr. Draghi said at a news conference Thursday. He said, however, that the slowdown could also reflect more durable weaknesses. The ECB's decision to stand pat had been expected, but Mr. Draghi's caution suggests the ECB could delay a decision to phase out its €30 billion ($36.6 billion)-a-month bond-buying program, known as quantitative easing or QE, which is currently due to run through September.

Europe's Mixed Economic Fortunes Complicate Path for Stimulus

Europe's economies displayed mixed fortunes in the first three months of the year, injecting a fresh source of uncertainty as central banks consider further steps to withdraw crisis-era stimulus. Figures released Friday on gross domestic product—the broadest measure of the goods and services produced in an economy—recorded sharp slowdowns in France and the U.K., while Spain and Austria continued to record strong growth.

ECB Takeaways: Few Concerns, No Changes

The ECB wasn't expected to change its policies Thursday, and didn't. But participants in **financial markets** were looking to Mario Draghi's analysis of a first-quarter slowdown in economic growth for guidance as to what policy makers might do next. Overall, Mr. Draghi signaled that the central bank hasn't been thrown into a panic by the unexpected loss of momentum in the first three months of the year, but nor did he rule out the possibility that it was more than a blip. Here are some takeaways from his news conference.

Bank of Japan Ditches Inflation Target Date

The Bank of Japan on Friday dropped its target date for reaching 2% inflation, another sign that Japan has yet to fully escape its long period of falling prices. The central bank had previously said it expected inflation to hit 2% in the year ending March 2020. When Bank of Japan Gov. Haruhiko Kuroda took office in 2013 he said he wanted to hit 2% inflation within two years. He has had to postpone that target six times. In March, core consumer prices, a figure that excludes **volatile** fresh food prices, rose 0.9% over year-earlier levels.

Minutes Show Bank of Mexico Treading Carefully

Mexican central bankers avoided any indication they were thinking about interest-rate cuts soon when they voted unanimously earlier in April to stand pat, according to the minutes of the meeting published Thursday. A sharp decline in inflation and gains in the Mexican peso were among the reasons that led the five-member board of governors to leave the overnight interest-rate target at 7.5% on April 12 after raising it at the previous two meetings, although they left the door open for further monetary tightening.

House is Expected to Act on Bank-Deregulatory Bill

A month-long standoff between House and Senate lawmakers over bipartisan legislation to ease red tape for small- and medium-size banks may soon draw to a close, allowing the bill to clear Congress and become law. House Financial Services Committee Chairman Jeb Hensarling (R., Texas) said he is open to advancing Senate-approved legislation to roll back the 2010 Dodd-Frank financial law without changes—as long as there are "other pathways" to advancing a separate series of House-favored bills not included in the Senate plan.

Swiss Franc Remains ‘Highly Valued,' Says SNB's Chairman

The Swiss franc remains "highly valued" despite its recent weakening, Swiss National Bank Chairman Thomas Jordan said Friday, suggesting the central bank will maintain its super-easy monetary policies in the coming months.The franc, which typically strengthens in times of global uncertainty as nervous investors seek refuge, has weakened in recent months, particularly against the euro.

Swiss National Bank Snatches Punch Bowl from Its Own Party

Swiss National Bank officials met with their shareholders Friday in an enviable position: The SNB's share price has nearly quadrupled in the past year. Yet in comments at the bank's annual shareholders meeting, the SNB's bank council president, Jean Studer, gave a tepid endorsement, at best, of SNB shares. He highlighted the many constraints imposed on its private shareholders, including a tiny dividend, no rights to SNB assets and a mandate to keep inflation low and stable, not to maximize profits.

Friday

8:30 a.m. EDT

U.S. Commerce Department releases first estimate of first-quarter GDP

Going With the Flows: New Borrowing, Debt Service and the Transmission of Credit Booms

Mathias Drehmann, Mikael Juselius and Anton Korinek study the "effects of credit booms and, in particular, why they have predictable negative aftereffects for up to a decade." They find in a Bank of Finland research discussion paper, "new borrowing increases economic activity but generates a pre-specified path of debt service that reduces future economic activity." Their data show that "debt service peaks on average four years after credit booms and is associated with significantly lower output and higher crisis risk."

To Spot the Next Financial Crisis, Look Who Was Spared by the Last One

"Countries hard-hit by the financial crisis have spent much of the decade since trying to fix their banks. Countries that escaped unscathed have done the exact opposite, going on a borrowing binge that makes them prime candidates to be victims of any credit squeeze resulting from rising U.S. interest rates," James Mackintosh writes for The Wall Street Journal. "Leading the list are Australia, Canada and Sweden. They had all the benefits of the lowest global interest rates in history, without first suffering the economic meltdown and bank failures that led the U.S. and Europe to take emergency action. Having come through the Lehman crisis in good shape, lenders in the three countries have not learned the lesson pummeled into bank boards in other developed countries: Watch out for frothy housing markets and watch out for trouble in foreign-currency financing."

Central Bankers Can't Agree on Cryptocurrencies

Central bankers are "nervous about the brave new world of cryptos. Since cryptocurrencies have gone mainstream, there has been a deluge of speeches and research papers from the world's top supervisors over the role of digital currencies and the regulatory questions they raise. It's clear that the cross-border nature of digital currencies means coordination on the regulatory front is required; but there is little consensus over how to do this. Central bankers generally agree with one another that privately issued cryptocurrencies such as Bitcoin and Ethereum aren't set to replace traditional currencies," Ferdinando Giugliano writes for Bloomberg View. "But the central banker consensus breaks down when it comes to how to regulate cryptocurrencies. In a new paper for the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution, Eswar Prasad, a professor of economics at Cornell University, has offered an extensive list of the many ways in which regulators have approached the Bitcoin question. This ranges from the United States, where the Commodity Futures Trading Commission (CFTC) has taken a more laissez-faire approach by classifying cryptocurrencies as commodities, to China, where the People's Bank of China has banned all cryptocurrency trading. The differences in approach mean the effectiveness of regulation is limited."

Relaxing Bank Capital Requirements Would Risk Another Crisis

Proposals being weighed by the Federal Reserve and the Office of the Comptroller of the Currency that would permit further increases in bank leverage could make the financial system less resilient and make another financial crisis likelier and more severe, write Thomas M. Hoenig and Sheila C. Bair for The Wall Street Journal. "The idea that lowering bank capital requirements boosts lending is urban legend," they write. "Ample research shows that banks with higher capital levels lend more, not less, through business cycles. Highly leveraged banks are vulnerable to the shocks that inevitably occur during a downturn. Because of the major banks' size and scope, that vulnerability undermines the stability of the economy."

Demand for long-lasting U.S. factory goods rose in March due to increased aircraft orders, but an underlying proxy for business investment fell for the second time in three months. Orders for durable goods increased a seasonally adjusted 2.6% in March from the prior month, the Commerce Department said Thursday. Meanwhile, a business-investment gauge, new orders for nondefense capital goods excluding aircraft, declined 0.1% in March from the prior month.

The number of Americans applying for unemployment benefits fell to the lowest level since 1969, the latest sign the labor market is firming after years of steady job growth.

A manufacturing index that monitors activity in the middle of the country expanded rapidly in the month of April.

Send us your tips, suggestions and feedback. Write to:

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The New York Times

Business/Financial Desk; SECTB
Fed Officials Worry Economy Is Too Good. Workers Still Feel Left Behind.

By JIM TANKERSLEY
1,389 words
27 April 2018
The New York Times
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Late Edition - Final
2
English

WASHINGTON -- Ann Jacks quit her job as a restaurant chef in North Carolina, started her own business and worked 80 hours a week for two years, before exhausting herself and her patience. She shut down the company and, in November, returned to her old job. It paid a dollar an hour more than it did when she left it.

Ms. Jacks, who now earns $22,000 a year and said she couldn't afford her health insurance deductible, is one of many Americans still waiting to feel the effects of an improving economy nearly a decade after the Great Recession.

''I don't see evidence of the wages getting higher, except for specific types of jobs, like management, banking,'' she said. ''My attorney friends aren't hurting.''

Yet Federal Reserve officials are beginning to worry about a possibility that seems remote to workers who still feel left behind: the danger of the economy's running too hot, destabilizing **financial markets** and setting off a rapid escalation in wages and prices that could force the central bank to slam the brakes on growth.

Officials at the Fed have in the last few weeks escalated a public and private debate over how close the economy is to ''overheating,'' a condition when abnormally low unemployment can trigger spikes in inflation and destabilize **financial markets**.

The Commerce Department will report its first estimate of first-quarter growth on Friday, and economists expect it will register around 2 percent, short of the 3 percent that President Trump has promised will deliver large wage increases to workers across the board.

Forecasters expect growth to accelerate later this year, though. Those predictions, along with a recent uptick in the inflation rate, are prompting some Fed officials to push the bank to raise interest rates at a faster pace than it has been, in order to reduce the risk of overheating.

Fed officials have raised their benchmark rate to a range of 1.5 to 1.75 percent in a series of carefully orchestrated increases. Their most recent economic projections suggest they expect to raise rates two more times this year and three times next year.

While officials worried about overheating are pushing a faster pace of increases, other officials say it's way too early to turn down the heat on the economy -- and on workers who are still waiting for big wage increases to show up.

Both camps say they are concerned for workers like Ms. Jacks.

''When we think about the economy from the aspect of monetary policy, we can't get it right for everybody,'' Eric Rosengren, the president of the Federal Reserve Bank of Boston, said in an interview last week. ''We can get it right for the overall economy.''

Mr. Rosengren is among those pushing for the Fed to raise interest rates more quickly than some of his colleagues would prefer, in part because he fears a situation in which rapid inflation forces the bank to raise rates drastically, tipping the economy back into recession.

In that case, he said, ''the people who feel already like they're not keeping up with the rest of the economy would probably be the first ones laid off in an economic slowdown.''

Other Fed officials want to let the economy run hotter, longer, contending that economic data suggests today's low unemployment rates are not necessarily harbingers of high inflation.

Charles Evans, the president of the Federal Reserve Bank of Chicago, warned in a speech this month that Fed officials should not assume that just because low unemployment spurred double-digit inflation in the 1970s and '80s the same situation would occur today. He suggested that structural changes in the economy, such as a disconnect between the areas where job openings are and where prospective employees live, and the reluctance of workers to move to chase those openings, could be distorting the labor market.

''While it is incumbent upon policymakers not to forget the painful lessons of the 1970s and 1980s, we are living under different circumstances today,'' Mr. Evans said. ''I think we have the opportunity to more patiently read -- and react to -- the incoming data. That is, I think we can undertake more moderate monetary policy adjustments today than often was the case in the past.''

White House officials side firmly with the ''not overheating'' camp, arguing that Mr. Trump's mix of deregulation and tax cuts will increase investment and productivity in the economy, yielding faster growth while suppressing inflation.

''Our view is that most of our policies are going to create growth for the economy on the supply side, and that when the supply-side growth comes, then that's actually good for inflation, because if you increase supply, it puts downward pressure on prices,'' Kevin Hassett, the chairman of the White House Council of Economic Advisers, told reporters in February. ''And so we think that we can get the 3 percent economic growth that we forecast without a big pickup in inflation.''

The group of Fed officials worried about overheating point to several economic data points. The unemployment rate is 4.1 percent, near the lowest level recorded in a half-century, and it is below what Fed officials judge to be the sustainable long-term unemployment rate. Forecasters expect the recent injection of fiscal stimulus, from tax cuts and increased federal spending, to drive that rate down even further.

Inflation expectations are rising in **financial markets**, as measured, in part, by how much the government must pay investors to borrow money. Stock values remain high by historical standards, even with the recent dips in the market.

In similar periods in American economic history, ''there have been heightened risks either of inflation, in earlier decades, or of financial imbalances more recently,'' Lael Brainard, a Fed governor, said in a speech last week.

Many Fed officials worry that by raising rates too slowly, they risk having to move quickly in the event of an inflation spike or financial turmoil. Such abrupt action, they fear, could snuff growth and plunge the economy into a recession. Other officials, such as James Bullard of the Federal Reserve Bank of St. Louis and Neel Kashkari of the Federal Reserve Bank of Minneapolis, say officials should keep to the current course of rate increases, particularly because inflation remains below the Fed's target of 2 percent annual growth.

Polling and interviews suggest that American workers are worried about rising prices but far more concerned about job and wage growth. In polling in March for The New York Times by the research firm SurveyMonkey, 62 percent of respondents said consumer prices had risen faster than wages over the preceding year. Only 4 percent said inflation was the largest economic problem facing the country. Twenty-five percent named the cost of health care as the largest economic problem, 21 percent said the gap between the rich and everyone else, and 10 percent named stagnant wages and benefits.

Constance Bevitt, who does freelance work in Montgomery County, Md., said Fed officials were wrong to be worried about overheating.

''When they talk about full employment, that ignores almost all of the people who have dropped out of the economy entirely,'' she said. ''I think that they are examining the problem with assumptions from a different economic era. And they don't know how to assess where we are now.''

Ms. Jacks said she was struggling with a low salary after closing her locally sourced food company and returning to restaurant work. She also said she had noticed vacancies in the industry going unfilled, because restaurants could not find workers. Their owners, she said, cannot afford to raise wages in order to attract talent.

A retail corner in the Flatiron district of Manhattan last week. With an uptick in inflation and forecasts that economic growth will accelerate later this year, some Federal Reserve officials are calling for faster increases in interest rates to reduce the risk of overheating. (PHOTOGRAPH BY KARSTEN MORAN FOR THE NEW YORK TIMES); Charles Evans, president of the Chicago Fed, left, warned that though low unemployment spurred double-digit inflation in the 1970s and '80s, the same would not necessarily occur today. (PHOTOGRAPH BY DANIEL ACKER/BLOOMBERG)

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
The U.S.-China Policy Divergence Is—Again—Key to Markets; The People's Bank of China and the Federal Reserve are moving in opposite directions.

By Nathaniel Taplin
455 words
27 April 2018
12:11 AM
The Wall Street Journal Online
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English

In late 2015, a lifetime ago in **financial markets**, investors were in a sticky situation—the central banks of the world's two biggest economies were moving in opposite directions.

Expectations of higher U.S. rates were sucking cash out of China, already struggling with a debt-deflation trap. Many feared the long-awaited China crisis had arrived. Instead, the Federal Reserve stood pat after just one rate rise —giving China a year's reprieve to patch up leaky capital controls and stimulate nominal growth before the Fed resumed tightening.

Now, the Fed and the People's Bank of China are again parting ways: Chinese officials are discussing supporting growth, as U.S. core inflation is rising and Treasury yields are testing 3%. How tricky will things get? That depends on whether China has carried out enough supply-side reforms—and how good its reinforced capital controls really are.

If China has cut enough industrial overcapacity and housing inventory in the past 18 months—the main drags on inflation—then nominal growth shouldn't slow too much. Indebted industrial firms and property developers won't need another big stimulus to keep output prices high. Chinese rates won't have to fall too far, commodities will probably trend sideways, and further Fed rate rises ought not trigger destabilizing capital flight from China.

Otherwise, particularly if trade tensions also get out of control, another dollop of stimulus is likely. Commodities would probably first sell off on growth worries before rebounding as stimulus feeds through.

Heavy capital outflows could also re-emerge if China's capital controls prove porous. The Fed might find it difficult to push rates higher without bidding up the dollar, particularly if other emerging markets dependent on China felt pressure to support growth.

The current Sino-U.S. policy divergence reflects their contrasting economic positions. China's producer price inflation hit a 17-month low in March, pushing up real borrowing rates for industry—where China's bad debt problem is concentrated. A regulatory squeeze has pushed up banks' funding costs, making profitable lending more difficult. To help out, the PBOC in mid-April cut banks' required reserve ratios by a larger than expected 100 basis points.

Sure, the dramatic fall in Chinese housing inventories since 2015 is one reason for optimism that inflation won't dip too far.

But investors mesmerized by tech sell-offs and trade wars should monitor Chinese rates and producer prices. If the PBOC is forced to diverge too far from the Fed, major turbulence in commodity and foreign exchange markets could be closer than many expect.

Document WSJO000020180427ee4r000p1

THE WALL STREET JOURNAL.

Markets

Aluminum Climbs on Report Deripaska Wants to Keep Control of Rusal; Fears that metal from the world's second-largest aluminum producer could no longer be used sparked a furious rally earlier this month

By Amrith Ramkumar and David Hodari
727 words
26 April 2018
03:01 PM
The Wall Street Journal Online
WSJO
English

Aluminum prices swung wildly Thursday, extending their bout of **volatility** after Bloomberg reported Russian metals tycoon Oleg Deripaska hopes to keep control of United Co. Rusal even after the U.S. hinted it might relieve sanctions against the company if Mr. Deripaska sells his stake.

Aluminum for delivery in three months climbed as much as 3.2% on the news and closed up 1.3% at $2,275.00 a metric ton. Shares of aluminum producer Alcoa Corp. added 2%.

Earlier in the session, aluminum prices fell as much as 2.2%, bringing this week's losses to more than 10% as traders anticipated a supply disruption from U.S. sanctions could be avoided if Mr. Deripaska sold his stake . The U.S. modified its stance on Monday and extended the deadline for investors dealing with Rusal to continue doing business until late October.

Fears that metal from the world's second-largest aluminum producer could no longer be used sparked a furious rally earlier this month that pushed prices to their highest level in 6½ years.

After some of those worries eased earlier this week, analysts say Thursday's report injects more supply anxiety into an already **volatile** market.

In a statement issued late Thursday, Rusal said it denied the veracity of Bloomberg's story, without stating what Mr. Deripaska's plans for the company are.

"The invention of these 'sources' creates an erroneous impression of events, at a time when the company, which has found itself in a difficult situation, has concentrated all its forces on finding optimal solutions," the company said in a statement.

"I think this puts a healthy dose of uncertainty into an already very, very nervous market," said Tai Wong, head of metals trading at BMO Capital Markets .

Mr. Wong said he thinks Mr. Deripaska might be trying to put pressure on the U.S. or potential buyers to ease the sanctions or get a better deal by driving up aluminum prices. European companies asked the U.S. to soften its original sanctions announced April 6, noting that Rusal metal is critical to global supply chains and the price surge was fueling a sharp rise in manufacturing costs.

Still, some analysts think Mr. Deripaska eventually will have to give up control of the company given opposition from the U.S. and European companies, an outcome that along with the extension to October could calm traders.

"This is a knee-jerk reaction," said Edward Meir, a strategist at broker-dealer INTL FCStone . "I certainly wouldn't buy it based on what this guy hopes would happen."

Analysts were also digesting a Wall Street Journal report that Germany's government expects the U.S. to make good on its threat to introduce higher tariffs on steel and aluminum from the European Union on May 1.

Some analysts say the market impact could be muted since metals trading between the two sides is relatively small, but note that outcome could stoke longstanding worries that protectionist trade could slow global economic growth and commodity demand, hurting base metals.

"I don't think [it will immediately affect prices] because the trade of those materials between the U.S. and the EU is small, but it will have further-reaching implications for the whole trade dispute between the U.S. and the rest of the world," said Carsten Fritsch, an analyst at Commerzbank.

Copper prices fell Thursday, with front-month futures dropping 0.6% to bring their year-to-date losses to 5.1% amid worries about oversupply and slowing demand.

Among precious metals, front-month gold for April delivery edged down 0.4% to $1,316.30 a troy ounce—its lowest close since March 20. Worries about higher interest rates with bond yields climbing and a stronger dollar have pressured prices recently. Gold struggles to compete with Treasurys as borrowing costs rise and becomes more expensive for overseas buyers when the U.S. currency strengthens.

Anatoly Kurmanaev contributed to this article.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
U.S. Stocks Boosted by Tech Shares; Nasdaq breaks losing streak as technology sector rallies on strong earnings reports

By Mike Bird and Gunjan Banerji
677 words
26 April 2018
04:46 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

Shares of Wells Fargo & Co. fell 1.3% on Thursday. An earlier version of this article incorrectly said the shares fell 0.7%. (April 27)

The **Nasdaq Composite** broke a five-session losing streak Thursday, powered higher by a strong round of corporate earnings reports in the technology sector.

Solid quarterly results have helped overshadow concerns that the recent selloff in bond markets will trickle down into equities, analysts said, lifting all three major U.S. stock indexes on the day.

"The earnings season in general…it's really been outstanding," said Jacob Johnston, vice president at Advisors Asset Management.

Although a jump in **10**-**year Treasury** yields has spurred swings in the **stock market** in recent months, Mr. Johnston said he still thinks yields are far from being a real threat to strong equity returns.

The tech-heavy **Nasdaq Composite** jumped 114.94, or 1.6%, to 7118.68. The **S&P 500** added 27.54, or 1%, to 2666.94. The **Dow Jones Industrial Average** rose 238.51 points, or 1%, to 24322.34.

Technology stocks led the way after Facebook reported a 63% increase in earnings and Chief Operating Officer Sheryl Sandberg said the company hadn't seen a "meaningful trend" of advertisers leaving the social-media platform following its data-privacy scandal. Shares jumped $14.47, or 9.1%, to 174.16, their best day in more than two years.

Advanced Micro Devices, meanwhile, surged 1.33, or 14%, to 11.04 after the chip maker reported higher-than-expected quarterly profits.

The jump in those two stocks helped pull the **S&P 500**'s technology sector up 2.3% after a six-session string of losses.

Shares of Chipotle Mexican Grill were the biggest gainers in the **S&P 500**, rising 82.98, or 24%, to 422.50 after the burrito maker posted stronger-than-expected profit and sales for the first quarter, its largest percent increase ever.

Elsewhere, shares of Wells Fargo slipped 1.3% after The Wall Street Journal reported that the Labor Department is examining whether it has been pushing people in low-cost corporate 401(k) plans to roll holdings into more expensive individual retirement accounts at the bank.

The yield on the U.S. **10**-**year Treasury** note fell to 2.990% from 3.026% on Wednesday, after rising for six straight sessions. The yield closed above 3% this week for the first time since 2013.

Some analysts said the prospect of higher yields will continue to sway markets. Higher yields can make it more attractive for investors to leave assets like stocks and put cash toward traditionally safer assets like government bonds.

There is a "tug of war between bond yields and risky assets," said Bruno Braizinha, senior global asset allocation and rates strategist at Société Générale.

In Europe, the Stoxx Europe 600 edged up 0.9%. The European Central Bank's governing council, as expected, left interest rates and its bond-buying program unchanged after a meeting Thursday.

"The [ECB] governing council may want to wait for more economic data and the June economic projections before taking a clearer stance on the direction of monetary policy going forward," analysts at ABN Amro said in a research note Thursday.

Stocks in Asia were mixed, with Japan's Nikkei 225 closing up 0.5%, while indexes in China sold off. China's Shenzhen A-Share Index ended the day down 2.2%, and Hong Kong's Hang Seng fell 1.1%.

The fall follows a Journal report that the Justice Department is investigating whether Huawei Technologiesviolated U.S. sanctions related to Iran. Huawei pulled a bond issue planned for Thursday after the news broke.

James Glynn contributed to this article.

Write to Mike Bird at Mike.Bird@wsj.com and Gunjan Banerji at Gunjan.Banerji@wsj.com

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Economy

Business Investment Stalls in the First Months of 2018; Transportation equipment, which clocked gains in four out of the past five months, drove March's durable-goods increase

By Sharon Nunn
551 words
26 April 2018
10:55 AM
WSJ Pro Central Banking
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English

WASHINGTON—Demand for long-lasting U.S. factory goods rose in March due to increased aircraft orders, but an underlying proxy for business investment fell for the second time in three months.

Orders for durable goods—manufactured products intended to last at least three years, such as stoves and industrial robots—increased a seasonally adjusted 2.6% in March from the prior month, the Commerce Department said Thursday. Meanwhile, a business-investment gauge, new orders for nondefense capital goods excluding aircraft, declined 0.1% in March from the prior month.

Taken together the Commerce Department's latest report provides a mixed picture of U.S. business investment in the wake of late-2017 tax cuts meant to encourage U.S. firms to make capital expenditures.

"I was especially disappointed by the core capital goods performance," Stephen Stanley, chief economist at Amherst Pierpont Securities said in a note to clients. "This gauge has been essentially flat on balance since October. I still believe that a burst of investment activity is coming, but I am surprised that we have yet to see much momentum in the orders measure."

Many economists expect overall U.S. economic output will grow at a faster rate this year, bolstered by the recent tax-law changes. Business investment increased robustly in 2017, but has slowed in recent months. For the first quarter overall, the gauge rose 6.5% compared with the same period last year. That is below the fourth quarter's growth of 8.7% from the previous year.

Durable goods data tends to be choppy, and recent manufacturing surveys still point to manufacturers' intention to make business investments.

"It's difficult to know how much is [data] **volatility** or how much is an actual loss of momentum," Jim O'Sullivan, chief U.S. economist at High Frequency Economics said in an interview.

Transportation equipment, which clocked gains in four out of the past five months, drove March's overall durable-goods increase. Within this category, nondefense aircraft and parts orders rose 44.5% on the month, suggesting a strong first quarter of aircraft orders at manufacturer Boeing Co. helped drive the headline figure. When excluding the transportation category, durable-goods orders were virtually unchanged in March from the previous month.

"In short, the details were not as strong as the headline, with much of the strength from civilian aircraft," Mr. O'Sullivan noted.

Excluding defense goods, another **volatile** category, orders rose 2.8% last month.

Overall orders were also up four out of the last five months and saw a larger-than-expected monthly gain in February too, when orders rose 3.5%. In the longer term, orders for long-lasting factory goods have marched higher since the middle of 2016. Orders rose 8.7% in the first quarter of 2018 compared with last year.

Thursday's report also showed a 1.7% decline in machinery orders in the past month, the largest monthly drop since April 2016. Meanwhile, orders for communications equipment rose 8.2%, the largest gain since the beginning of 2016.

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

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THE WALL STREET JOURNAL.

Markets
Oil Holds Near Three-Year High as Doubts on Iran Deal Linger; Sanctions on oil producer Iran could be reinstated if the U.S. withdraws

By Sarah McFarlane and Alison Sider
553 words
26 April 2018
03:58 PM
The Wall Street Journal Online
WSJO
English

Oil prices rose Thursday, with Brent hitting a fresh three year high on increased geopolitical tensions, with the U.S. expected to withdraw from the Iran nuclear deal in the coming weeks.

U.S. crude futures rose 14 cents, or 0.21%, to $68.19 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, rose 74 cents, or 1%, to $74.74 a barrel on ICE Futures Europe—the highest since November, 2014.

A growing list of risks, including the prospect of the U.S. scrapping the Iran nuclear deal, Venezuela's oil output collapsing due to its economic crisis, the prospect of coordinated producer cuts being extended into 2019 and Yemeni rebels' attacks on Saudi Arabian oil infrastructure have helped propel **oil prices** in recent weeks.

"We've seen around a $10 rise since the start of April, that's almost entirely geopolitical uncertainty," said Tom Pugh, commodities economist at consultancy Capital Economics.

The rally has slowed some this week, with the U.S. benchmark lagging behind global prices—something analysts attributed to supplies building up at the Cushing, Okla. storage hub that serves as the delivery point for the Nymex futures contract. Data from the U.S. Energy Information Administration Wednesday showed that U.S. petroleum inventories rose last week and production surged to another record high.

"Cushing inventories will likely continue to be building into the next week. That provided a bit of a top heavy feel to today's trade," said Tony Headrick, an analyst at CHS Hedging.

Uncertainty over the fate of the international nuclear agreement with Iran has also driven **oil prices** this week. The U.S. is due to review its position on the agreement on May 12 and a withdrawal from the deal could see sanctions reinstated -- a move which potentially reduces Iranian oil exports.

Donald Trump met with France's president earlier this week, after which Emmanuel Macron said his "bet" was that the U.S. would withdraw from the 2015 deal, which eased sanctions in return for curbs on Iran's nuclear program.

"Macron expects Trump to revoke the nuclear deal, leading then to a period of tension," said Commerzbank in a note.

But even if the U.S. does exit the deal, analysts at Schneider Electric said it remains to be seen whether the U.S. would compel other countries to abide by sanction measures.

"That will ultimately be the key test for actual market impact, given that the U.S. is not a direct importer of Iranian oil," analysts at Schneider Electric said.

Elsewhere in the Middle East, Yemeni rebels have stepped up attacks on Saudi Arabian oil infrastructure, adding to upward pressure on crude prices. The most recent attack was Monday, when missiles were fired on a Saudi oil port, although Saudi forces said that they were intercepted.

Gasoline futures rose 2.26 cents, or 1.08%, to $2.1123 a gallon. Diesel futures rose 2.4 cents, or 1.12%, to $2.16 a gallon.

Write to Sarah McFarlane at sarah.mcfarlane@wsj.com and Alison Sider at alison.sider@wsj.com

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THE WALL STREET JOURNAL.

Business

Is Big Oil Back? Investors Aren't So Sure; Anglo-Dutch oil giant Shell posts biggest quarterly profit since 2013

By Sarah Kent
742 words
26 April 2018
06:44 AM
The Wall Street Journal Online
WSJO
English

LONDON—Rising crude prices are supercharging earnings at the world's major oil firms, but investors may need more convincing that Big Oil is back.

Sharply climbing **oil prices**—and years of cost cutting when they were low—are rewarding some of the world's largest oil producers with profits not seen since crude was trading around $100 a barrel. Despite that, investors remain wary. As the industry emerges from a long and painful few years of low prices, shareholders are pressing executives to keep spending in check and funnel free cash to shareholders.

Royal Dutch Shell PLC reported Thursday its highest quarterly profit since 2013, when prices were peaking just ahead of a steep downdraft to about $25 a barrel. Today, international crude is back comfortably above $70 a barrel, and oil companies have enjoyed three months of strong pricing for their crude.

The Anglo-Dutch oil giant said its first-quarter profit on a current cost-of-supplies basis—a number similar to the net income that U.S. oil companies report—rose 69% from a year earlier to $5.7 billion. The company delivered more than $5 billion in free cash flow—a newly important metric for investors who grew concerned about big oil companies' ability to finance their generous dividends during recent years of lower **oil prices**.

Underscoring the still-skittish sentiment, though, Shell shares were down 2.5% in London morning trading after operating cash flow came in below analysts' expectations.

Shell is the biggest oil company yet to report results for the quarter—a period when the industry will be under a microscope. After years of retrenchment, investors are expecting companies to deliver them billions of dollars in cash, buoyed by rising **oil prices** and stringent cost cuts.

Pressure remains on firms to keep spending constrained. Executives have signaled that despite the heady **oil prices**, they will keep costs in check and spin out cash to investors, instead of betting the gains on new expensive but risky oil-field investments.

"They just need to stick to their knitting," said Rohan Murphy, energy analyst at Allianz Global Investors, a Shell investor. He said the industry's leadership needs to "show that they're not going to start spending willy-nilly again."

France's Total SA also reported first-quarter earnings Thursday, beating expectations for profit after stripping out one-off items. The company's production rose to record levels.

But net profit slipped 7% compared with a year earlier, suffering from a tough comparison a year earlier, when it booked a big gain from an asset sale. Higher **oil prices** also acted as a double-edged sword for Total, adding to costs and crimping margins at its refining operations.

Shares in Norway's Statoil ASA fell nearly 3% Wednesday after its profit numbers missed expectations. High crude prices boosted earnings and cash flow at the company, too, but results suffered from higher depreciation expenses in Norway and weaker earnings from the company's trading and refining unit.

Exxon Mobil Corp. and Chevron Corp. are set to disclose their first-quarter results Friday. BP PLC reports next week. All three are expected to generate higher profits and lots of cash.

Total on Thursday raised its first-quarter interim dividend 3.2%, in line with plans announced in February. It has targeted increasing shareholder payouts 10% over the next three years.

Shell said it is on track to buy back at least $25 billion worth of shares by 2020, but gave no indication when the previously flagged program would begin. Some investors were hoping for more clarity on those plans.

Statoil has also held up the prospect of a buyback, but didn't provide new details about timing this week.

"We still see emerging scope for buybacks but it would depend on the macro environment," Statoil Chief Executive Eldar Saetre said in an interview. "We see a lot of **volatility**."

Write to Sarah Kent at sarah.kent@wsj.com

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WSJ PRO VENTURE CAPITAL

Pro Private Markets
Sequoia Capital's Growth Fund Tops $6 Billion in Record Haul; Fundraising drive is poised to be the largest for a U.S. venture firm—and still could reach $8 billion

By Yuliya Chernova
539 words
26 April 2018
07:30 AM
WSJ Pro Venture Capital
RSTPROVC
English

Sequoia Capital is making fast progress in its bid to raise what will be the largest U.S.-based venture fund.

Investors have committed roughly $6 billion to the venture-capital firm's new global growth fund, according to people familiar with the situation.

Most of the capital has been raised from new investors and once the firm completes capital commitments from them, it will turn to existing ones, one of the people familiar with the situation said. Sequoia is expected to accept as much as $2 billion more for the new Sequoia Global Growth Fund III from its existing investors, the person said.

A spokeswoman for Sequoia Capital declined to comment.

Sequoia's new fund eclipses American VC firm New Enterprise Associates' feat last year of collecting $3.3 billion for its latest venture fund. Japan's SoftBank Vision Fund has more capital to invest at nearly $100 billion, but it isn't limited to venture-capital deals.

The number of billion-dollar U.S. venture funds is on the rise, as investors back technology companies that delay going public and raise more money to bring new products to market. Many entrepreneurs prefer to keep their businesses private and not deal with quarterly reports, investor scrutiny, **stock-price volatility** and other complications and costs of going public. Private investors also benefit from riding the company's next stage of growth.

Some 41 U.S. companies raised rounds of $100 million or more in the first quarter of the year, according to research firm PitchBook Data, contributing to a jump in late-stage deal volume. The venture market is also being spurred by the fast and furious pace of deal-making by SoftBank's Vision Fund.

Top venture firms also are capitalizing on the increasing interest from sovereign-wealth funds and other limited partners that back large funds. The minimum investment for Sequoia's new investors was $250 million, one of the people said.

With Sequoia Global Growth Fund III, the firm aims to buck the hot venture market trend of aggressive management fees set by managers of some megafunds. Rather than charging 2% of the fund's total capital commitment, Sequoia has told investors the management fee will be 1% based only on the smaller stages of "called capital" drawn from the investors, one of the people said.

The Menlo Park, Calif.-based firm, founded in 1972, has backed iconic Silicon Valley companies including Apple, Cisco Systems, PayPal and YouTube. Its exits in the past few years include the sale of WhatsApp messenger app to Facebook Inc., and the initial public offerings of Dropbox Inc. and Okta Inc. Its portfolio companies include Airbnb and Stripe, which remain in private hands.

Sequoia Capital manages a multitude of funds, including those dedicated to early-stage and growth deals in various countries. In one of the firm's growth deals, it led a multi-hundred-million investment in grocery delivery service Instacart last year.

Write to Yuliya Chernova at yuliya.chernova@wsj.com

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WSJ PRO CENTRAL BANKING

Economy

U.S. Jobless Claims Drop to Lowest Level Since 1969; Initial jobless claims fell 24,000 to a seasonally adjusted 209,000 in latest week

By Josh Mitchell and Sharon Nunn
317 words
26 April 2018
08:35 AM
WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—The number of Americans applying for unemployment benefits fell to the lowest level since 1969, the latest sign the labor market is firming after years of steady job growth.

Initial jobless claims, a measure of layoffs across the U.S., fell 24,000 to a seasonally adjusted 209,000 in the week through April 21, the Labor Department said Thursday. That was the lowest level since Dec. 6, 1969, early in the Nixon administration.

Economists surveyed by The Wall Street Journal expected 228,000 claims.

The government's method for estimating claims is imprecise, and figures are often adjusted as more data come in. A Labor Department economist said he knew of no factors, such as holidays, that may have obscured the latest estimate.

The broader trend suggests claims are indeed falling. The four-week moving average of claims, which reduces **volatility** in the data, fell 2,250 last week to 229,250.

Falling layoffs are one of several signs the labor market is at or approaching what economists consider "full employment." The unemployment rate has stood at 4.1% since October, the lowest level since late 2000. The economy has added an average 202,000 jobs a month this year, up from 182,000 a month last year.

The tightening market increases the odds the Federal Reserve will boost interest rates additionally this year.

Thursday's report showed continuing unemployment benefit claims—those drawn by workers for more than a week—fell 29,000 to about 1.84 million in the week through April 14. Continuing claims are reported with a one-week lag.

Write to Josh Mitchell at joshua.mitchell@wsj.com and Sharon Nunn at sharon.nunn@wsj.com

Document RSTPROCB20180426ee4q000gp

THE WALL STREET JOURNAL.
U.S. EDITION

Consumer-Staples Stocks Are Stumbling --- Sector is this year's worst performer, hurt by rising costs and online competitors

By Akane Otani and Michael Wursthorn
905 words
26 April 2018
The Wall Street Journal
J
B12
English

Investors once attracted to the steady payouts of companies selling staples like breakfast cereal, toothpaste and razors are shopping elsewhere.

A series of disappointing earnings reports from industry giants such as Philip Morris International Inc., Procter & Gamble Co. and Kimberly-Clark Corp. have sent consumer-goods shares tumbling in recent days -- a sign that many investors remain skeptical of the companies' ability to cope with rising costs, as well as to fend off online competitors such as Amazon.com Inc.

The sector's underperformance comes as a surprise to analysts who had expected signs of a pickup in inflation to drive investors into shares of businesses that sell household goods and basic necessities, products that consumers would typically be willing to buy even when rising prices crimp their spending elsewhere. Instead, companies competing with discount retailers are struggling to raise prices for their marquee products -- something recent earnings reports show has become a growing headwind for their businesses.

Even hefty dividend payouts haven't been enough to lure investors into shares of consumer-staples companies, which have shed 12% in the **S&P 500** this year and posted the biggest losses of the broad index's 11 sectors. The **S&P 500** has fallen 1.3%.

The industry's pricing issues have many money managers wondering whether the biggest makers of household staples have already seen their best days.

"What's happening is that these firms are struggling to pass on rising costs to consumers," said Shawn Cruz, manager of trader strategy at TD Ameritrade. "Big brands have counted on their brand name drawing customers in, and that's not necessarily happening anymore."

One of the worst days of the year for the consumer-staples sector came last Thursday, when tobacco giant Philip Morris said quarterly shipments fell more than expected as consumers world-wide continued to turn away from cigarettes. Philip Morris shares fell 16%, posting their biggest one-day percentage decline since going public in 2008, according to FactSet. The stock is off 23% for the year.

Many companies serving up consumer staples have suffered more broadly, though, from rising competition from online retail giants, which have put pressure on firms to keep product prices low.

Shares of Procter & Gamble, the maker of Tide detergent and Pampers diapers, have shed 21% this year, making them one of the worst performers in the sector. The company has cut prices across its businesses, including its Gillette razors, to try to stave off competition from other low-cost rivals such as Dollar Shave Club -- something that crimped its sales growth in the most-recent quarter.

Another company that has fallen behind: General Mills Inc., whose shares have tumbled 26% this year as it has grappled with what Chief Executive Jeff Harmening said was an "unprecedented rise in logistics costs."

That has forced it to lower its earnings expectations for the year, with company projections now suggesting per-share earnings for the fiscal year ending in May will rise by just 1%, compared with the 4% increase previously estimated. Although freight and commodities costs have increased, companies such as General Mills, Campbell Soup Co., Kellogg Co. and Conagra Brands Inc. have struggled to protect profits by raising prices for products, citing steep competition from discount retailers.

Even companies that have ventured into e-commerce to try to compete more directly with the likes of Amazon and Walmart Inc. have struggled. Kroger Co. shares fell 12% on March 8, its biggest one-day percentage slide since June, after the company said its investments in online operations cut into fourth-quarter profit.

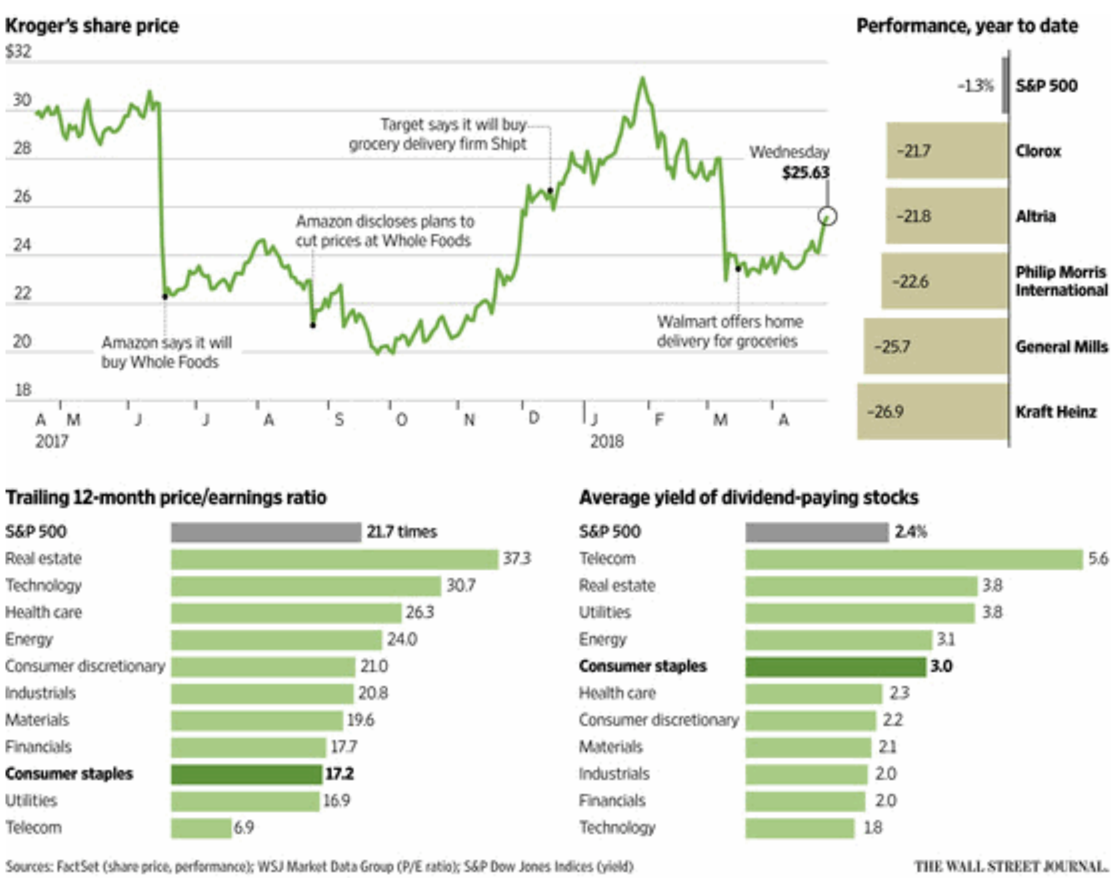
Some consumer-products companies are taking more drastic steps to slash costs to protect thinning profit margins. Kimberly-Clark, which makes Huggies diapers and Kleenex tissues, kicked off a huge restructuring of its operations earlier this year that is expected to deliver annual pretax savings of as much as $550 million by the end of 2021. But the overhaul is projected to be pricey, with total costs reaching as much as $1.9 billion before then.

Those charges weighed on Kimberly-Clark's first-quarter earnings, which were reported Monday, but the company boosted its sales forecast for the year. The shares fell 1.5% Monday. CEO Thomas Falk said the cost cuts are necessary, along with the development of new products and some stronger pricing, to put the company, and the industry at large, on firmer footing.

Some analysts believe a wave of stock **volatility** that spurs demand for haven assets could prompt a rebound in consumer-staples shares, which many consider bondlike because of their dividend payments.

As of the end of March, 33 of 34 companies in the **S&P 500**'s consumer-staples sector had boosted dividend payouts to shareholders, according to data from S&P Dow Jones Indices, with the sector's average yield clocking in at 3%, above the 2.4% average for dividend-paying stocks across the entire **S&P 500**.

Still, sectors that investors tend to think of as safety plays -- telecommunications, real estate and utilities -- have all underperformed the **S&P 500** this year. Meanwhile, investors have added to their bets on technology companies that they believe will be able to deliver faster earnings growth.



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THE WALL STREET JOURNAL.
U.S. EDITION

Wall Street Reaps What Fear Sows

By Telis Demos
710 words
26 April 2018
The Wall Street Journal
J
B1
English

A surge on Wall Street stock-trading desks is being driven by manic investor moves in derivatives, as fund managers scramble to protect their gains from future **volatility**.

Following a leap in **stock-market volatility** this year, the biggest U.S. banks generated more revenue from stock trading than in any first quarter since the financial crisis, according to a Wall Street Journal analysis of bank regulatory filings.

It has been a long time coming. The business of trading is still far from its precrisis peak, when fewer trades were done electronically and overall fees charged by banks were higher. Now, more trades are done automatically, leaving razor-thin margins for traders. And while activity has had ups and downs, it has been muted in recent years due to low interest rates and sagging **volatility**.

This past quarter, however, **volatility** returned and derivatives such as **stock-index** futures and options picked up along with activity in exchange-traded funds, which also reside in banks' stock-trading, or equities, departments.

Overall, U.S. options trading enjoyed its busiest quarter in history, by one measure, according to research from consulting firm Tabb Group and data provider Hanweck. Nearly 1.4 billion options contracts were cleared in the first quarter, up 33% from a year ago, the firms said.

"Some days, it was like nothing I've ever seen before," said Peter Maragos, chief executive of Dash Financial Technologies, an options and equities electronic-trading technology provider.

Only a small portion of the revenue upswing came from the buying and selling of actual shares in companies, according to bank trading executives. Instead, the biggest gains came from clients such as mutual funds, hedge funds and pension portfolios trading stock derivatives, with some investors aiming to hedge positions and others speculating on more big swings.

If the **volatility** remains elevated and clients stay active, moving their money to take advantage of new opportunities, "you could see this revenue level for the next three quarters" at banks, said Guy Moszkowski, analyst at Autonomous Research.

But recent trends suggest that many fund managers won't necessarily be looking to put more money to work in the market if prices drop. In a **volatile** market, banks also face elevated risks that they could be caught on the wrong side of atrade. "Everyone in equities is now thinking about preparing and taking on more insurance," said Brad Bailey, research director at Celent, which advises financial firms on technology.

Derivatives contracts, which can tie to any instrument from stock indexes to interest rates, have a long and colorful history on Wall Street, generating lucrative paydays but also painful losses due in part to the ease with which they can be used with borrowed money.

The biggest banks, in particular, have seen swings in equities, including more than $1 billion in losses last year tied to the former chairman of South African retailer Steinhoff International Holdings NV.

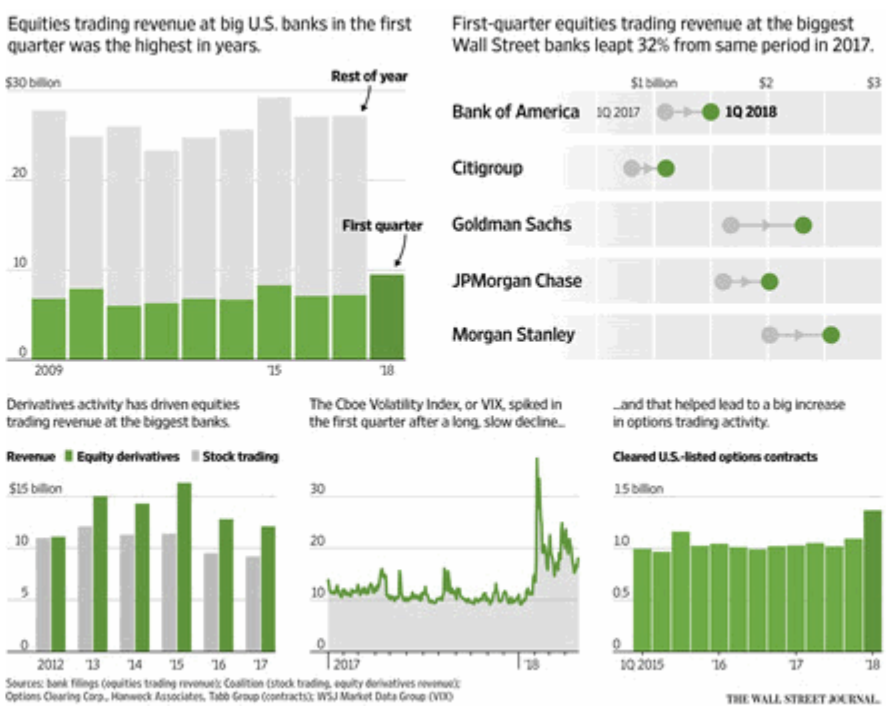
In the first quarter, equities trading revenue at the five biggest Wall Street banks -- Morgan Stanley, Goldman Sachs Group Inc., JPMorgan Chase & Co., Bank of America Corp. and Citigroup Inc. -- was $9.5 billion, the largest haul for those firms since at least 2009, according to the Journal analysis. The 32% jump from last year's first quarter was the biggest since 2011 and far greater than analysts anticipated. Switzerland's UBS Group AG, which is also a large U.S. equities trading firm, reported Monday a nearly 25% jump in first-quarter equities trading revenue, as measured in dollars, from a year earlier.

Equity derivatives drove the jump; revenue at some banks in that department rose by more than 50%, people familiar with the matter said. Meanwhile, actual stock trading, known as "cash trading" in Wall Street parlance, was generally up only a small amount from a year ago, the people said.

The results helped make up for a slight drop in performance among those banks' larger fixed-income, commodities and currencies desks.

Morgan Stanley Chief Financial Officer Jonathan Pruzan said equity-derivatives trading was the highlight of the quarter, in which the bank's equities revenue rose 27%.

Liz Hoffman contributed to this article.



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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Market Mixed Amid Worries That Best Days Are Behind It

By THE ASSOCIATED PRESS
1,031 words
26 April 2018
The New York Times
NYTF
Late Edition - Final
4
English

A late round of buying erased early losses on Wall Street, leaving major indexes mixed at the close of trading. Stocks got off to a weak start as investors worried that growing costs for raw materials along with rising interest rates would hold back profit growth for U.S. companies.

The **Dow Jonesindustrial average** fell as much as 201 points in the morning as technology and health care companies declined and defense contractors stumbled following first-quarter reports from Northrop Grumman and General Dynamics. U.S. bond yields rose again and set four-year highs while **oil prices**, already at three-year highs, continued to move higher.

Later in the day, energy companies got a boost after Exxon Mobil said it is raising its quarterly dividend. Retailers and industrial companies also rose. Smaller companies ended lower, and most stocks on the New York Stock Exchange fell.

Stocks had tumbled on Tuesday after companies including Caterpillar, 3M and Sherwin-Williams said they seeing higher costs. On Wednesday Goodyear Tire & Rubber said higher raw materials costs and weaker demand hurt its business in the first quarter. Its stock fell 5.1 percent to $25.51.

Invesco Chief Global Market Strategist Kristina Hooper said investors are starting to worry that the market's best days are behind it. She noted that wages are rising, as unemployment has been at multi-decade lows for the last few years. That means costs for companies are up. **Oil prices** have also jumped and investors are worried that new tariffs will also drive up costs and affect company earnings in the months to come.

"I wouldn't be surprised if earnings peaked by the end of this year, but certainly they haven't peaked yet," she said.

The **S&P 500 index** added 4.84 points, or 0.2 percent, to 2,639.40. Thanks to a big gain from Boeing, the **Dow Jonesindustrial average** snapped a five-day losing streak and rose 59.70 points, or 0.2 percent, at 24,083.83. The losing streak was its longest in more than a year. The **Nasdaq composite** dipped 3.61 points, or 0.1 percent, to 7,003.74. The Russell 2000 index of smaller-company stocks lost 2.81 points, or 0.2 percent, to 1,550.47.

Stocks slumped Tuesday after heavy machinery maker Caterpillar said it doesn't expect to top its first-quarter earnings for the rest of this year. Company profits fuel the **stock market**, and when they are rising, stocks tend to do well.

Investors expected strong profit growth this year thanks to the growing global economy and the corporate tax cut President Donald Trump signed at the end of 2017. That optimism helped send stocks to record highs in January. Now investors are worrying about whether that growth will show up.

Aerospace company Boeing topped Wall Street's estimates in the first quarter and raised its forecasts for the year. Its stock gained 4.2 percent to $342.86 and railroad operator Norfolk Southern climbed 8.1 percent to $145.96 after it, too, surpassed analyst projections.

Investors also monitored rising interest rates, which tend to slow down economic growth by making it more expensive for people and companies to borrow money. **Bond prices** fell again Wednesday, sending yields higher. The yield on the **10**-**year Treasury** note kept setting four-year highs as it rose to 3.03 percent from 3 percent.

Low interest rates have played an important role in the economic recovery of the last decade, and the yield on the 10-year note is a benchmark for many kinds of interest rates including mortgages. It's been climbing because investors expect higher economic growth and inflation. While investors expect the Federal Reserve to raise interest rates two more times this year, growing numbers of them now expect it to raise rates a third time after that.

Media conglomerate Comcast made a new offer to buy British broadcaster Sky, this time for $30 billion. Sky had accepted a $16.5 billion offer from 21st Century Fox. British regulators are investigating whether Fox's bid for Sky would give Rupert Murdoch and his family too much control over the country's news media.

Comcast also had a stronger first quarter than analysts expected, although it continued to lose cable subscribers. Its stock rose 2.7 percent to $34.26. Sky gained 3.9 percent in London. Fox rose 1.6 percent to $36.58, while Disney, which plans to buy most of Fox's overseas and entertainment assets, climbed 1.7 percent to $101.15.

Germany's DAX fell 1 percent and Britain's FTSE 100 and France's CAC 40 both lost 0.6 percent. Japan's benchmark Nikkei 225 shed 0.3 percent. Hong Kong's Hang Seng lost 1.1 percent and the South Korean Kospi lost 0.6 percent.

The dollar rose to 109.34 yen from 108.67 yen. The euro fell to $1.2175 from $1.2237.

Benchmark U.S. crude oil rose 0.5 percent to $68.05 a barrel in New York. It's up 33 percent over the last 12 months and trading at its highest price in more than three years. Brent crude, used to price international oils, rose 0.2 percent to $74 a barrel in London.

Wholesale gasoline fell 0.2 percent to $2.09 a gallon. Heating oil rose 0.4 percent to $2.14 a gallon. Natural gas rose 0.2 percent to $2.79 per 1,000 cubic feet.

Gold fell 0.7 percent to $1,323.70 an ounce and silver sank 1.1 percent to $16.52 an ounce.

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AP Markets Writer Marley Jay can be reached at http://twitter.com/MarleyJayAP . His work can be found at https://apnews.com/search/marley%20jay

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

CHART: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Wednesday. (Source: Reuters)

Document NYTF000020180426ee4q00050

THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Finance Watch

526 words
26 April 2018
The Wall Street Journal
J
B10
English

PAYPAL

Mobile Payments

Cited in Profit Gain

PayPal Holdings Inc. said on Wednesday that first-quarter profit rose by one-third thanks to increases in mobile payments and cross-border trade.

The San Jose, Calif.-based financial-technology firm reported a quarterly profit of $511 million, or 42 cents a share. That compares with a profit of $384 million, or 32 cents a share, a year earlier. On an adjusted basis, PayPal's per-share earnings rose to 57 cents, above the estimate of analysts polled by Thomson Reuters. Net revenue rose 24% to $3.69 billion, more than the $3.59 billion analysts were expecting.

Payment volume totaled $132 billion, up nearly one-third from the same period a year ago. Venmo, PayPal's mobile person-to-person payments service, handled more than $12 billion in volume during the first quarter.

-- Peter Rudegeair

NYSE

Glitch Stops Trading

In Big **Nasdaq** Stocks

The New York Stock Exchange temporarily suspended trading of shares of Amazon.com Inc., Google parent Alphabet Inc. and several other **Nasdaq**-listed stocks due to a technical glitch on its flagship exchange.

The issue, which the NYSE announced in a notice emailed to traders at 12:24 p.m. New York time on Wednesday, had no impact on the vast majority of investors. That is because stocks are traded on many other exchanges, and shares in Amazon and Alphabet could still be traded elsewhere even while being suspended at the NYSE.

Still, it was an embarrassment for the Big Board, which only began to allow trading of stocks and exchange-traded funds listed on other exchanges earlier this month. The April 9 change reversed a decades-old policy in which trading on the NYSE's flagship exchange was limited to stocks listed there.

"We suspended trading in these symbols to minimize impact to a very small subset of customers, and the issue will be resolved by tomorrow," a NYSE spokeswoman said Wednesday.

-- Alexander Osipovich

VISA INC.

Earnings Surge as

Spending Increases

Visa Inc.'s quarterly profit surged sixfold in the latest period, bolstered by increased consumer spending on credit and debit cards and the integration of its European business.

Visa, the largest U.S. card network by such measures as cards in circulation and number of transactions, reported payments volume of nearly $2 trillion in the quarter, up 15% from a year earlier. Total transactions increased 10% from a year prior.

Visa's numbers were aided by strong credit-card purchase volume at several large banks during the quarter, including JPMorgan Chase & Co. and Wells Fargo & Co., which issue many cards that run on Visa's network.

In addition, Visa's finance chief Vasant Prabhu on the earnings call cited strong spending growth in markets abroad, in particular in travel. Payments occurring in the U.S. with cards from consumers who reside in other countries increased by the largest amount since 2014.

Overall, second-quarter profit surged to $2.61 billion, or $1.11 a share, from $430 million, or 18 cents a Class A share.

-- Maria Armental and AnnaMaria Andriotis

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THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Crypto Exchange Gets Nasdaq Help

By Alexander Osipovich
431 words
26 April 2018
The Wall Street Journal
J
B10
English

Gemini, the bitcoin exchange founded by Cameron and Tyler Winklevoss, has teamed up with Nasdaq Inc. to beef up its defenses against market manipulation -- the latest sign that the cryptocurrency industry is trying to get past its Wild West days.

The deal comes as regulators have stepped up scrutiny of digital-currency exchanges in recent months. Securities and Exchange Commission officials have warned of potential fraud and manipulation on the largely unregulated trading venues.

Under the agreement, Gemini will use Nasdaq's surveillance software, called Smarts, to monitor its markets for potentially abusive trading practices. The two companies announced the agreement on Wednesday. Financial terms weren't disclosed.

"We're doing this because we believe in the importance of creating a rules-based marketplace," Cameron Winklevoss, president and co-founder of Gemini, said in an interview. "We believe this is where things are headed."

Smarts is part of Nasdaq's market-technology business, in which the New York-based exchange group sells software to other market operators.

The surveillance technology is used by equities and derivatives exchanges around the world, including Intercontinental Exchange Inc., Hong Kong Exchanges & Clearing Ltd. and the Nigerian Stock Exchange.

Nasdaq's technology monitors real-time market activity and raises alerts if it detects unusual trading patterns. It is then up to humans to investigate the event and determine whether the traders behind it broke any rules.

Nasdaq is in "active discussions" with a number of other cryptocurrency firms about Smarts, according to Chief Executive Adena Friedman. "The crypto space is a nice growth area," she said in an interview Wednesday.

At Gemini, Smarts will help monitor trading of bitcoin and Ethereum, the second-largest cryptocurrency, and it will surveil the auctions that Gemini holds at 4 p.m. ET to determine a daily benchmark price for bitcoin, the companies said.

Gemini's auction price is used to underpin bitcoin futures offered by Cboe Global Markets Inc., which started trading in December.

Some traders have voiced concerns that bitcoin futures could be manipulated through heavy buying or selling in the Gemini auctions.

Cboe and Gemini say they have a variety of measures in place to combat any attempts at manipulation.

Last week, Gemini was among 13 cryptocurrency exchanges to receive a letter from New York Attorney General Eric Schneiderman demanding that they answer a list of questions about their practices, including what safeguards the exchanges had in place against attempted manipulation.

Gemini pledged to cooperate with Mr. Schneiderman's inquiry.

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THE WALL STREET JOURNAL.

CT-Markets
比特幣交易所Gemini將與納斯達克聯手打擊市場操縱行為

Alexander Osipovich
164 words
25 April 2018
09:05 PM
華爾街日報中文版 (繁體)
WSJCT
Chinese - Traditional

由Cameron Winklevoss和Tyler Winklevoss創立的比特幣交易所Gemini已經與納斯達克(Nasdaq Inc., NDAQ)合作，將加大打擊市場操縱行為的力度，這是加密貨幣行業正力圖擺脫無監管狀態的最新跡象。

當前正值監管機構在最近幾個月加強對数字貨幣交易所監管力度之際。針對基本上沒有監管的数字貨幣交易所，美國證券交易委員會已對潛在的欺詐和操縱行為發出警告。

Document WSJCT00020180426ee4q000rt

THE WALL STREET JOURNAL.

CN-Markets
比特幣交易所Gemini將與納斯達克聯手打擊市場操縱行為

Alexander Osipovich
164 words
25 April 2018
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Document WSJCT00020180426ee4q000ul

THE WALL STREET JOURNAL.

World
The 10-Point. A personal, guided tour to the best scoops and stories every day in The Wall Street Journal, from Editor in Chief Gerard Baker.

By Gerard Baker
1,152 words
25 April 2018
07:28 AM
The Wall Street Journal Online
WSJO
English

Good morning,

Spooked

Wall Street is gearing up for what could be another **volatile** day. **Financial markets** plunged Tuesday amid renewed doubts about whether the **stock market**'s nine-year rally is sustainable. The yield on the **10-year Treasury** note hit 3% for the first time since 2014 in a vote of confidence for the economic expansion, but warnings from large companies such as Caterpillar that profits were peaking helped send the Dow industrials tumbling 424.56 points, leaving it 9.7% below its Jan. 26 record close. Investors were focused on the **10-year Treasury** yield topping 3%—it was part of why stocks fell sharply. But the more important development centers on what the whole of the Treasury market has been doing, and it is hardly **bearish** for stocks, the Journal's Justin Lahart writes .

Deal Interloper

Comcast is pursuing transformative deals as it faces pressures in cable television. On Wednesday, it made official a $31 billion bid to buy European pay-TV operator Sky, topping an existing offer from 21st Century Fox , which already owns a 39% stake in Sky . Separately, the cable giant is weighing whether to play interloper on the pending Walt Disney acquisition of 21st Century Fox 's entertainment assets. Comcast is gaming out the possibility of making a public case to the company's shareholders that they should reject the Disney deal, which is expected to come to a vote this summer, and opt for a Comcast tie-up instead. Despite continuing cable TV subscriber losses, Comcast reported strong earnings growth in the first quarter.

The Travel Battle

The Supreme Court will hear arguments today challenging whether President Trump can legally restrict entry to the U.S. for travelers from several Muslim-majority countries. The case traces back to a defining moment in Mr. Trump's campaign, when he called for "a total and complete shutdown of Muslims entering the United States." That idea evolved through three travel bans of varying character and severity, the latest issued in September 2017. The ban has become more measured in some respects, though the current travel prohibitions have no expiration date, a contrast from the temporary nature of the earlier bans. The countries at issue are Iran, Libya, Somalia, Syria and Yemen. The justices are expected to rule by the end of June. The Journal's Brent Kendall has more on what's at stake.

From Bond King to...Robot King?

One of the world's largest bond managers could soon be a robot. Pimco used to rely on one man to make many of its investment decisions. Now it's betting a big part of its future on millions of lines of software code. The bond manager, with a new office opening in Austin, Texas, later this year, plans to increase its workforce by 10% , recruiting tech-savvy workers to modernize Pimco's technology systems, from the tools used to harness new databases of information to the platforms that trade bonds electronically. The new investments mark the next phase of a strategy set in motion three years ago, when co-founder Bill Gross 's bitter departure wrenched the firm from its overdependence on a single bond manager.

Inside Southwest's Response

When an engine failed on a Southwest flight last week, the airline's executives raced to launch their emergency-response plan. How companies respond to crises, especially those broadcast live and spread world-wide on social media, has become a major test. In the case of Southwest 1380, when an engine ruptured on a New York-to-Dallas trip and shrapnel broke a window, killing passenger Jennifer Riordan, we see the fear the passengers were experiencing like never before. "We've never had a passenger fatality. It affects everyone," Chief Executive Gary Kelly said in his first extensive interview since the accident. Our columnist Scott McCartney writes about how Southwest's top management, using updates from the cockpit and passengers' phones, put the emergency-response plan into action in Philadelphia and Dallas.

Today's Video

Beefed-Up Accord

President Trump leveled dire warnings at Iran and signaled an interest in an unspecified new deal to rein in Tehran, echoing a suggestion from French President Emmanuel Macron after the two leaders met.

TOP STORIES

U.S.

Judge Rules Trump Administration Must Continue DACA Program

Supreme Court Shields Corporations in Abuse Suits

WORLD

Trump to Send Mnuchin to China for Trade Talks Next Week

Ontario Man Charged With 10 Deaths in Van Attack

BUSINESS

Shire Opens Door to $64 Billion Sale to Japan's Takeda

Behind the Leadership Drama Holding Up a Viacom-CBS Deal

MARKETS

Controversial New Milk Shakes Up Big Dairy

Startups Love This Cryptocurrency Strategy. Regulators Say Not So Fast.

Number of the Day

6′7″

The height of Illinois native David Simon, who is now too tall to play basketball in South Korea. In a bid to liven up games with homegrown talent and reverse flagging ticket sales, the Korean Basketball League last month banned foreign players who surpass 200 centimeters.

Today's Question

Going back to our story above, what are your thoughts on the travel-ban case? Send your comments, which we may edit before publication, to 10point@wsj.com. Please include your name and location.

—Compiled by Jessica Menton

Reader Response

Responding to yesterday's question on "helicopter" children, Mark R. Lindon of Colorado shared: "Treat parents as the adults they are. They are capable of making decisions. Let them. When they ask for assistance, give it. If something seems amiss, step in." David Fleenor of North Carolina wrote: "How delightful and most likely, extremely rare, to reach your 70s/80s and have children 'helicoptering' your life. Most of us at that age, are still supporting children and/or grandchildren with emotional, financial or career advice, expecting that life commitment to end when we do." And Shari Reed of New Mexico said: "Somewhere between grown children who never visit their aging parents and those who try to monitor and help parents with real or imagined problems is the perfect grown child. And this person simply doesn't exist. I'll take a 'helicopter' model any day."

This daily briefing is named "The 10-Point" after the nickname conferred by the editors of The Wall Street Journal on the lead column of the legendary "What's News" digest of top stories. Technically, "10-point" referred to the size of the typeface. The type is smaller now but the name lives on.

Sign up here for a curated weekly tour of WSJ's unique take on the sports world including news, smart features, data and Jason Gay.

The 10-Point In Your Inbox

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Document WSJO000020180425ee4p0025t

THE WALL STREET JOURNAL.

Markets

KPMG Gets Cold Shoulder From GE Shareholders; GE shareholders approved KPMG as company's auditor, but only after a large level of opposition

By Michael Rapoport
832 words
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The Wall Street Journal Online
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English

Shareholders at General Electric Co . approved KPMG LLP on Wednesday as the company's auditor for another year, but only after a large level of opposition in the wake of GE's accounting issues and criticism from proxy-advisory firms .

Only 64.9% of GE shareholders voted to ratify KPMG as GE's auditor, according to preliminary figures released at GE's annual meeting. That represents one of the highest levels of shareholder opposition to an auditor at any company in recent years, according to data from consulting firm Audit Analytics.

The vote at GE adds to KPMG 's woes, which also include a

scandal in which former partners were indicted in January over allegations that people at the firm had access to secret information from a regulator. Separately Wednesday, KPMG announced it plans to take the unusual step of adding independent directors to its board, a move aimed at improving the firm's corporate governance.

GE has said the Securities and Exchange Commission is investigating some of its accounting practices, including its need for increased reserves in its insurance operations and its accounting for long-term service agreements. KPMG , which has been GE's auditor for 109 years, didn't flag any of the problems.

Earlier this month, Institutional Shareholder Services and Glass Lewis & Co ., the two biggest proxy-advisory firms, both recommended that GE shareholders vote against reappointing KPMG as GE's auditor. ISS cited "the apparent extent of GE's previously undisclosed liabilities and accounting issues."

The level of opposition was "extraordinary," said Charles Elson, director of the John L. Weinberg Center for Corporate Governance at the University of Delaware . "I think for the (GE) board it's got to be a rather sobering vote."

GE said in a statement that its audit committee, which reviews the appointment of the company's outside auditor each year, "will certainly be taking this indication from our shareowners into account." A KPMG spokesman couldn't be reached for comment on the vote.

Shareholder votes on reappointing auditors are typically all but automatic, with only token opposition. Last year, 94.3% of GE shareholders voted in favor of KPMG .

The latest GE vote marks only the fifth time since 2015 that an auditor for an **S&P 500** company has won less than 90% support from shareholders, according to ISS Analytics. According to the Audit Analytics data, in more than 15,000 shareholder votes to ratify auditors at public companies from 2013 to 2017, there were only 22 cases, less than 0.2%, in which more than 25% of shareholders were opposed.

In another possible sign of discontent, shareholders at Wells Fargo & Co . approved KPMG 's status as the bank's auditor this week with 91.1% of votes after Glass Lewis recommended a "no" vote. Critics have questioned why KPMG failed to catch the bank's sales-practice scandal and other problems it has experienced in the past few years.

KPMG 's move to appoint new outside directors, though, is more of a response to the firm's information-leak scandal. That incident led to the firing of a handful of partners in 2017 and the indictment of five people in January. KPMG and prosecutors say the partners improperly got advance word of which of its audits were to be reviewed by regulators at the Public Company Accounting Oversight Board in their annual inspections of the firm. That could have made KPMG better able to prepare for the inspections, which are closely watched as a barometer of the firm's audit quality.

"In 2017, certain events, and the actions of a few former colleagues, caused us to take a deeper dive into examining our culture and values, and to assess with fresh eyes how we could improve," Lynne Doughtie , KPMG's U.S. chairwoman and chief executive, wrote in an article published Wednesday in trade publication Accounting Today.

The new directors will "provide a valuable sounding board to management" and will "further diversify the boardroom dialogue," Ms. Doughtie wrote.

A KPMG spokesman said the firm is seeking up to three independent directors and is currently in the process of identifying potential candidates.

Independent directors are uncommon at big accounting firms, which in the past have generally had boards made up of their own personnel. That differs sharply from the firms' own public-company clients, whose shares trade on major exchanges. These companies are required to have a majority of their directors from outside the company.

PricewaterhouseCoopers LLP said last year it was adding two people from outside the firm to its board.

Thomas Gryta contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Once Market Darlings, Tech Stocks Enter 'Prove-It-To-Me' Era; More than a third of tech stocks in S&P 500 have declined in 2018

By Ben Eisen and Akane Otani
988 words
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Investors rattled by recent volatility are becoming choosier about which technology-focused stocks they scoop up, a reversal from 2017 that threatens to undermine the tech sector's dominance in the long stock rally.

The S&P 500 tech sector, up 1.8% in 2018, is still among the best-performing groups in the broader index. But more than a third of the 69 stocks in the sector have declined in 2018, the most for any full year since 2011. In 2017, only six of them had lost ground.

The divisions are likely to come into sharper focus as more tech-focused companies report financial results in coming days. With valuations already stretched by traditional measures, investors are contemplating which companies warrant the higher multiples that typically come with the tech label. After all, advanced technology underpins nearly every business, from banking to manufacturing, investors say.

The moves mark a period of more careful scrutiny among investors following a year when any name with a Silicon Valley ring to it seemed to rise—be it video-streaming services, auto makers or computer companies. Netflix Inc. rose 55% in 2017, while shares of Tesla Inc. and Apple Inc. both surged 46%.

Netflix, though lumped into the consumer-discretionary sector, has climbed 59% this year as its video-streaming service has continued to post subscriber growth. But Tesla, an electric-car maker run by Elon Musk that isn't in the S&P 500, is down 9.9% amid concerns about the pace of production of its new Model 3. Meanwhile, Apple has fallen 3.3%.

"It's more of a prove-it-to-me market," said Brian Johnson, chief investment officer at Viridian Advisors in the Seattle area, which has roughly $600 million in assets. "We've had tremendous gains over the last year or two."Mr. Johnson's firm sold its stake in Tesla last month amid concerns about the Model 3's production pace. He noted that sentiment around the stock had soured after its remarkable run in 2017. His firm, however, still holds some big tech stocks.

"A lot of people have trouble defining exactly what these companies are," said Dan Roarty, chief investment officer for thematic and sustainable equities at mutual-fund firm AB. "They cross a lot of boundaries."

After its run-up in 2017, the S&P 500 tech sector trades at roughly 31 times its past 12 months of earnings, carrying among the highest price/earnings ratio of the 11 sectors in the broad index. The S&P 500 trades at 22 times trailing earnings.

Rising valuations have made certain tech areas look less appealing, investors say, especially given the possibility of tighter regulations on some companies, ranging from social-media giants to self-driving-car makers.

Facebook Inc., which was the fifth-largest S&P 500 firm by market capitalization earlier this year, tumbled in March as lawmakers blasted its handling of users' data—raising fears among investors that firms heavy on data collection could face stricter regulations.

That is when AB's Mr. Roarty dumped the last of his Facebook holdings. A basket of big tech stocks that last August made up more than 11% of his portfolio now makes up about 6%, he said. Shares of Facebook jumped in after-hours trading Wednesday after the firm said revenue and profits rose in the first quarter despite backlash over its handling of user data. Still, Facebook shares remain down 9.5% this year through Wednesday's close.

This week, Google parent Alphabet Inc. reported profit for the first three months of the year that topped expectations, but investors grappling with the company's higher expenses sent the shares down 4.8% Tuesday, its worst session in more than two months.

Twitter shares fell 2.4% Wednesday after the company warned that revenue growth likely will slow for the rest of the year.

Other investors have backed off the so-called FANG trade—a bet that Facebook, Amazon.com Inc., Netflix and Alphabet will continue rising in lockstep—and gravitated toward names that they feel aren't part of crowded trades.

Thomas Plumb, president of Wisconsin Capital Management, has grown fond of companies involved in financial transactions—ranging from household names like Mastercard Inc. to the Maine-based Wex Inc., which helps trucking companies process payments. Both stocks are up more than 11% for the year.

Meanwhile, Brian Culpepper, a portfolio manager at James Investment Research, favors lesser-known companies such as Western Digital Corp., which manufactures data-storing devices, including hard drives. Shares of Western Digital have climbed 8% in 2018.

"I really worry about the stocks that have run drastically higher—the FANG stocks. Those are probably the names that would be hit the hardest in any decline," Mr. Culpepper said, adding that he believes there will be a growing divide in hardware-producing tech companies and social media-oriented tech firms.

This fall, index providers S&P Global and MSCI Inc. will reclassify Facebook, Alphabet, and some other current tech constituents as communications companies, lumping them in with the likes of entertainment company Walt Disney Co. and media conglomerate CBS Corp. After the changes go into effect, none of the so-called FANG stocks will be in the tech sector.

That stands to reduce the sales and earnings growth of the remaining tech sector, potentially reducing its appeal to some investors, according to Goldman Sachs Group. The sector, which will still include Apple Inc. and Microsoft Corp., will make up about a fifth of the S&P index's market cap, down from about 25% currently.

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THE WALL STREET JOURNAL.

Markets

To Catch Bad Actors, Winklevosses' Bitcoin Exchange Teams Up With Nasdaq; Gemini will use Nasdaq surveillance software to monitor for potentially abusive trading practices

By Alexander Osipovich
722 words
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English

Gemini, the bitcoin exchange founded by Cameron and Tyler Winklevoss, has teamed up with **Nasdaq** Inc. to beef up its defenses against market manipulation—the latest sign that the cryptocurrency industry is trying to get past its Wild West days.

The deal comes as regulators have stepped up scrutiny of digital-currency exchanges in recent months. Securities and Exchange Commission officials have warned of potential fraud and manipulation on the largely unregulated trading venues.

Under the agreement, Gemini will use **Nasdaq**'s surveillance software, called SMARTS, to monitor its markets for potentially abusive trading practices. The two companies announced the agreement on Wednesday. Financial terms weren't disclosed.

"We're doing this because we believe in the importance of creating a rules-based marketplace," Cameron Winklevoss, president and co-founder of Gemini, said in an interview. "We believe this is where things are headed."

Suspicions of manipulation are a recurring theme in cryptocurrency markets. In January, U.S. and Israeli researchers published an article in the Journal of Monetary Economics arguing that suspicious trading activity on Mt. Gox—once the world's largest bitcoin exchange—caused the price of bitcoin to surge to more than $1,000 from around $150 in two months in late 2013. Mt. Gox collapsed in 2014 after hackers robbed it of more than $470 million worth of bitcoin.

SMARTS is part of **Nasdaq**'s market-technology business, in which the New York-based exchange group sells software to other market operators. The surveillance technology is used by equities and derivatives exchanges around the world, including Intercontinental Exchange Inc., Hong Kong Exchanges and Clearing Ltd. and the Nigerian Stock Exchange.

Nasdaq's technology monitors real-time market activity and raises alerts if it detects unusual trading patterns. It's then up to humans to investigate the event and determine whether the traders behind it broke any rules.

Nasdaq is in "active discussions" with a number of other cryptocurrency firms about SMARTS, according to Chief Executive Adena Friedman. "The crypto space is a nice growth area," she said in an interview Wednesday.

At Gemini, SMARTS will help monitor trading of bitcoin and ethereum, the second-largest cryptocurrency, and it will also surveil the auctions that Gemini holds at 4:00 p.m. ET to determine a daily benchmark price for bitcoin, the companies said.

Gemini's auction price is used to underpin bitcoin futures offered by Cboe Global Markets Inc., which started trading in December. Some traders have voiced concerns that bitcoin futures could be manipulated through heavy buying or selling in the Gemini auctions. Cboe and Gemini say they have a variety of measures in place to combat any attempts at manipulation.

Last week, Gemini was among 13 crypto exchanges to receive a letter from New York Attorney General Eric Schneiderman demanding that they answer a list of questions about their practices, including what safeguards they had in place against manipulation.

Gemini pledged to cooperate with Mr. Schneiderman's inquiry. Others were more defiant: San Francisco-based Kraken refused to fill out the questionnaire, with co-founder and Chief Executive Jesse Powell blasting it as "unreasonable" and "an overly broad fishing expedition" in a blog post on Sunday.

Mr. Powell also dismissed regulators' worries about crypto-market manipulation as an "obsession," blaming it on a "lack of education."

The Winklevosses are among the earliest and best-known cryptocurrency entrepreneurs. They first drew attention for their legal feud with Facebook Inc. co-founder Mark Zuckerberg over who came up with the idea for the social network. Facebook settled the dispute in 2008 by agreeing to pay them $20 million in cash and what was then $45 million worth of Facebook private shares. The identical-twin brothers later invested much of that settlement in bitcoin and bitcoin-related projects.

For **Nasdaq**, the Gemini deal isn't the first foray into the cryptocurrency space. The exchange group has said it is exploring the launch of its own bitcoin futures. It's also involved in several projects that use blockchain, the technology that underpins bitcoin, for purposes including the trading of private shares and shareholder voting.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Higher as Boeing Lifts Dow Industrials; Boeing shares climb after company boosts guidance for 2018

By Amrith Ramkumar and Riva Gold
906 words
25 April 2018
05:30 PM
The Wall Street Journal Online
WSJO
English

* Treasury yields, dollar continue climbing

* U.S. stocks higher

* Investors digest latest earnings

The **Dow Jones Industrial Average** inched higher Wednesday to end its longest losing streak in more than a year, lifted by a surge in Boeing shares following the aerospace giant's latest earnings report.

Stocks have wobbled in recent days with bond yields climbing and investors wondering whether earnings are peaking for big U.S. companies, which could hinder future stock gains as interest rates and inflation continue rising.

But a spate of more upbeat earnings boosted stocks Wednesday, with eight of 11 **S&P 500** sectors climbing.

"Tax reform and economic momentum suggests that earnings are likely to peak this year, but not until later in the year," said Kristina Hooper, chief global market strategist at Invesco. "There's still more upside, it's just a different market environment than we experienced last year."

The blue-chip index added 59.70 points, or 0.2%, to 24083.83 to break a five-session losing streak after dropping as much as 0.8% earlier in the session. The **S&P 500** added 4.84 points, or 0.2%, to 2639.40, and the **Nasdaq Composite** declined 3.61 points, or less than 0.1%, to 7003.74.

The tech-heavy index has fallen in five straight sessions, its longest streak since November 2016, and major indexes remain more than 7.7% off their records from earlier this year.

Boeing shares rose $13.80, or 4.2%, to $342.86, adding 95 points to the Dow industrials after the company boosted key financial guidance for 2018.

Comcast climbed 91 cents, or 2.7%, to 34.26 after it posted strong earnings growth, despite continuing cable TV subscriber losses. The media giant also formally submitted its $31 billion proposal to buy Sky PLC.

Northrop Grumman was among the worst performers in the **S&P 500**, falling 8.90, or 2.6%, to 332.62. The defense contractor topped sales and profit expectations in the first quarter and boosted its earnings outlook for the year, though it maintained its outlook on revenue and other metrics.

Twitter shed 72 cents, or 2.4%, to 29.75 even after posting its second profitable quarter as a public company. The social-media firm warned growth likely will slow for the remainder of the year.

Shares of Wynn Resorts declined 7.11, or 3.7%, to 182.89 after the casino operator said it swung to a loss in its latest quarter following charges tied to a legal settlement that paved the way for Steve Wynn to sell his stake in the company he co-founded.

Trading was **volatile** again Wednesday, with major indexes swinging between gains and losses throughout the session before rising in the afternoon. Although **S&P 500** earnings are expected to rise at the fastest pace in years, some analysts doubt companies can sustain that growth moving forward as the Federal Reserve raises interest rates and pushes up bond yields.

The yield on the benchmark 10-year U.S. Treasury note continued to climb as prices fell and settled at 3.026%, its highest level since 2013 and up from 2.983% Tuesday. It touched 3% for the first time in more than four years Tuesday.

Higher government bond yields typically mean higher costs for companies and consumers to borrow money and can make bonds look more attractive relative to stocks.

Some investors are also wary because the dollar has risen alongside bond yields, making companies' exports less competitive in global markets and commodities more expensive for overseas buyers.

On Wednesday, the WSJ Dollar Index climbed 0.5% to its highest level since January, another sign to some analysts that tighter financial conditions could be around the corner.

Still, some investors believe yields at 3% are manageable for the **stock market**, particularly with no signs of runaway inflation that would force central banks to pick up the pace of rate increases.

"I think ultimately the market has accepted the fact that we're at 3% because there's a reason for it," said Nathan Thooft, senior managing director of global asset allocation at Manulife Asset Management. "Economic data is good, so we should be happy about it."

Investors are looking ahead to three major central-bank meetings in the next week, with theEuropean Central Bank and Bank of Japan offering their latest updates on monetary policy Thursday and Friday, followed by the Federal Reservenext Wednesday.

Elsewhere, the Stoxx Europe 600 fell 0.8%, though shares of Credit Suisse Group rose 3.6% after the Swiss bank beat analysts' expectations with a double-digit increase in net profit in the first quarter.

Stocks in Asia also dropped. Hong Kong's Hang Seng shed 1%, and Japan's Nikkei Stock Average closed down 0.3%.

Joanne Chiu and Mike Bird contributed to this article.

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THE WALL STREET JOURNAL.

Markets

WeWork Raises $702 Million With First Bond Sale; New York-based office-space provider sold seven-year bonds at par with a 7.875% interest rate

By Sam Goldfarb
570 words
25 April 2018
05:03 PM
The Wall Street Journal Online
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English

WeWork Cos. sold $702 million in bonds Wednesday, becoming the latest startup to win over debt investors despite a cash-burning history that is atypical for a bond issuer.

WeWork, a New York-based office-space provider with a hip reputation and $20 billion valuation, was able to sell its seven-year bonds at par with a 7.875% interest rate, people familiar with the matter said. That rate was in line with the guidance set by a JPMorgan-led group of underwriters on Tuesday, although the size of the deal was increased from $500 million.

Investors looking at the deal cited concerns about WeWork's minimal assets, sizable lease obligations, negative cash flow and strategic challenges as the company expands beyond high-rent cities like New York and San Francisco.

Still, some were lured by a relatively high interest rate for the company's single-B credit rating, and comforted by the support it has won from equity holders such as SoftBank Group Corp, which invested $4.4 billion last August through its tech-focused Vision Fund.

Bond investors are typically nervous about lending to companies that don't generate stable cash flows. Unlike equity investors, bond investors reap limited rewards if a young company goes on to great things, but face ample downside if the business can't make its interest payments.

At the same time, a lofty valuation implies equity investors are prepared to help the company through growing pains, making a default less likely.

"This is still a startup," said Scott Roberts, head of high-yield investments at Invesco. "Traditional credit metrics don't apply here."

In a document presented to bond investors, WeWork offered some unusual measures of its earnings before interest, taxes, depreciation and amortization last year. While its adjusted Ebitda was negative $193.3 million, its "adjusted Ebitda before growth investments" was $49.4 million and its "community adjusted Ebitda," which excludes general and administrative expenses, was $233.1 million.

WeWork resembles some other growing businesses that have tapped the debt markets in recent years, such as Uber Technologies Inc. and Tesla Inc.

In Uber's case, investors have twice lent to the ride-sharing company through the high-yield loan market, first in 2016 and most recently in March, when the company issued a $1.5 billion loan the same week one of its self-driving cars struck and killed a pedestrian in Arizona.

Uber, which was recently valued in a secondary sale at $48 billion, burned through $40 million in cash in the fourth quarter. Its $1.5 billion floating-rate loan, which pays a 6.4% coupon at current interest rates, is quoted at around 101 cents on the dollar, according to Markit.

After a rough patch earlier this year, the high-yield bond market has recovered of late, with risk premiums falling to near their lowest levels since the financial crisis. The average junk-**bond yield** was 3.3 percentage points above the comparable Treasury yield on Tuesday, down from 3.43 percentage points at the end of 2017, according to Bloomberg Barclays data.

Write to Sam Goldfarb at sam.goldfarb@wsj.com

In Depth

* WeWork: A $20 Billion Startup Fueled by Silicon Valley Pixie Dust (Oct. 2017))

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WSJ PRO FINANCIAL REGULATION

Markets

Ex-UBS Metals Trader Acquitted in 'Spoofing' Case; Connecticut jury finds Andre Flotron not guilty in setback for the government

By Gabriel T. Rubin
297 words
25 April 2018
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WSJ Pro Financial Regulation
RSTPROFR
English

A Connecticut federal jury cleared a former UBS Group AG metals trader of scheming to manipulate futures markets through a practice known as "spoofing," a setback for the government as it works to stem the practice in **financial markets**.

Andre Flotron was acquitted by the New Haven jury on Wednesday on one count of conspiracy to engage in commodities fraud, after a judge previously threw out six other charges including substantive spoofing and commodities fraud.

The verdict is the first acquittal in a spoofing case since the practice was made illegal in 2010 by the Dodd-Frank financial law. Prosecutors have targeted the practice aggressively in recent months. In January, Mr. Flotron and seven other traders were charged with deceptive trading practices in the futures markets, with all but one person charged with illegal spoofing.

"While we are disappointed in the outcome, we respect the jury's verdict. The Justice Department remains committed to investigating and prosecuting cases involving deceptive trading practices," a Justice Department spokesman said. The Commodity Futures Trading Commission, which fined Mr. Flotron for alleged spoofing in January, declined to comment.

"We're glad we fought the charges until justice was done. We feel as good as gold," said Marc Mukasey, Mr. Flotron's lawyer.

Spoofing involves a trader entering large orders with the intention of tricking others into thinking there had been a fundamental change in supply and demand in a market. In August, a federal appeals court upheld the conviction of the first U.S. trader to face prison time for manipulating futures prices using spoofing tactics.

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THE WALL STREET JOURNAL.

Markets

Glitch Hits Trading of Amazon, Google Shares on NYSE; Shares are halted in an embarrassment for the Big Board after it recently began to allow trading of stocks listed on other exchanges

By Alexander Osipovich
323 words
25 April 2018
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The Wall Street Journal Online
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The New York Stock Exchange temporarily suspended trading of shares of Amazon Inc., Google parent Alphabet Inc. and several other **Nasdaq**-listed stocks due to a technical glitch on its flagship exchange.

The issue, which NYSE announced in a notice emailed to traders at 12:24 p.m. New York time on Wednesday, had no impact on the vast majority of investors. That's because stocks are traded on multiple other exchanges, and shares in Amazon and Alphabet could still be traded elsewhere even while being suspended at the NYSE.

Still, it was an embarrassment for the Big Board, which only began to allow trading of stocks and exchange-traded funds listed on other exchanges earlier this month. The April 9 change reversed a decades-old policy in which trading on the NYSE's flagship exchange was limited to stocks listed there. The NYSE has been engaged in a long-running overhaul of its technology.

Open orders in the affected stocks at the NYSE on Wednesday were being canceled, and the suspension would last until the end of the trading day, the notice to traders said. The glitch was related to execution reports sent to customers after a trade is completed, and it only affected stocks with values greater than $1,000 a share, according to an earlier notice from the exchange.

"We suspended trading in these symbols to minimize impact to a very small subset of customers, and the issue will be resolved by tomorrow," a NYSE spokeswoman said.

Nasdaq sent a notice to traders shortly afterwards saying that trading in all **Nasdaq**-listed securities on its markets was uninterrupted, and that its systems were operating normally.

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THE WALL STREET JOURNAL.

Politics

Trump Faces Pressure to Choose Sides in Fight Between Corn Growers and Oil Refiners; Refineries complain of high cost of complying with ethanol mandate, while farmers question administration's commitment

By Timothy Puko and Bradley Olson
1,179 words
25 April 2018
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English

President Donald Trump is caught between two powerful business constituents of the Republican Party as he faces growing pressure to resolve a dispute between the oil industry and the Farm Belt.

Oil refineries want out of a costly requirement to blend ethanol into the gasoline they produce. Corn growers say the requirement diversifies the U.S. fuel supply, and insist Mr. Trump fulfill promises to at least hold the ethanol mandate. Both sides have close ties to the GOP and the White House.

Tensions between the two industries have been building since well before Mr. Trump became president, the result of a 2005 law that requires refineries to blend about 10% plant-based ethanol into the fuel they produce, or buy credits from rivals to cover their blending obligations. Congress created the mandate in hopes of reducing carbon emissions and weaning the U.S. from foreign crude at a time when **oil prices** had begun soaring.

By the time Mr. Trump took office, though, oil and gas supplies had gone from shortage to saturation thanks to the shale-drilling boom. Now, oil refiners—and some Trump advisers—consider a rollback of the 2005 regulation years overdue.

That leaves Mr. Trump stuck between conflicting promises to cut government regulation and to support ethanol mandates. He was one of the few in the Republican presidential primary race to emphasize the mandate in Iowa—the nation's biggest corn-producing state and home to the first nominating contests.

The Trump White House has failed to broker a deal, even after hosting supporters from both sides in the Oval Office. The administration has struggled for months after several proposals for administrative solutions have run into opposition from corn or oil backers.

"I can't see any obvious middle ground," said Sandy Fielden, director of oil and products research at Morningstar. "If there was an easy answer, we'd all be looking at it."

The impasse has refineries taking matters into their own hands, appealing directly to the Environmental Protection Agency for relief in the form of waivers. The agency has stepped up waiver approvals. That has infuriated agricultural interests and put more pressure on the White House to come up with a permanent solution.

The agricultural lobby has been uncomfortable with EPA chief Scott Pruitt, who, before coming to Washington, had called the ethanol mandate "unworkable" and filed a legal brief in 2013 backing a lawsuit challenging it when he was Oklahoma attorney general. Mr. Pruitt landed the EPA role in part because of a recommendation from Carl Icahn, a billionaire adviser to Mr. Trump's transition team and an owner of a small refinery operator that faces around $250 million in costs to comply with the ethanol mandate.

More oil refiners are looking to take advantage of a loophole in the law that has only widened since Mr. Pruitt took over the agency. Small refineries with less than 75,000 barrels a day of capacity—even if owned by a large company—can get a waiver if they prove the mandates are causing "disproportionate economic hardship," according to the EPA website.

To get a waiver, each refinery gets evaluated on its own finances—independent from the health of its parent company. Compliance costs could still be tens of millions of dollars, which alone appears to be enough now to prove economic harm, industry lobbyists said.

For years, the EPA regularly rejected requests from refiners seeking waivers from ethanol requirements. Then this March, the agency agreed to waive millions in obligations for Philadelphia Energy Solutions, a major East Coast refiner that filed for bankruptcy after its costs to comply with the program rose to $231 million in 2016. The EPA then began granting a number of waivers to the small refineries able to demonstrate economic harm, including one owned by Andeavor Corp., one of the country's largest independent refiners and a company big enough to be part of the **S&P 500**.

The agency has rejected just one of about 30 applicants so far this year, encouraging more refiners to consider applying for the first time. It has received applications from oil giants Exxon Mobil Corp. and Chevron Corp.

Many now see an EPA waiver as a given. Some are even asking for waivers that would allow them recoup costs from years past. "If you can show economic harm—which is pretty easy to do—you have to consider it," according to one oil-industry lobbyist who has been pushing the Trump administration for a waiver for a client. "People never imagined they would be eligible."

One factor behind the change at EPA is a federal appeals-court decision last year that found the agency had been too restrictive in doling out waivers. Mr. Pruitt has since decided to accept every recommendation on a waiver from the Energy Department—which is responsible for calculations evaluating a refinery's claim of economic harm—and grant full waivers even when the Energy Department recommended only partial waivers. This is opening the floodgates for applications and approvals, analysts and refiners say.

"The criteria used to grant waivers has not changed since previous administrations," EPA spokeswoman Liz Bowman said. "EPA follows a longstanding, established process."

Many in both the refining and farming industries dispute that assertion, and see a significant change in EPA policy. There are 38 plants across the U.S. that could qualify for the exemptions, according to the agency. Based on their capacity, the number of qualifying refineries could make up as much as 10% of the nation's fuel supply, according to a Wall Street Journal analysis. More than half have already received them.

One result of the increase in waivers is a falling price for credits that many refineries need to buy to cover their obligations for ethanol blending. The cost of credits has halved in recent months as traders and companies have grown increasingly confident that the Trump administration will take action to reduce the burden oil refiners face in complying with the law.

Sen. Chuck Grassley, a Republican from Iowa, in a call with reporters Tuesday accused the EPA of abusing the waivers to cap the price of ethanol credits. EPA officials deny undermining the ethanol program.

While Mr. Trump has received support from Mr. Icahn and frequently touts his own backing of the fossil-fuel business, he has to be mindful of Iowa's political clout and Mr. Grassley's in particular. Aside from Iowa's early primary, Mr. Grassley runs the powerful Senate Judiciary Committee, which oversees the confirmation of judges and has launched investigations into matters related to the president's campaign and businesses.

"The president has said to me both publicly and privately many times that he intends, and he is keeping his commitment to ethanol," Mr. Grassley said Tuesday. Mr. Pruitt is "undercutting the president's promises."

Document WSJO000020180425ee4p001bh

Economy

Fedspeak Cheat Sheet | Treasury Yields Cross 3% | Trump Nominees Signal Shift on ILCs | Storm Clouds Gather Over Eurozone | Fairless's Take: Fixing the Eurozone's Roof; The Wall Street Journal's central banking newsletter for Wednesday, April 25, 2018

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Fairless's Take: Fixing the Eurozone's Roof

Fedspeak Cheat Sheet: What Fed Officials Said Ahead of Their May Meeting

Yields on 10-Year Treasurys Cross 3% Threshold

Analysis: Trump Nominees Signal Shift on ILCs

As ECB Contemplates Rate Move, Storm Clouds Gather Over Eurozone

Fixing the Eurozone's Roof

Will the eurozone be prepared for the next crisis?

The bloc's leaders have been scrambling to hash out a compromise on how to reform the architecture of the currency area ahead of a European Union summit in June. But expectations for that summit have recently been lowered amid resistance from a number of northern European countries, notably Germany.

French President Emmanuel Macron has proposed creating a common eurozone budget to be used for investment and to counter severe shocks, as well as a full banking union that would include common insurance for bank deposits. Such proposals could relieve pressure on the European Central Bank, which stepped in to backstop the currency area during its recent debt crisis with promises to buy government debt on a large scale.

The EU's central budget currently amounts to only 1% of European gross domestic product, compared with more than 10% for Germany's central government, and more than 20% for the U.S. federal government, according to Andreas Rees, an economist with UniCredit in Frankfurt.

The ECB is eager to see progress on the eurozone reform plans, as are international bodies such as the International Monetary Fund. "It is of the utmost importance to complete the banking union without delay," the ECB's chief economist, Peter Praet, said last week.

Time may be short. The IMF's managing director Christine Lagarde warned last week in Washington, D.C. of a series of risks to the world economy, including record global debt, vulnerabilities in the financial system and the threat of trade wars.

But German finance minister Olaf Scholz was noncommittal on any concrete proposals. German central-bank President Jens Weidmann said earlier this month he has "considerable doubt" as to whether a common budget would be useful. Senior officials in Chancellor Angela Merkel's conservative CDU party recently laid out tough new conditions for plans to transform the bloc's rescue fund, the European Stability Mechanism, into a European Monetary Fund.

The resistance in Germany may be driven by domestic political considerations. Both major parties—Ms. Merkel's CDU and the left-leaning Social Democrats--lost votes to the euroskeptic Alternative for Germany party in last September's national elections.

Still, French finance minister Bruno Le Maire appeared upbeat in Washington last week, telling reporters that the reform plans were on the right track, and he was confident of a compromise by June.

Key Developments Around the World

Fedspeak Cheat Sheet: What Fed Officials Said Ahead of Their May Meeting

Federal Reserve officials have done nothing to dispel market expectations they will hold interest rates steady at their next policy meeting May 1-2. Still, a range of officials in recent weeks have indicated they expect to raise rates as the year progresses. A number of them signaled support for a total of three or four rate moves this year, including their March increase. Here is a roundup of their latest key comments on monetary policy.

Yields on 10-Year Treasurys Cross 3% Threshold

Long-term U.S. government bond yields topped 3% for the first time in more than four years, a sign that investors' confidence in the stability of economic growth is outpacing fears about the longevity of the postcrisis expansion. It is a climb with significant implications for **financial markets**. The 10-year yield is a barometer that influences borrowing costs for consumers, corporations and state and local governments. Its half-percentage point climb to similar heights earlier this year contributed to the tumble in the **Dow Jones Industrial Average** in February, as higher yields dented investors' confidence that stock valuations could rise unceasingly.

Who Cares About a 3% Yield for the **10**-**Year Treasury**?

Why the U.S. Bond Milestone Will Ripple Across Global Markets

Analysis: Trump Nominees Signal Shift on ILCs

In a significant break from the Federal Reserve's traditional position on industrial loan companies, the agency's regulatory czar last week called them not "excessive or especially problematic." The statement by Randal Quarles is yet another indication that the Trump administration is likely to revive a controversial charter that has remained dormant since the financial crisis.

As ECB Contemplates Rate Move, Storm Clouds Gather Over Eurozone

Trade disputes and a stronger currency are threatening a hard-fought economic recovery in the 19-nation eurozone, potentially delaying a move by the European Central Bank to follow the Federal Reserve in increasing short-term interest rates. Trade conflicts are a particular concern for the ECB because the region escaped the lingering effects of its debt crisis in part due to the strength of its export sector. But the euro area's economy appears to have slowed early this year, coinciding with mounting tensions over possible U.S. tariffs and a fresh increase in the euro's value against the dollar. ECB officials, including President Mario Draghi, have indicated that the bank will move only cautiously to withdraw its large monetary stimulus in light of trade disputes and a **volatile** currency. The ECB isn't expected to take any policy action when its top officials gather Wednesday and Thursday, but the bank might indicate how worried it is about the latest economic data.

Quick Hits: Eurozone Banks Ease Standards for Business Loans

A European Central Bank survey showed eurozone banks eased their standards for business loans, higher U.S. Treasury yields may not spell an end to easy money, and below-target inflation could keep the Reserve Bank of Australia from changing policy for some time. Here are quick hits on central banking and related market views from around the world.

Wednesday

4:15 p.m. EDT

Bank of Canada's Poloz and Wilkins appear before Senate banking committee in Ottawa

Thursday

3:30 a.m. EDT

Sweden's Riksbank releases policy statement

7:45 a.m. EDT

European Central Bank releases policy statement

8:30 a.m. EDT

ECB's Draghi holds press conference in Frankfurt

8:30 a.m. EDT

U.S. Commerce Department releases March durable-goods data

11:20 a.m. EDT

ECB's Nouy speaks in Sofia, Bulgaria

Demographics and Automation

Aging leads to greater industrial automation, Daron Acemoglu and Pascual Restrepo find in a National Bureau of Economic Research working paper. It also leads to "more intensive use and development of robots," they write. Their model "further predicts that the induced adoption of automation technology should be more pronounced in industries that rely more on middle-aged workers and those that present greater opportunities for automation."

Equity Market Volatility and Global Growth Expectations

Ambrogio Cesa-Bianchi, Hashem Pesaran and Alessandro Rebucci study why during 2016 and 2017 markets remained calm despite "heightened policy uncertainty and geopolitical risk." They find in a VoxEU column: "The rise in world growth expectations can explain some but by no means all of the decline in market **volatility** during this period. [We argue] that excess optimism about future growth prospects might have fuelled the decline in **volatility**. This would imply that gradual unwinding of such expectations could bring more bursts of market **volatility**, as we have begun to witness since the start of 2018."

The Curse of Persistently Low Real Interest Rates

A prolonged period of low real interest rates can weaken an economy's growth potential through misallocation of capital, thereby lowering the natural rate of interest and the effectiveness of stimulus policies, write Jan Willem van den End and Marco Hoeberichts of the Dutch central bank. "Expansionary monetary policy may become less effective over time, since by reducing real interest rates, this policy may also affect the natural rate," they write in a posting on VoxEU. "This diminishes the effective degree of monetary policy accommodation provided to the economy, which depends on the difference between natural and real rate. Second, raising the natural rate will be more effective in avoiding secular stagnation than a policy aimed at reducing the real rate, for instance by lifting inflation expectations. The latter may even be counterproductive in the sense that it reduces real rates and long-term potential growth."

3% Isn't the Most Important Number in the Bond Market

"The bond market is getting very exciting because the yield on the **10**-**year Treasury** has finally crossed 3%. And while 3% is just a number, it is an important marker for the rise in long-term rates, which weigh on the economy," Justin Lahart writes for The Wall Street Journal. "Investors who are focused on 3% are missing the more important development in the market. The real action has been driven by expectations the Federal Reserve will keep raising interest rates, which has pushed the 2-year yield to 2.47% from 1.89% this year. As a result, the yield curve, or the difference between the yields on the 10-year and 2-year notes, has narrowed to just 0.5 percentage point. That is a good spot to be. Healthy economic growth will keep the Fed on track to raise rates further, while modest inflation will keep long-term yields from spiking."

Emerging-Market Investors Have Some Memory Issues

"Even as the Federal Reserve tightens U.S. monetary policy, both investors and policymakers in [emerging-market] economies seem to be in denial about the likely fallout, clinging to the hope that somehow the impact of this round of global liquidity tightening will be less disastrous than earlier such rounds," Desmond Lachman writes for Bloomberg View. "Despite their experience with previous global liquidity tightening cycles, both emerging-market investors and policymakers seem to be pinning their current hopes on stronger emerging-market fundamentals. They seem to be counting on emerging markets being more resilient than they were before to conditions of reduced global liquidity. Yet in so doing, investors and policymakers are turning a blind eye not just to high levels of emerging-market sovereign and corporate indebtedness, but to the large imbalances and political challenges in some of the largest emerging-market economies."

Americans' spirits rose this month after dipping earlier this spring, suggesting they remain confident in the economy despite rising inflation and **stock-market** gyrations. The Conference Board said Tuesday its index of consumer confidence rose 1.7 points from a month earlier to 128.7 in April. Confidence had dipped in March after hitting the highest level since 2000 in February.

U.S. new-home sales surged in March, capping off a strong first quarter in a segment of the housing market characterized by solid buyer demand. Purchases of newly built single-family homes—a relatively narrow slice of all U.S. home sales—increased 4% from the prior month to a seasonally adjusted annual rate of 694,000 in March, the Commerce Department said Tuesday.

Home-price gains accelerated in February for the 70th consecutive month, creating increasingly challenging conditions for buyers as interest rates also rise and inventory remains tight. The S&P CoreLogic Case-Shiller National Home Price Index, which covers the entire nation, rose 6.3% in February, up from a 6.1% year-over-year increase reported in January.

Mexican inflation slowed in the first half of April as a seasonal decline in electricity rates pushed down energy costs and fresh produce prices fell. The consumer-price index fell 0.35% in the first half of the month, lowering the annual inflation rate to 4.69% from 5.04% at the end of March, the National Statistics Institute said Tuesday.

Send us your tips, suggestions and feedback. Write to:

Jon Hilsenrath; Katy Burne; Michael Derby; Nell Henderson; Jason Douglas; Paul Hannon; Harriet Torry; Kate Davidson; David Harrison; Kim Mackrael; Tom Fairless; Michael Maloney.

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WSJ PRO CENTRAL BANKING

Heard on the Street
Markets
Higher Rates Hide a World of Easy Money; The direction and pace of travel for yields probably matters just as much as the level

By Richard Barley
393 words
25 April 2018
10:07 AM
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English

America first. The 10-year **U**.**S**. **Treasuryyield** has returned to 3% for the first time since early 2014 and markets are clearly sensitive to higher rates. But the bigger picture is that investors are still living in a world with very low rates.

That can be seen in several ways. The first is obvious: yields in other advanced economies are still nowhere near where they were in 2014, with central banks like the European Central Bank way behind the Federal Reserve in tightening policy. Germany's 10-year yield is 0.64%, down from close to 2% at the start of 2014; Japanese yields are stuck close to zero thanks to the central bank's yield-curve control.

The more important way to look at yields is through adjusting for inflation. On that front, the U.S. is again out in front: the 10-year real yield, based on prices for Treasury inflation-protected securities, is around 0.8%. It has risen this year by about 0.3 of a percentage point, but by historical standards is still low. Real yields in Germany, the U.K. and Japan are negative. Indeed, in Europe and Japan, there are still swaths of bonds with negative nominal yields. That means financial conditions are still loose, providing support for the economy.

Yet another way to look at it is via the rule of thumb that says longer-term bond yields should roughly equal the rate of nominal growth in the economy. But that rule has broken down in recent years. Last year, nominal growth in both the U.S. and Germany was 4.1%, according to FactSet; bond yields are well below that level. Central-bank policy, regulatory pressures and demographics are all factors in keeping bond yields low.

The problem for markets is that the direction and pace of travel for yields probably matters just as much as the level. That suggests higher yields are still likely to cause jitters for investors. And markets just have to live with it: given how low yields are, the process of repricing global rates has some way to go.

Write to Richard Barley at richard.barley@wsj.com

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U.S. News: U.S. Watch

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The Wall Street Journal
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English

PENNSYLVANIA

Closing Arguments

Made in Cosby Trial

Bill Cosby's lawyers and prosecutors faced off in closing arguments Tuesday in his sexual-assault retrial, clashing over whether the entertainer or his accuser lied about an alleged sexual encounter in 2004.

Mr. Cosby's attorney, Thomas Mesereau, painted his accuser Andrea Constand as a con artist who fabricated assault allegations in order to file a lawsuit against Mr. Cosby in 2005. The entertainer paid Ms. Constand $3.38 million to settle the suit, without admitting any wrongdoing.

"You're dealing with a pathological liar, members of the jury," said Mr. Mesereau. "Bill Cosby got conned big time."

Montgomery County Assistant District Attorney Kristen Feden repeatedly stated that Mr. Cosby was the "con." She argued that Mr. Cosby used his star power and image to gain the confidence of young women, including Ms. Constand, then drug and sexually assault them. "He is nothing like the image that he plays on TV," Ms. Feden said.

-- Kris Maher

REAL ESTATE

New-Home Sales

Jumped in March

U.S. new-home sales surged in March, capping off a strong first quarter in a segment of the housing market characterized by solid buyer demand.

Purchases of newly built single-family homes -- a relatively narrow slice of all U.S. home sales -- increased 4.0% from the prior month to a seasonally adjusted annual rate of 694,000 in March, the Commerce Department said Tuesday.

March's rise comes on the back of a 3.6% increase in February and upward revisions for both January and February sales rates.

-- Sarah Chaney

ECONOMY

Consumers Growing

More Confident

Americans' spirits rose this month after dipping earlier this spring, suggesting they remain confident in the economy despite rising inflation and **stock-market** gyrations.

The Conference Board said Tuesday that its index of consumer confidence rose 1.7 points from a month earlier to 128.7 in April. Confidence had dipped in March after hitting the highest level since 2000 in February.

Americans boosted their impressions of current economic conditions as well as their expectations for future conditions this month, the latest survey shows. In perhaps the most significant development, the share of Americans expecting their incomes to decline over the next six months -- 6% -- fell to the lowest level since December 2000.

-- Josh Mitchell

Document J000000020180425ee4p0002e

THE WALL STREET JOURNAL.
U.S. EDITION

Chinese Stocks Hurt by Trade, Debt Issues

By Shen Hong and Steven Russolillo
821 words
25 April 2018
The Wall Street Journal
J
B16
English

SHANGHAI -- Chinese stocks have emerged as the worst performer among major global equity markets this year, with Beijing's battle against the country's high debt levels and the threat of a U.S.-China trade war renewing doubts about the outlook for the world's second-largest economy.

The weakness of Chinese shares is particularly glaring ahead of their planned inclusion in an influential global **stock index** in June. That move could attract hundreds of billions of dollars from index-tracking funds into the vast but often ill-functioning market.

The benchmark Shanghai Composite Index has shed 5.4% since the start of this year, compared with a 1.5% fall by the **S&P 500 index** and a 2.4% gain for Hong Kong's Hang Seng. Japan's Nikkei Stock Average is down 2.1% for 2018.

And while the Shanghai market enjoyed its best day in two months on Tuesday, with a 2% rebound, the market is still down 12% from its most recent peak on Jan. 24. Since then, its underperformance relative to global peers has deepened. Early Wednesday, the Hang Seng Index was down 1.1% and the Shanghai Composite was down 0.5%.

"Although China's nominal economic growth has looked OK so far, it's the uncertainties about the future that have clearly weakened investors' risk appetite," said Zhu Chaoping, a Shanghai-based economist at J.P. Morgan Asset Management.

While China's economy beat expectations by expanding 6.8% in the first quarter, there are signs growth is ebbing. Chinese factories were producing fewer goods for foreign markets even before the recent trade disputes with Washington began.

Chinese stocks were already trailing their global peers last year. The difference then was that the $5.2 trillion Shanghai market was recording gains: It rose 6.6% in 2017. Investors piled into big state-run firms that dominate the index, from steel and coal producers to rice wine makers, hoping they would benefit from Beijing's efforts to cut industrial excesses and boost consumption.

That enthusiasm started to wane in late January. In one example, China Shenhua Energy Co., the country's biggest coal miner by output, has dropped 8.8% this year after soaring 67% last year.

"The same story of supply-side reform and consumption has been told for too long, and investors are getting a bit tired of it. That's why a lot of them decided to cash in on these blue chips earlier this year," said J.P. Morgan's Mr. Zhu.

Beijing's campaign to cut the financial risks associated with years of debt piling up has also depressed the market. Regulators have issued rules in the past year to discourage banks and financial institutions from using risk-laden investment products to make leveraged bets in stocks and bonds.

"The deleveraging campaign has hit investors' confidence a lot because there's simply much less fresh money entering the market," said Shen Meng, director at Chanson & Co., a Beijing-based boutique investment bank.

Daily trading volume in Shanghai has shrunk to below 200 billion yuan ($31.7 billion) in recent days, from above 300 billion yuan in mid-January and a record 1.3 trillion yuan before the 2015 summer market rout.

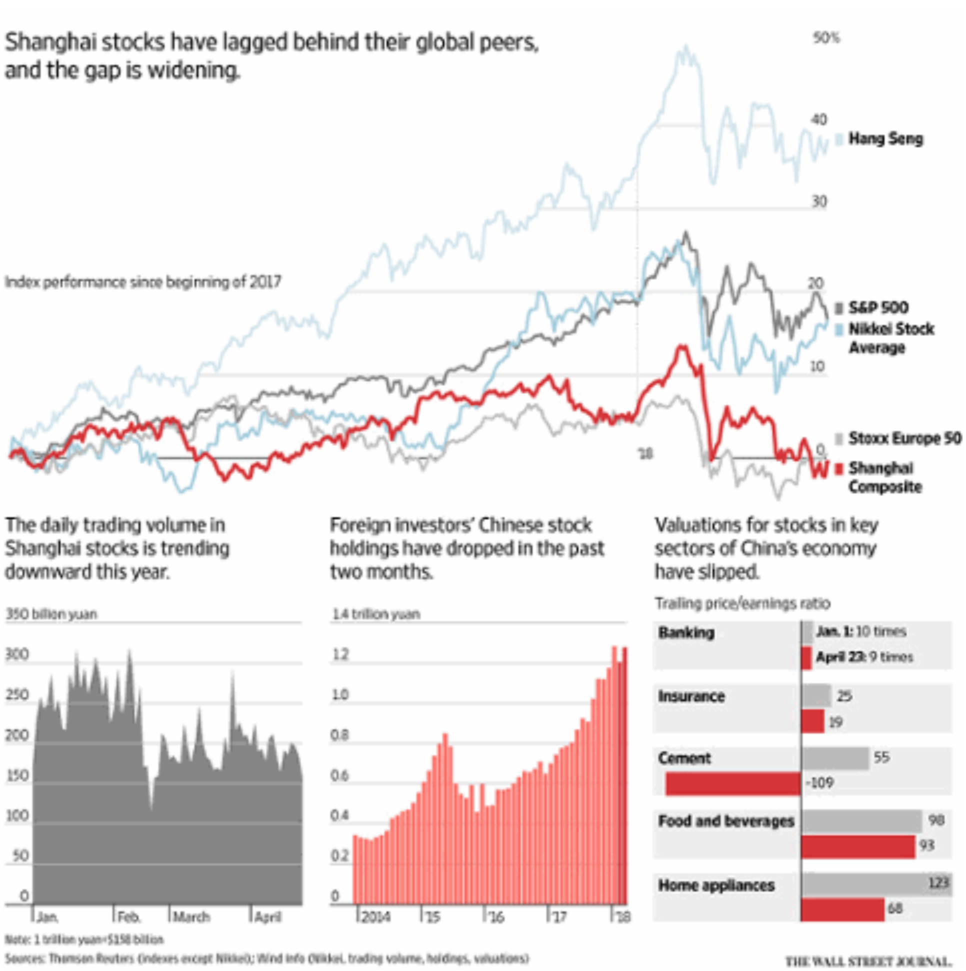
Saber rattling between the U.S. and China over higher tariffs has also damped sentiment. Foreign investors cut their holdings of Chinese stocks for a second consecutive month in March, to 1.20 trillion yuan, down from a record 1.28 trillion yuan in January.

Anh Lu, a Hong Kong-based equities portfolio manager at T. Rowe Price, said she has cut her fund's exposure to mainland listed companies to 7% from as high as 10% in late January, before the selloff. "Right now, the market is selling anything that has an export part of the business," she said.

Some stocks are already feeling the pain. Shanghai-listed shares of Hengtong Optic-Electric Co., a Suzhou-based optic cable producer, have lost 9% in the past two weeks, reflecting investor concerns that companies forming part of the supply chain in the telecom sector could be the main victims of U.S.-China tensions.

One reason Chinese stocks have underperformed their U.S. peers as trade disputes escalated is differences in how the two markets trade, said Caroline Yu Maurer, Hong Kong-based head of Greater China equities at BNP Paribas Asset Management. "In China, when markets go one way, they tend to go too much in that direction," Ms. Maurer said. "When people sell, every investor seems to want to get out before the next one."

The Shanghai market's weak showing comes less than two months before MSCI Inc. includes 222 mainland Chinese-listed stocks in its emerging-markets index for the first time.



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THE WALL STREET JOURNAL.
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Heard on the Street
Don't Get Hung Up on 3% Yields

By Justin Lahart
496 words
25 April 2018
The Wall Street Journal
J
B16
English

[Financial Analysis and Commentary]

The bond market is getting very exciting because the yield on the **10-year Treasury** has finally crossed 3%. And while 3% is just a number, it is an important marker for the rise in long-term rates, which weigh on the economy. The 10-year yielded 2.41% at the start of the year.

Yields' march higher comes at an odd time, since the recent economic news hasn't been great. But inflation does appear to be firming, and the rise in **oil prices** suggests the global economy is running a bit warmer.

Investors were focused on the **10-year Treasury** topping 3% on Tuesday; it was part of why stocks fell sharply. But the more important development centers on what the whole of the Treasury market has been doing, and it is hardly **bearish** for stocks.

Expectations are that the Federal Reserve will keep raising interest rates, which has pushed the 2-year yield to 2.47% from 1.89% this year. As a result, the yield curve, or the difference between the yields on the 10-year and 2-year notes, has narrowed to just 0.5 percentage point.

That is a good spot to be. Healthy economic growth will keep the Fed on track to raise rates further, while modest inflation will keep long-term yields from spiking. This flattening of the yield curve makes investors worried because the market gets closer to the dreaded inverted yield curve, meaning the 2-year yield rises above that of the 10-year. An inverted yield curve has often predicted a recession.

We aren't there yet. The current curve is still positive, which suggests bond investors believe the economy will be able to absorb Fed rate increases.

An inverted curve, on the other hand, suggests they believe the Fed has raised rates to the point that the economy risks faltering, and the central bank will need to cut rates in an attempt to head off a recession.

Rich Bernstein of Richard Bernstein Advisors says the way to think of the yield curve isn't as a dimmer switch, but as an on-off switch -- off is when the yield curve inverts. There is no reason to worry until switch gets thrown, and there is no big rush to get out when that happens. Stocks have tended to perform well when the yield curve is relatively flat.

Since 1976 when the difference between the 10-year and 2-year yields has been between 0 and 0.5 percentage point, the **S&P 500** has gained 13%, on average, over the following year.

When the curve has inverted, the S&P has gained just 5%, on average, and experienced some of its most harrowing declines. That counts as a cautionary message, but the Treasury market isn't declaring last call yet.

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Document J000000020180425ee4p00016

THE WALL STREET JOURNAL.
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Heard on the Street
Supply Starts to Crimp Growth

By Richard Barley
380 words
25 April 2018
The Wall Street Journal
J
B1
English

[Financial Analysis and Commentary]

In the battle for economic supremacy, investors should quickly be realizing it is increasingly about supply, not demand.

Take vehicle giant Volvo: On Tuesday it said demand for trucks is strong. The trouble is its own supply-chain constraints are crimping profitability. In the U.S. shale boom, Permian Basin operators are encountering congested pipelines and shortages of materials and workers. U.S. railroad companies BNSF and Union Pacific are offering big signing bonuses as freight volumes rise, the latter in part because truck capacity for shipments is tight.

Economic data also are showing a constrained supply side. The Institute for Supply Management's index measuring backlogs of orders in manufacturing has reached its highest level since May 2004. Set against robust demand, supply chains are "struggling to keep up," the ISM says.

But it is increasingly a global phenomenon. In Europe, where the recovery is a couple of years behind the U.S., the IHS Markit purchasing-managers index shows delivery times at close to the longest in the survey's two-decade history. A European Commission survey shows a sharp rise in eurozone businesses reporting labor and equipment as factors limiting production. The Chinese manufacturing PMI also shows rising backlogs of work in recent months, although to a lesser extent.

On both sides of the Atlantic, unemployment already has fallen a long way, so greater investment in labor-saving plants and gizmos will be key to keep the supply problems from feeding into prices. Such spending might boost productivity, allowing for higher wage increases and perhaps boosting potential growth, keeping central banks from tightening policy further and faster than markets currently expect.

The increasing focus on supply rather than demand goes hand in hand with the switch in markets to wondering about inflation rather than fearing deflation. The rise of **10**-**year Treasury** yields above 3% Tuesday is a clear sign of the change in mood.

Global tensions could yet weigh on companies' appetite to invest: Confidence in the future is an important factor. But increasingly, the type of spending going on in the economy will count for just as much as the amount being spent.

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THE WALL STREET JOURNAL.
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U.S. News: Deficit-Ridden Illinois to Test Its Appeal --- The politically divided state pitches to yield-hungry investors with $500 million offering

By Gunjan Banerji
679 words
25 April 2018
The Wall Street Journal
J
A3
English

Illinois will add to its more than $30 billion debt load with a bond sale on Wednesday, testing yield-hungry investors' desire to lend to the state as it grapples with continuing political and financial issues.

Illinois is the worst-rated state in the municipal market. The Prairie State's credit quality has crumbled in recent years as expenses have far outpaced revenues.

Since the 2008 financial crisis, fiscal woes have also afflicted some other states and cities, which, like Illinois, face potentially debilitating pension liabilities. Investors have given most others a pass, though, because states are still generally thought of as safe credits.

That's because of their ability to raise revenues through taxes and slash expenses, as well as their inability to file for bankruptcy. No state has defaulted on its general obligation bonds since Arkansas in 1933.

But "Illinois has increasingly become an outlier among the 50 states," wrote Moody's Investors Service analysts in October before a state bond deal. The rating firm pegs it at Baa3 and has a negative outlook on the state, meaning it could be downgraded further.

Like Moody's, S&P Global Inc. and Fitch Ratings grade the state slightly above noninvestment grade, or junk, at "BBB-" and "BBB," respectively.

While its debt is technically rated as investment grade, its bonds currently trade in line with junk municipal debt, according to Thomson Reuters Municipal Market Data.

One of Illinois's biggest problems: political logjams. State lawmakers have squabbled over everything from taxes to pensions. The state went more than two years without a budget before passing one in July 2017.

Now, with another budget deadline looming, some investors are skeptical that Illinois will be able to reach a fiscal deal soon after it issues millions of dollars in fresh debt.

Illinois is supposed to pass a fiscal 2019 budget by May 31. Last summer, Republican Gov. Bruce Rauner wasn't able to reach agreement with Democrats or Republicans, leading politicians from both parties to make the rare move of overriding his veto of a tax increase, reaching a budget deal and averting a junk rating.

Investors and credit rating firms are watching this week's debt sale closely. The state plans to sell $500 million in tax-exempt debt on Wednesday with maturities ranging from 2019 to 2043.

Fitch Ratings said in a recent report that if political gridlock returns, Illinois could be downgraded once again.

"The question becomes, do they run into the same problem they ran into last year?" said Nicholas Venditti, a Santa Fe, N.M., portfolio manager at Thornburg Investment Management, which oversees $11.5 billion in municipal bonds.

"Now probably isn't the time to be buying Illinois' bonds" unless investors expect political woes to dissipate later this year, he said.

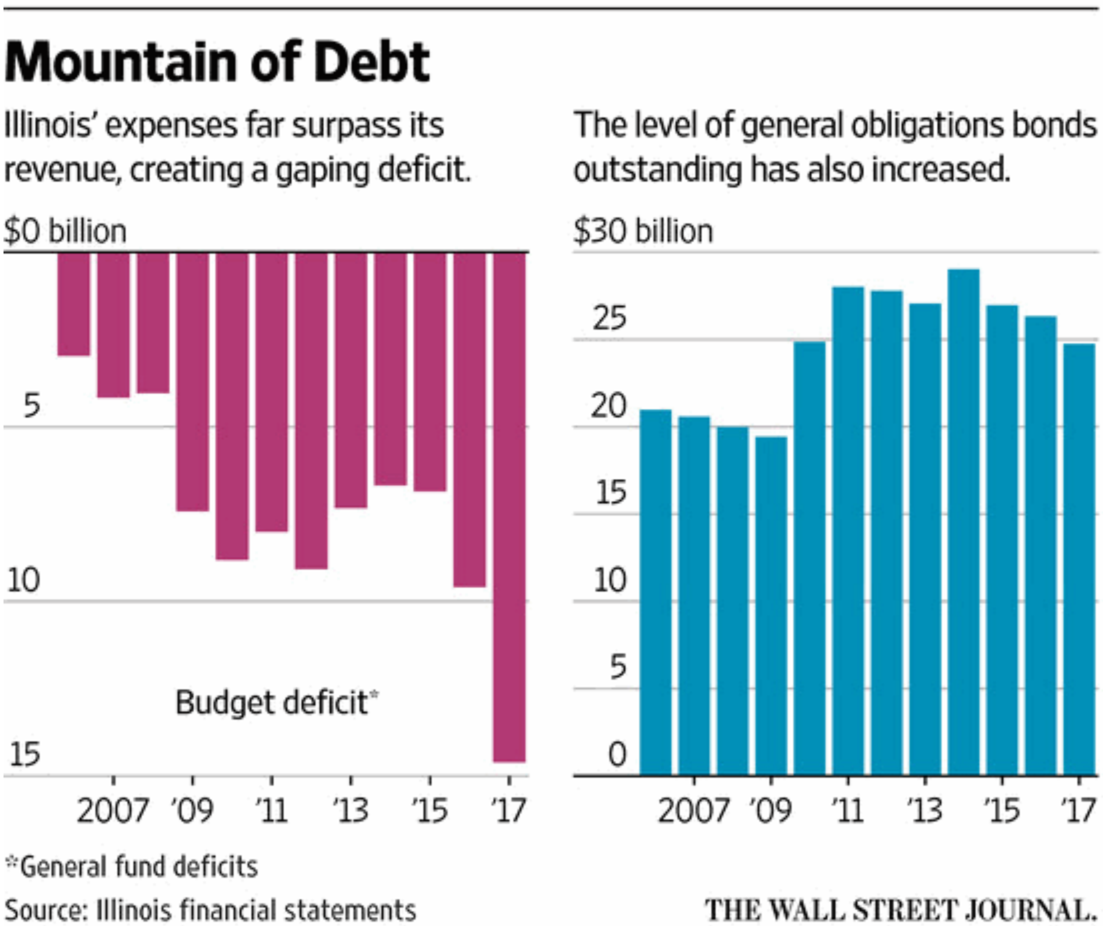
The state's debt is already some of the most **volatile** of its kind in the municipal market, Mr. Venditti said. There is likely more turbulence ahead given the political clashes that have dominated the statehouse in the past, he said.

Some investors said demand for higher-yielding investments could woo investors on Wednesday. Additionally, lawmakers' willingness to pass a budget last year was a positive sign to some.

Another factor that may work in the state's favor this week: Yields on Treasurys -- which often compete with municipal debt -- have climbed since last year but still remain historically low. Bond issuance from states and cities has also been light this year, according to traders.

"It's not going to go smoothly, but I think it's going to happen," said Chris Brigati, New York-based head of municipal trading at Advisors Asset Management, speaking of a budget deal. "It's Illinois, and things don't go easy."

Injecting other uncertainty into the state's finances, Mr. Rauner is up for re-election in November in the Democratic-leaning state.



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WSJ PRO FINANCIAL REGULATION

Markets

CFPB Weighs Nixing Public Access to Complaints | CFTC Knocks Blackstone on Hovnanian Swap Trade | Tracy's Take: Credit Unions Face Transparency Fight; The Wall Street Journal's financial regulation newsletter for Wednesday, April 25, 2018.

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English

Tracy's Take: Credit Unions Face Transparency Fight

CFPB Considers Ending Public Access to Complaints About Banks

CFTC Knocks Blackstone on Hovnanian Swap Trade

Yahoo's Successor to Pay $35 Million in Settlement Over Cyberbreach

To Catch Bad Actors, Winklevosses' Crypto Exchange Teams Up With **Nasdaq**

Credit Unions Face Transparency Fight

Credit unions have claimed successes in the 115th Congress, protecting their federal tax break and adding some provisions to a Senate-approved regulatory relief bill that could become law later this year. Now they've got a new fight on their hands.

Senate Finance Committee Chairman Orrin Hatch (R., Utah) on Tuesday pressed the Internal Revenue Service to consider making credit unions disclose more information about their operations, a move that was quickly criticized by credit unions' Washington trade associations.

Mr. Hatch, seeking "greater transparency," said the IRS has the authority to require credit unions to file Form 990s as many other nonprofits do. The forms are public records, and contain basic information about a tax-exempt group's operations. An IRS spokeswoman said the agency is reviewing the letter.

Bankers would surely cheer such a change. They believe credit unions abuse their tax-exempt status, and hope more disclosure would help prove it.

Dan Berger, president of the National Association of Federally-Insured Credit Unions, said "requiring credit unions to file additional paperwork is unlikely to increase transparency in a material manner and would only serve to increase the already-staggering regulatory burden imposed on credit unions."

Credit unions point out they already file quarterly reports with their regulator, the National Credit Union Administration.

One big difference between those quarterly reports and IRS forms: compensation. Credit unions generally don't report to the NCUA how much their executives are paid. Form 990s do contain that information.

The IRS letter is the second from Mr. Hatch on credit unions this year, after he wrote to NCUA Chairman Mark McWatters questioning the growth of large credit unions. Mr. McWatters penned a nine-page response. Among other things, he said changing credit unions' tax status could potentially cause some to fail, unless Congress at the same time lifted other restrictions on the lenders.

It's unclear where Mr. Hatch's correspondence will lead, but for now he's been successful on one point: People are talking about credit unions again.

Key Developments in Washington, on Wall Street, and Beyond

CFPB Considers Ending Public Access to Complaints About Banks

The Trump administration is likely to end public access to a web portal used by hundreds of thousands of consumers each year to file complaints against financial companies.

The Consumer Financial Protection Bureau's acting director, Mick Mulvaney, on Tuesday addressed his intention to eliminate public access to the complaint database, saying it contains information that hasn't been fully vetted by the government.

"I don't see anything in here that says I have to run a Yelp for financial services sponsored by the federal government," Mr. Mulvaney said at a banking industry conference, holding up a copy of the 2010 Dodd-Frank financial law that created the CFPB.

CFTC Knocks Blackstone on Hovnanian Swap Trade

A U.S. derivatives regulator criticized credit-default-swap trades that cause healthy companies to default, a potential complication for a Blackstone Group unit's disputed lending deal with homebuilder Hovnanian Enterprises Inc.

The Commodity Futures Trading Commission issued a warning Tuesday against corporate borrowers voluntarily skipping their debt obligations to trigger credit-default swaps that act as insurance against nonpayment.

Investors are wary of a proliferation of these deals after Hovnanian pledged to manufacture a default for the benefit of Blackstone's GSO Capital Partners LP. GSO provided a sweetheart financing package in exchange, effectively splitting its anticipated credit-default swap payday with Hovnanian.

Yahoo's Successor to Pay $35 Million in Settlement Over Cyberbreach

Yahoo Inc.'s response to a 2014 hack of hundreds of millions of user accounts drew a $35 million fine from regulators, the first time a public company has been penalized over its handling of a cybersecurity breach.

The Securities and Exchange Commission said Tuesday that Altaba Inc., formerly Yahoo, failed to properly investigate the breach and consider whether it should be disclosed to shareholders. The SEC said the company knew within days of the breach that Russian hackers had obtained usernames, phone numbers, birth dates, encrypted passwords, and security questions and answers for at least hundreds of millions of users, and perhaps billions. Yet Yahoo didn't disclose the hack until 2016.

To Catch Bad Actors, Winklevosses' Crypto Exchange Teams Up With **Nasdaq**

Gemini, the bitcoin exchange founded by Cameron and Tyler Winklevoss, has teamed up with **Nasdaq** Inc. to beef up its defenses against market manipulation—the latest sign that the cryptocurrency industry is trying to get past its Wild West days.

The deal comes as regulators have stepped up scrutiny of digital-currency exchanges in recent months. Securities and Exchange Commission officials have warned of potential fraud and manipulation on the largely unregulated trading venues.

Under the agreement, Gemini will use **Nasdaq**'s surveillance software, called SMARTS, to monitor its markets for potentially abusive trading practices. The two companies announced the agreement on Wednesday. Financial terms weren't disclosed.

WSJ Pro: FSOC Alters Bylaws So Agencies Don't Lose a Vote

The U.S. Financial Stability Oversight Council voted to change part of its bylaws governing what happens when one of its regulatory members has recused himself or herself from a decision. Recusals have occurred in recent years when regulators who worked in the private sector stepped away from decisions involving designating big financial companies as "systemically important." Under the changes, the disqualified council member could designate another official from his or her agency to discuss and vote on the issue. A Treasury spokeswoman said the vote was unanimous.

WSJ Pro: Warner Tells House Not to Tinker With Dodd-Frank Rollback

The House should pass a bipartisan bank-deregulatory bill that cleared the Senate last month, said Sen. Mark Warner (D., Va.), warning the bill won't become law if House lawmakers tinker with it. Mr. Warner, who co-sponsored the legislation in question, said the measure "will not pass" if the House makes changes that necessitate another vote on the measure in the Senate. "We've stretched this about as far as we can go," Mr. Warner said at a conference hosted by the American Bankers Association. "The House of Representatives needs to accept this legislation."

Wells Fargo Directors Win Easily Despite Criticisms

Wells Fargo & Co. re-elected all of its 12 board directors with more than 89% of preliminary votes, in a shift from the bank's turbulent shareholder meeting last year.

Wells Fargo, which hosted the meeting in Des Moines, Iowa, near its mortgage-business headquarters, still heard complaints about Chief Executive Timothy Sloan, executive compensation and its relationship with the firearms industry during the 2½-hour-long meeting.

Wells Fargo Chairman Elizabeth "Betsy" Duke defended Mr. Sloan's role as CEO, saying she disagrees with California Treasurer John Chiang's and others' calls for him to be removed.

WSJ Pro: Deputy Trade Official Tapped As Acting Ex-Im Bank Head

Jeffrey Gerrish, a deputy U.S. trade representative, will oversee the day-to-day operations of the Export-Import Bank on an acting basis, the White House said Tuesday. The move to tap Mr. Gerrish as acting director ensures someone is in charge of the agency, which has operated without any board members for over a month. Still, the Trump administration has yet to nominate anyone to head the bank on a permanent basis since the Senate blocked former House Republican Scott Garrett for the post late last year. And a handful of additional bank nominees are still pending in the chamber. Mr. Gerrish was confirmed by the Senate in March as a deputy to U.S. trade representative Robert Lighthizer, with a focus on Europe, Africa and other areas of trade.

The Cryptocurrency Strategy Startups Love (and Regulators Worry Over)

Last year Protocol Labs Inc. raised nearly $200 million from investors, including venture capitalists Sequoia Capital and Andreessen Horowitz, by rewarding them with new cryptocurrencies. Since then, more than 60 companies have reported raising $564 million using the concept, according to regulatory filings.

The strategy is known as a presale of tokens, or Simple Agreement for Future Tokens, and startups are using it as a way to avoid much of the cost and regulation of traditional stock sales. One problem: Regulators haven't recognized the arrangement as a valid way to raise money in compliance with investor-protection laws.

Unlike stock, a SAFT doesn't offer investors a stake in the startup, meaning they get no claim on the firm's profits or voting rights to influence the company, according to a legal framework for SAFTs that Protocol made public last year. The only thing a SAFT investor receives is the right to the token, which could have no value if the company's blockchain-based network fails to gain traction, or if regulators intervene in a way that limits the market for the coins.

Some companies that have conducted token pre-sales face investigations from the Securities and Exchange Commission, and all face the risk that the SEC will at some point declare the coins are subject to investor-protection rules. That would severely restrict venture capitalists' ability to sell them on a broader group of investors unless the startups comply with rules they were trying to avoid in the first place.

Wednesday, April 25

NA

The Women in Housing and Finance holds a daylong symposium on the impact of financial technology and how industry regulators are responding.

8:30 a.m.

Comptroller of the Currency Joseph Otting speaks at the American Bankers Association's government relations summit.

Thursday, April 26

noon

Roughly two years after a Securities and Exchange Commission rule permitted crowdfunding, the Heritage Foundationhosts a discussion on how the fundraising method is working and what reforms are needed.

The Cost of Regulatory Divergence

Inconsistencies in regulation among various jurisdictions—known as regulatory divergence—cost financial institutions between 5% and 10% of their annual revenue, according to a survey of 251 compliance and risk-management officers and senior leaders by the International Federation of Accountants and the Organization for Economic Cooperation and Development. Just over half (51%) said that in the past five years, they spent resources on regulatory divergence that they wanted to allocate to risk management. "This consumes scarce senior management time, as well as capital, that could otherwise be focused on identifying emerging risks in the financial system," the report says.

Fining Big Banks Isn't Solving the Problem

Wrongdoing by banks should be handled by the court system, not with settlements and fines that prevent the "public and bank regulators from understanding exactly what went on and whether other laws were broken," Mehrsa Baradaran of the University of Georgia School of Law writes for Fortune. Fines ultimately are paid by shareholders, "not the bank employees responsible," and the wrongdoing continues, she says. "Fines can deter bad behavior, but there's something about the fear of prison and bankruptcy that serves as an excellent reminder to follow the rules," she writes.

Deutsche Bank AG named longtime operations executive Frank Kuhnke as chief operating officer under new Chief Executive Christian Sewing, replacing Kim Hammonds, whose departure comes amid a high-level reshuffling at the German lender.

Harvey Weinstein borrowed $1 million from his company last year in the months before public revelations of his alleged sexual misconduct plunged the movie studio that bore his name into bankruptcy.

Mike Cagney, co-founder of Social Finance Inc., has just launched his new fintech startup, Figure Technologies Inc., but there's already a new venture fund being raised to invest in its ecosystem.

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The New York Times

Business/Financial Desk; SECTB
Mnuchin Will Head To China Over Trade

By ALAN RAPPEPORT and ANA SWANSON
1,202 words
25 April 2018
The New York Times
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Late Edition - Final
2
English

WASHINGTON -- With trade tensions mounting between the United States and China, President Trump said he would dispatch his Treasury secretary, Steven Mnuchin, and other top economic advisers to Beijing next week to try to forestall an all-out trade war.

On Tuesday, Mr. Trump said he was optimistic that the United States could reach a deal with China. But he warned that if the Asian nation did not live up to its promises to open its markets, his administration would proceed with the tariffs he has threatened to impose on as much as $150 billion worth of Chinese products.

''I think China is very serious, and we're very serious,'' Mr. Trump said between meetings with President Emmanuel Macron of France. ''We have no choice but to be very serious.''

Mr. Trump said that the United States delegation was making the trip at China's request and that he was heartened by recent remarks by its president, Xi Jinping, suggesting that he was prepared to open his country's economy to more foreign investment and ease restrictions on imports of American cars.

The two economic giants have been locked in a tit-for-tat battle over tariffs, with the United States threatening to tax Chinese products like TVs and medical devices and the Chinese retaliating with tariffs on pork and threatening to impose additional penalties on soybeans and other American goods.

Mr. Mnuchin is expected to be joined on the trip by Larry Kudlow, the director of the White House's National Economic Council, and Robert Lighthizer, the United States trade representative. The delegation comprises a wide range of views on trade, with Mr. Mnuchin and Mr. Kudlow, a former CNBC economic commentator, more receptive to free trade and resistant to draconian tariffs, and Mr. Lighthizer encouraging the president to take a harder line. Peter Navarro, a trade adviser and the author of the book ''Death by China,'' may also travel with the group, but an administration official said the details were not yet finalized.

Chinese officials have increasingly turned to Mr. Mnuchin as their primary contact in trade talks, which some observers say may stem from China's perception that he is more sensitive to their concerns. After the formal ''economic dialogue'' between the United States and China stalled last summer, Mr. Mnuchin has held regular discussions with his Chinese counterparts, including Liu He, China's new economic minister.

The Chinese view Mr. Mnuchin and Mr. Kudlow, who both previously worked on Wall Street, as potentially more moderate voices who would be more reluctant to start a trade conflict that could damage American businesses and cause stock markets to plunge. They hope the two men will be more sympathetic to offers to open up China's **financial market** and reduce its trade surplus by making purchases of American natural gas and other products, people briefed on the deliberations said.

Mr. Navarro and Mr. Lighthizer, meanwhile, have criticized China's offerings and insisted that the Chinese make more sweeping changes to its economy, including removing industrial subsidies and rolling back government intervention in the economy.

The stakes of the trip are high after months of increasing strain between China and the United States. Fears about a trade war between the world's two biggest economic powers emerged in March after Mr. Trump unveiled tariffs on global imports of aluminum and steel. The threat of tariffs on up to $150 billion of Chinese imports followed.

Next month, the Treasury Department is expected to release a plan to further restrict Chinese investment in American companies, including industries such as semiconductors and artificial intelligence that are sensitive for national security reasons. The rules could also restrict American partnerships with Chinese companies abroad.

China has not taken such threats lightly. In recent weeks it has hit back with its own threats, raising concerns among farmers and businesses in the United States that the escalating dispute could be a drag on the economy and blunt the effect of the tax cuts Mr. Trump signed into law in December.

But Mr. Xi has also signaled that he is open to negotiating with Mr. Trump. He said this month that China would reduce its tariffs on autos, which Mr. Mnuchin called ''a big step in the right direction.''

While some trade experts warned that China has failed to deliver on such promises before, Mr. Trump insisted on Tuesday that he was encouraged about the possibility of a deal.

''President Xi made a speech four days ago where he said that China is going to be opened up,'' Mr. Trump said. ''Because it's not opened up right now. They trade with us. We can't trade with them.''

Some China analysts were not so impressed by Mr. Xi's speech. ''I thought it was a bunch of warmed-over repetition of things we had heard before,'' said Scott Kennedy, a China analyst at the Center for Strategic and International Studies. ''For me, the concern is that the level of mixed messaging that we're sending the Chinese makes them expect that they can get through this with a very limited offer.''

Edward Mills, a public policy analyst at Raymond James Financial, said he still viewed negotiations that averted tariffs as the most likely outcome. That could include, for example, China promising to reduce tariffs on American cars, open up its financial sector and drop rules that require American companies to partner with Chinese firms in many industries. But the negotiations could drag out for months, damaging business relations.

Mr. Trump ''hasn't actually identified what he wants as the end game'' of the negotiations, Mr. Mills said. ''I think that is something that gives a lot of flexibility to Mnuchin and the president to declare a number of things as a victory.''

Some veterans of trade talks with China caution that Mr. Trump's approach could backfire.

''I think that it's very dangerous to get into a tit-for-tat war in trade, because even if your goal is to be moderate and proportional in response, one thing can lead to another and it can get out of control,'' Jacob J. Lew, the Treasury secretary under President Barack Obama, told CNBC last week.

However, Paul H. O'Neill, who was President George W. Bush's first Treasury secretary and traveled to China for talks in 2001, said it was a good sign that the American delegation was making the trip. Negotiations with Chinese officials tend to be well choreographed, he said, so it is likely that the dimensions of a trade agreement are starting to take shape.

''There's already been endless conversations, and tweets, from our side,'' Mr. O'Neill said in an interview. ''They are shadow dancing with each other, but behind the scenes where we can't see what is going on, apparently they are making some progress.''

Treasury Secretary Steven Mnuchin, above, leaving the White House on Tuesday. Mr. Mnuchin and Larry Kudlow, left, will be part of a U.S. trade delegation to China. (PHOTOGRAPHS BY DOUG MILLS/THE NEW YORK TIMES; JOE RAEDLE/GETTY IMAGES)

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The New York Times

CONTRIBUTING OP-ED WRITER
Editorial Desk; SECTA
Actually, It's Not the Economy

By RUCHIR SHARMA
973 words
25 April 2018
The New York Times
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With Angela Merkel and Emmanuel Macron visiting Donald Trump this week, much of the commentary has focused on how wildly different the staid German chancellor and the globally minded French president are from the mercurial American president. But the three do share one trait: They are all unpopular at home despite the good economic times.

This is new. For most of the postwar era, voters in the big democracies rewarded leaders for strong economies and punished them for policies that hurt growth. Now the link between good politics and good economics seems to have broken.

Last year, the global economy was finally accelerating out of the long torpor that followed the financial crisis of 2008. Unemployment hit lows not seen in decades, and inflation all but disappeared. Yet by January, my index of approval ratings for leaders in 20 major democracies showed their average rating hitting a new low of just 35 percent, down from a peak of more than 50 percent a decade ago.

President Trump is Exhibit A of this fraying connection between politics and economics. Surveys of consumer confidence show that Americans haven't felt this good about the economy since at least the height of the dot-com boom in 2000. Yet Mr. Trump's approval ratings have hovered around record lows for this point in any president's first term. Many commentators assume this is because Mr. Trump's divisive personality has overshadowed the strong economy.

But personality can't explain the struggles of Chancellor Merkel, who is as bland as Mr. Trump is controversial. Germany is enjoying a recovery even more surprisingly robust than the United States'. Yet in September Ms. Merkel led her party to its worst showing since 1949, and her approval ratings remain depressed.

The same decline has bedeviled Mr. Macron and other decidedly mainstream leaders like Prime Minister Justin Trudeau of Canada and Shinzo Abe, prime minister of Japan. Yet none of these leaders comes close to matching President Trump for outrageousness. All three are seen as economic reformers who have produced relatively strong results, yet they all have approval ratings around 40 percent, just as bad as Mr. Trump's.

All politics is local, and maybe all of these leaders are suffering setbacks owing to domestic political issues. But that would be quite a coincidence. Something else seems to be at work.

Perhaps the most persuasive explanation is the rise of angry populism, built on a rejection of the established order and a growing focus on issues of culture and national identity, rather than practical economic outcomes.

In the past populism tended to rise in bad times and ebb in good ones, so you might have expected it to recede as the global recovery increased employment and wages over the past 18 months. But economic factors may no longer matter as much in a bitterly emotional political age, and leader approval ratings have continued to fall.

More people are getting their news from highly politicized arms of both traditional and social media, which can turn anything -- including the economy -- into a partisan issue. Until recently, party affiliation did not seem relevant to consumer optimism in the United States, but it does now. Before the 2016 presidential election, Democrats were more optimistic than Republicans, but that reversed immediately after Mr. Trump took office.

In this environment, the honeymoons granted newly elected leaders are now brutally short. Much of the recent decline in the approval ratings index is explained by the falling popularity of relative newcomers like Mr. Macron and Prime Minister Theresa May of Britain. Of the 20 leaders in the index, five came to power over the past two years with positive approval ratings, and four of them fell below 50 percent within a year. Ms. May's approval rating has fallen into the mid-30s, worse than Mr. Trump's.

The changing nature and control of the news also helps to explain an even more unexpected disconnect between political and economic reality: the rare leaders who remain popular despite a faltering economy. In my index, which uses only polls independent of government control, there are just two -- both elected autocrats.

In Russia, President Vladimir Putin's 80 percent approval rating recently helped him win another six-year term in office, despite painfully bad economic conditions since the 2014 **oil price** collapse. He has remained popular by dominating the media, sidelining rivals and stirring up nationalism through actions like the conquest of Crimea.

Like Mr. Putin, President Recep Tayyip Erdogan of Turkey has used state control of media, nationalist conspiracy theories and foreign adventures (including the recent dispatch of troops into Syria) to maintain his popularity. Emboldened by his approval ratings, Mr. Erdogan has just called early elections for June even though Turkey has one of the world's highest rates of inflation -- a cancer that has ended many other political careers.

These trends are worrying. Good economics should remain good politics. Democracies work best when voters hold politicians accountable for economic results. If leaders sense that the economy no longer matters, they are free to push any policy that will energize their base -- which may explain Mr. Trump's recent nationalist threats against China and populist threats against big companies, both potentially bad economic policies.

And then there is this worrisome thought: If leaders embrace aggressively populist and nationalistic policies in good times, what will happen when the economy takes a turn for the worse?

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Ruchir Sharma, author of ''The Rise and Fall of Nations: Forces of Change in the Post-Crisis World,'' is the chief global strategist at Morgan Stanley Investment Management and a contributing opinion writer.

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THE WALL STREET JOURNAL.
U.S. EDITION

World News: Economic Jitters Unsettle Any European Move on Rates

By Tom Fairless
424 words
25 April 2018
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FRANKFURT -- Trade disputes and a stronger currency are threatening a hard-fought economic recovery in the 19-nation eurozone, potentially delaying a move by the European Central Bank to follow the Federal Reserve in increasing short-term interest rates.

Trade conflicts are a particular concern for the ECB because the region escaped the lingering effects of its debt crisis in part due to the strength of its export sector.

But the bloc's economy appears to have slowed early this year, coinciding with mounting tensions over possible U.S. tariffs and a fresh increase in the euro's value against the dollar. A gauge of German business sentiment for April suggested on Tuesday that the slowdown may not be due to one-off factors.

ECB officials, including President Mario Draghi, have indicated that the bank will move only cautiously to withdraw its large monetary stimulus in light of trade disputes and a **volatile** currency. The ECB isn't expected to take any policy action when its top officials gather in Frankfurt on Wednesday and Thursday, but the bank might indicate how worried it is about the latest economic data.

"We are all aware that an escalation of protectionist threats from the United States would damp growth everywhere," said the head of France's central bank and ECB rate-setting committee member Francois Villeroy de Galhau in London on Tuesday. "The recent uncertainty is probably already having some negative effects on investment."

Analysts have in recent weeks dialed back their forecasts for when the ECB might increase short-term interest rates, which are currently minus 0.4%. Economists had until recently anticipated a first ECB interest-rate rise as soon as this year, but many now expect the bank to wait until the second half of next year -- possibly only after Mr. Draghi steps down as ECB chief in October 2019.

At the heart of the concerns is trade, which accounts for a much larger share of the eurozone economy than those of the U.S., China or Japan. The eurozone exports goods and services worth 44% of its economic output each year, compared with less than 12% for the U.S., 16% for Japan and around 20% for China, according to 2016 figures from the World Bank.

Mr. Draghi warned in Washington last week that rising protectionism might already be hurting business or consumer sentiment.

Paul Hannon in London contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Stocks Drop as Treasury Yields Touch 3%; Warnings from large companies that profits were peaking sent both stocks and bonds down, the latest move in a wave of volatility

By Daniel Kruger and Akane Otani
1,281 words
24 April 2018
07:56 PM
The Wall Street Journal Online
WSJO
English

The yield on the 10-year U.S. Treasury note hit 3% for the first time since 2014 in a vote of confidence for the economic expansion, but warnings from large companies that profits were peaking helped send the Dow industrials to their fifth straight decline.

Investors on Tuesday dealt with two conflicting messages. The rise in bond yields early in the day was a signal that the Federal Reserve might have to raise interest rates more rapidly to respond to economic growth and the prospect of more inflation. That could add fuel to the long stock rally.

Yet a handful of large companies sounded a different tune: It might not get much better than it is now.

That sent both stocks and bonds down, the latest move in a wave of **volatility** after a banner year in which nearly all assets seemed to be constantly charging higher. The **Dow Jones Industrial Average** tumbled 424.56 to 24024.13, leaving it 9.7% below its Jan. 26 record close.

Shares of heavy-machinery manufacturer Caterpillar Inc .—considered a bellwether for industrial America—tumbled 6.2% after company officials cautioned first-quarter results could mark a "high-water mark for the year," while multinational conglomerate 3M Co . shed 6.8% after the company trimmed the top end of its fiscal-year earnings guidance.

"If you've got production costs going up and interest costs going up, you're saying, wait a minute—is this as good as it's going to get?" said Michael Farr , president of Farr, Miller & Washington, a money-management firm.

Bond yields had slumped near historic lows in the postcrisis years as economic growth contracted and the Federal Reserve undertook bond buying on a massive scale. A rise to 3% signifies in part that the economy is returning to near normal conditions in which a rapid deceleration is deemed less likely than it was in the years immediately after the crisis.

Yet many analysts believe the U.S. is in the late stages of the economic cycle, and say a rapid run-up in bond yields could pose a threat to the stock rally, with rising inflation rates discouraging consumer spending and increasing labor costs.

The yield on the benchmark 10-year U.S. Treasury note, a barometer that influences borrowing costs for consumers, corporations and state and local governments, rose as high as 3.001% Tuesday—its highest intraday level since Jan. 9, 2014—before settling at 2.983%, up from 2.973% Monday. Yields rise as **bond prices** fall.

The 10-year yield's half-percentage point climb to similar heights earlier this year contributed to the tumble that sent stocks into correction territory in February, as higher yields dented investors' confidence that stock valuations could rise unceasingly.

Stocks had appeared to stabilize in the months following the selloff, with the **S&P 500** reclaiming positive territory for the year after a 10% fall from its Jan. 26 high. Yet the **stock market**'s lackluster response to earnings reports Monday and Tuesday, combined with the fresh rise in bond yields, has renewed investor fears of a resurgence in selling.

"The repricing of interest rates is potentially a bigger headwind for **financial markets** than the real economy," said Ashok Bhatia, a senior portfolio manager in Neuberger Berman 's Fixed Income Multi-Sector Group.

Not all are convinced that bond yields will continue their march higher. The 10-year yield has topped 3% several times since the financial crisis, only to soon retreat below the level. That pattern has left investors debating whether this latest surge marks a new phase in the recovery or the latest in a series of false starts.

"We are a buyer of 10-year Treasurys" versus riskier assets, said James Camp, managing director for fixed-income at Eagle Asset Management. He said investors who prize dividend income may begin to find bonds at higher yields more attractive.

Still, many believe long-nascent inflation could finally be picking up, something that they expect will ultimately nudge bond yields higher.

U.S. crude is approaching $70 a barrel for the first time since 2014 , while tighter trade policies, including tariffs on steel and aluminum imports, are threatening to drive prices across the economy higher . Inflation poses a threat to the value of government bonds because it chips away at the purchasing power of their fixed payments and can push the Fed to raise interest rates.

Further increases in interest rates could pressure stocks, which for years had benefited from anemic bond yields that made their returns look relatively attractive.

"For a long time, stocks were essentially the only game in town," said Jack Ablin, chief investment officer at Cresset Wealth Advisors. "As interest rates become more competitive, that's going to put more pressure on equities."

Others see a warning sign in the narrowing distance between short- and longer-term bond yields, known as a flattening yield curve. Two-year yields—which fell to 2.466% on Tuesday—tend to rise along with investors' expectations for tighter Fed policy, while longer-term yields are more responsive to the outlook for growth and inflation.

Because short-term rates have exceeded longer-term rates before each recession since at least 1975—a phenomenon known as an inverted yield curve—investors become wary as the curve flattens.

The pace of flattening suggests the yield curve could invert in early 2019, with a recession following a little more than a year after, said Adrian Helfert, deputy head of global aggregate investing at Amundi Pioneer.

Yet the flattening has occurred while economic growth continues to be steady, and few analysts see signs of any imminent slowdown.

While investors debate the meaning of the flattening curve, one factor that could propel yields higher is increased government borrowing. This year's rise in yields came after the passage of $1.5 trillion in tax cuts and the bigger bond sales the government needs to finance them. The Congressional Budget Office forecasts that the deficit will top $1 trillion in 2020 and remain above that level for the foreseeable future.

Yet other factors could cap the climb in bond yields. Because the 10-year yield is a benchmark rate used to help set interest rates for different kinds of loans, including mortgages, auto loans and corporate debt, higher yields increase the cost of debt, which can act as a brake on the economy. Yields remain low by historical standards and the implied inflation forecast from inflation-indexed Treasurys recently hit a 2018 high of 2.19% for the next 10 years.

While the financial crisis happened almost 10 years ago, the long path to 3% shows that the pain is only "slowly wearing off," said Jeremy Siegel, professor of finance at the University of Pennsylvania's Wharton School .

Write to Daniel Kruger at Daniel.Kruger@wsj.com and Akane Otani at akane.otani@wsj.com and Akane Otani at

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WSJ PRO CENTRAL BANKING

Economy

As ECB Contemplates Rate Move, Storm Clouds Gather Over Eurozone; Bloc's economy appears to have slowed, coinciding with mounting tensions over trade and the strength of the euro

By Tom Fairless
775 words
24 April 2018
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English

FRANKFURT—Trade disputes and a stronger currency are threatening a hard-fought economic recovery in the 19-nation eurozone, potentially delaying a move by the European Central Bank to follow the Federal Reserve in increasing short-term interest rates.

Trade conflicts are a particular concern for the ECB because the region escaped the lingering effects of its debt crisis in part due to the strength of its export sector.

But the bloc's economy appears to have slowed early this year, coinciding with mounting tensions over possible U.S. tariffs and a fresh increase in the euro's value against the dollar. A gauge of German business sentiment for April suggested on Tuesday that the slowdown may not be due to one-off factors.

ECB officials, including President Mario Draghi, have indicated that the bank will move only cautiously to withdraw its large monetary stimulus in light of trade disputes and a **volatile** currency. The ECB isn't expected to take any policy action when its top officials gather in Frankfurt on Wednesday and Thursday, but the bank might indicate how worried it is about the latest economic data.

"We are all aware that an escalation of protectionist threats from the United States would dampen growth everywhere," said the head of France's central bank and ECB rate-setting committee member François Villeroy de Galhau in London on Tuesday. "The recent uncertainty is probably already having some negative effects on investment."

Analysts have in recent weeks dialed back their forecasts for when the ECB might increase short-term interest rates, which are currently minus 0.4%. Economists had until recently anticipated a first ECB interest-rate hike as soon as this year, but many now expect the bank to wait until the second half of next year—possibly only after Mario Draghi steps down as ECB president in October 2019.

At the heart of the concerns is trade, which accounts for a much larger share of the eurozone economy than those of the U.S., China or Japan. The eurozone exports goods and services worth 44% of its economic output each year, compared with less than 12% for the United States, 16% for Japan and around 20% for China, according to 2016 figures from the World Bank.

Mr. Draghi warned in Washington last week that rising protectionism might already be hurting business or consumer sentiment.

"Trade disputes could potentially have a serious impact on the eurozone economy, particularly Germany, which has in many ways been driving the region's recovery," said Stefan Gerlach, a former deputy governor of Ireland's central bank who is now chief economist at EFG Bank in Zurich.

German Chancellor Angela Merkel and French President Emmanuel Macron are both expected to lobby President Trump this week on trade. French Economy Minister Bruno LeMaire described proposed U.S. tariffs on steel and aluminum imports last week as a "sword of Damocles hanging over our heads."

To be sure, the eurozone economy appears to be growing robustly for now. The International Monetary Fund this month increased its forecast for the bloc's growth rate to 2.4% for 2018, from 1.9%—not far off the expected U.S. growth rate of 2.9%. Economists suggest a range of one-off factors may have hurt the economy early this year, from strikes to an outbreak of flu. Businesses may also be struggling to recruit enough skilled workers as the unemployment rate falls, a development that could be viewed positively by the ECB if it helps to push up wages and inflation.

Still, the closely watched Ifo gauge of business sentiment in April slumped to its lowest level in almost a year, Ifo said Tuesday. Germany's main business lobby, the BDI, warned this week that trade tensions between the U.S. and China represent a big economic risk for German firms.

The strength of the euro—which has appreciated around 15% against the dollar over the past year, to $1.22—partly reflects U.S. policy decisions, according to Ewald Nowotny, who sits on the ECB's 25-member rate-setting committee as governor of Austria's central bank.

Investors may be worried about the large U.S. current-account and budget deficits, and consider the euro and yen to be more secure currencies, Mr. Nowotny told reporters in Washington on Sunday.

Paul Hannon in London contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Freeport Is Worst Performer in S&P 500 as Indonesia Troubles Pound Shares; Miner's shares tumble 15%, their steepest slide since January 2016

By Amrith Ramkumar
642 words
24 April 2018
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The Wall Street Journal Online
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English

Freeport-McMoRan Inc.'s shares had their worst day in two years Tuesday after the company said that its troubles mining copper in Indonesia were dragging on.

The shares tumbled $2.73, or 15%, to $16.08, their steepest slide since January 2016, while copper prices rose. Freeport was also the worst performer in the **S&P 500**.

Moves in copper tend to swing the shares of Freeport and other miners. But on Tuesday, investors were focused on Freeport's first-quarter results. The Phoenix-based company reported weaker-than-expected sales and profits, and gave lower guidance for future production.

Freeport is dealing with issues in Indonesia, where the giant copper and gold mine Grasberg is located. The company and the Indonesian government have been jostling for years over control of the world's second-largest copper mine.

On the earnings call with analysts, Chief Executive Richard Adkerson said ongoing negotiations over a sale of Freeport's majority stake to the government were taking longer than expected. Freeport previously said it wanted to complete a deal in the first half of the year.

The results are "certainly pouring cold water on some of the expectations that we are in the final innings of a very long, drawn-out negotiating process," said Lucas Pipes, an analyst at B. Riley. "Investors will have to deal with this. There's uncertainty and anxiety."

Adding to investor worries, Freeport said it is addressing new claims from Indonesia's Ministry of Environment and Forestry about how it handles the byproducts left over from extracting resources at Grasberg, which is located in the mountains of Indonesia.

Mr. Adkerson called the claims "really shocking and disappointing" and said they dictate Freeport meet standards in six months that realistically can't be achieved. He said the company received them last week but doesn't expect them to disrupt operations. He said they could add a distraction to the continuing negotiations over Grasberg.

"I'm concerned that behind it was political motivations," Mr. Adkerson said. "It has no impact on our view of the value of our asset."

The company also cut its 2019 copper-production projection, citing in part unexpected seismic activity from trying to ramp up operations in the Deep Mill Level Zone of Grasberg. Still, some analysts don't expect any delays to affect the company's long-term output.

Freeport plans to finish mining the available aboveground Grasberg resources this year before extracting metal underground in the future, a main reason analysts are waiting to see what form a possible deal with the government takes.

Investors pushed up the price of Freeport's shares after the company last August said it would give up its majority stake in Grasberg, reducing it to 49% from about 90%.

Analysts were further encouraged late last year when reports emerged that Indonesia wanted to evaluate acquiring the roughly 40% stake of global mining giant Rio Tinto in Freeport's future Grasberg production. Some said a possible agreement between Indonesia and Rio Tinto could limit Freeport's sale to a roughly 9% stake and make negotiations on overall price much easier.

But Mr. Adkerson said on Tuesday that Indonesia's evaluation of a possible deal with Rio Tinto took longer than expected. Some observers are worried that negotiations could stall ahead of next year's Indonesian presidential election.

Campaigning has already begun, and Mr. Adkerson said that Indonesian President Joko Widodo's political priorities could hinder progress on negotiations.

"A final resolution may have to wait until the second half of 2019," said Bill Sullivan, a Jakarta-based legal adviser to mining companies.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Slide on Caterpillar Warning, Rising Bond Yields; Government bond yields briefly topped 3% for first time in more than four years

By Riva Gold and Allison Prang
877 words
24 April 2018
05:29 PM
The Wall Street Journal Online
WSJO
English

* Treasury yield hit 3%

* Most S&P sectors swing lower

* Crude oil falls

The **Dow Jones Industrial Average** tumbled more than 600 points at one point Tuesday as it extended its losing streak to five sessions, after investors were spooked by a warning from industrial giant Caterpillar and by rising government bond yields.

Major benchmarks opened higher but turned sharply lower in afternoon trading after executives at Caterpillar, considered a bellwether for the economy, warned its margins may have peaked in the first quarter due to rising manufacturing costs.

Eight of the 11 sectors in the **S&P 500** slumped, while the utilities, telecommunications and real estate groups climbed, as those areas are generally considered safety plays because of their hefty dividends.

The blue-chip index fell 424.56 points, or 1.7%, to 24024.13, suffering its longest losing streak since March 2017, when the market fell for eight straight sessions. The **S&P 500** dropped 35.73 points, or 1.3%, to 2634.56 and the **Nasdaq Composite** fell 121.25 points, or 1.7%, to 7007.35.

Despite a relatively strong start to the earnings season, even companies that have topped expectations haven't been rewarded at the same pace as in recent quarters, according to data from FactSet. And some analysts have warned solid results may already be priced into the market.

Shares of Caterpillar, which beat earnings and sales estimates, tumbled $9.55, or 6.2%, to $144.44 after company executives characterized the first quarter as a "high watermark for the year" on their earnings call and said the heavy machinery maker didn't expect to see operating margins at the same level.

Aaron Clark, principal for GW&K Investment, said Caterpillar's comments about peaking margins weighed on sentiment Tuesday.

"That kind of was the event that triggered all this," Mr. Clark said, noting that the comments ignited concerns about other industrial companies and the broader market.

In other earnings-related moves, shares of 3M dropped 14.75, or 6.8%, to 201.13 in the stock's biggest decline on a percentage basis since December 2008, after the industrial conglomerate lowered the high end of its earnings guidance.

And Travelers slumped 4.35, or 3.2%, to 132.88 after the insurer reported higher catastrophe losses.

Together, the losses at Caterpillar, 3M and Travelers took 197 points off the Dow industrials.

In the tech sector, Alphabet's shares fell 51.17, or 4.8%, to 1022.64 after the Google parent posted a surge in profit but a rise in expenses. Those declines weighed on other technology-related stocks, including those in the popular FANG trade. Facebook, Amazon and Netflix all fell at least 3.7%.

Larry Hatheway, chief economist and head of investment solutions at GAM, said earnings have been good, but the market wasn't responding much to them.

Climbing] bond yields "could be holding the market back from where it would otherwise be," he said.

In the Treasurys market, the benchmark U.S. government**bond yield**, a barometer that influences borrowing costs for consumers, corporations and state and local governments, topped 3% for the first time in more than four years.

The yield on the **10**-**year Treasury** note settled at 2.983%, up slightly from 2.973% Monday afternoon. Yields rise as **bond prices** fall.

A surge above 3% could spook some investors, particularly those who for years have said low yields justified high stock valuations, while raising corporate borrowing costs and even mortgage rates.

Analysts have attributed the recent rise in yields partly to a climb in **oil prices**, which has helped push up inflation expectations. U.S. crude oil fell 1.4% to $67.70 a barrel Tuesday as investors weighed concerns that the U.S. could withdraw from the Iranian nuclear deal, a move they say could tighten global supplies.

Other geopolitical concerns have also hurt sentiment in recent weeks.

Sahak Manuelian, managing director at Wedbush Securities, said one of the things weighing on the market was President Donald Trump's comments midday about North Korea and Iran. Mr. Trump had said Iran will have "big problems" if it gets back into nuclear weapons. That "doesn't sit well," Mr. Manuelian said.

Jonathan Corpina, senior managing partner for Meridian Equity Partners, said he wasn't too worried about Tuesday's moves and noted trading volumes have been light and the market could easily reverse course Wednesday. When fewer people are acting as players, the trades that are being made are amplified, he added.

Write to Riva Gold at riva.gold@wsj.com and Allison Prang at allison.prang@wsj.com

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Markets

Near-Junk Illinois to Sell More Bonds—Will Investors Buy In? Worst-rated state in the country set to add to more than $30 billion debt pile

By Gunjan Banerji
926 words
24 April 2018
06:22 PM
WSJ Pro Bankruptcy
RSTPROBK
English

Illinois will add to its more than $30 billion debt load with a bond sale on Wednesday, testing yield-hungry investors' desire to lend to the state as it grapples with continuing political and financial issues.

Illinois is the worst-rated state in the municipal market. The Prairie State's credit quality has crumbled in recent years as expenses have far outpaced revenues.

Since the 2008 financial crisis, fiscal woes have also afflicted some other states and cities, which, like Illinois, face potentially debilitating pension liabilities. Investors have given most others a pass, though, because states are still generally thought of as safe credits.

That's because of their ability to raise revenues through taxes and slash expenses, as well as their inability to file for bankruptcy. No state has defaulted on its general obligation bonds since Arkansas in 1933.

But "Illinois has increasingly become an outlier among the 50 states," wrote Moody's Investors Service analysts in October before a state bond deal. The rating firm pegs it at Baa3 and has a negative outlook on the state, meaning it could be downgraded further.

Like Moody's, S&P Global Inc. and Fitch Ratings grade the state slightly above noninvestment grade, or junk, at "BBB-" and "BBB," respectively.

While its debt is technically rated as investment grade, its bonds currently trade in line with junk municipal debt, according to Thomson Reuters Municipal Market Data.

One of Illinois's biggest problems: political logjams. State lawmakers have squabbled over everything from taxes to pensions. The state went more than two years without a budget before passing one in July 2017.

Now, with another budget deadline looming, some investors are skeptical that Illinois will be able to reach a fiscal deal soon after it issues millions of dollars in fresh debt.

Illinois is supposed to pass a fiscal 2019 budget by May 31. Last summer, Republican Gov. Bruce Rauner wasn't able to reach agreement with Democrats or Republicans, leading politicians from both parties to make the rare move of overriding his veto of a tax increase, reaching a budget deal and averting a junk rating.

Investors and credit rating firms are watching this week's debt sale closely. The state plans to sell $500 million in tax-exempt debt on Wednesday with maturities ranging from 2019 to 2043.

Fitch Ratings said in a recent report that if political gridlock returns, Illinois could be downgraded once again.

"The question becomes, do they run into the same problem they ran into last year?" said Nicholos Venditti, a Santa Fe, N.M., portfolio manager at Thornburg Investment Management, which oversees $11.5 billion in municipal bonds.

"Now probably isn't the time to be buying Illinois' bonds" unless investors expect political woes to dissipate later this year, he said.

The state's debt is already some of the most **volatile** of its kind in the municipal market, Mr. Venditti said. There is likely more turbulence ahead given the political clashes that have dominated the statehouse in the past, he said.

Some investors said demand for higher-yielding investments could woo investors on Wednesday. Additionally, lawmakers' willingness to pass a budget last year was a positive sign to some.

Another factor that may work in the state's favor this week: Yields on Treasurys—which often compete with municipal debt—have climbed since last year but still remain historically low. Bond issuance from states and cities has also been light this year, according to traders.

"It's not going to go smoothly, but I think it's going to happen," said Chris Brigati, New York-based head of municipal trading at Advisors Asset Management, speaking of a budget deal. "It's Illinois, and things don't go easy."

The state could be forced to sell its debt this week at higher yields than where bonds currently trade in the secondary market, said Daniel Berger, a senior market strategist at Thomson Reuters' Municipal Market Data. Yields rise as **bond prices** fall.

Investors currently demand more yield from Illinois general obligation bonds than they do from some tobacco bonds, data from Thomson Reuters Municipal Market Data show—an unusual instance and potential sign of deteriorating faith in some state-issued debt.

Illinois has accumulated a massive load of unpaid bills. Through last year, some hospitals, doctors and dentists didn't get paid for patient care, and the state was late paying utilities bills to Springfield, its capital city. It had about $8.9 billion in unpaid bills as of March 1, according to the state. That is substantially greater than most states, according to Fitch Ratings.

Earlier this year, a lawmaker floated other financing means, such as issuing pension obligation bonds again. Pension obligation bonds entail selling debt to fund retirement systems and investing the money. Such a move counts on investments like stocks surpassing the cost of bond interest. Illinois has one of the biggest pension shortfalls in the country, with more than $200 billion in pension debt, according to Moody's calculations.

Injecting other uncertainty into the state's finances, Mr. Rauner, a former venture capitalist, is up for re-election this November in the Democratic-leaning state. The billionaire has routinely clashed with Democratic House Speaker Michael Madigan, who has sat atop the House for more than 30 years.

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The New York Times

Business Day
Grumpy Investors Can't Find Anything to Look Forward To

By Matt Phillips
665 words
24 April 2018
03:34 PM
NYTimes.com Feed
NYTFEED
English

The **stock market** is forward-looking. That's a problem when there's not much to look forward to.

Stocks sank for the fourth-straight day on Tuesday, as investors looked past a series of outwardly positive earnings reports and fixated on threats to the nine-year-old **bull market**.

Foremost among them is the Federal Reserve. Super-low interest rates from the central bank have fueled the rally, pushing up the prices of stocks and bonds since the Great Recession.

But that was then. Now, the Fed is slowly withdrawing some of its support. It is shrinking its portfolio of government bonds and lifting interest rates. As a result, a yearslong tailwind for the **stock market** is disappearing.

The new environment is evident in interest rates on government bonds, closely watched by many investors. The yield on the **10**-**year Treasury** note touched 3 percent in trading early Tuesday. That benchmark interest rate — which influences the price of borrowing for both consumer loans and corporate bonds — has not been that high since early 2014.

It's not just interest rates. The threat of a trade war, or even a real war, is unnerving investors. **Oil prices** have surged higher because of tensions in the Middle East, as well as President Trump's public musings about withdrawing the United States from its nuclear deal with Iran.

Those rising commodity prices represent something of a double worry for investors. For one, they feed into price inflation, making it even more likely that the Fed will continue to raise interest rates. (One of the Fed's main objectives is keeping prices stable.) At the same time, higher commodity prices eat into profit margins for companies, which is bad for their stock prices.

Last year, investors might have shrugged off those concerns, preferring to focus on the buoyant global economy and the prospect of a major reduction in American corporate tax rates.

That tax cut came to fruition in December, and it supercharged corporate profits, but that was a one-time event.

Investors were heartened by the tax cuts, said Evan Brown, director of asset allocation at UBS Asset Management. But their focus has shifted since then.

"The market's attention is rotating to other things, and one of those things is rising inflation and rising yields," Mr. Brown said. "One of those things is the potential for increasing trade tensions."

Other events are looming, and investors see little to be excited about. With congressional elections later this year, the prospects of pro-business legislation — or any legislation, for that matter — are dim. The biggest economic action out of Washington might be the Fed raising interest rates — a clear negative for investors.

In short, it's up to companies themselves to give investors reasons to believe their shares can keep climbing.

Recent earnings reports suggest that is becoming harder to do. Shares of Alphabet, the parent of Google, dropped sharply Tuesday despite the company reporting Monday that quarterly profits rose 73 percent to $9.4 billion. Investors appeared concerned with a surge of spending at the company that hurt its profit margins.

Earnings reports also provoked a sell-off in the industrial firms 3M and Caterpillar. Investors were rattled by lower sales and profit forecasts and by sluggish demand for the products that 3M sells to auto body shops. Its shares sank 6.8 percent.

And investors, after initially applauding Caterpillar’s first-quarter results, were unnerved when a Caterpillar executive told analysts that the first quarter might be a “high-water mark” for the year. The shares fell 6.2 percent.

The **Standard & Poor**’**s 500**-**stockindex** sank 1.3 percent, and the **Dow Jonesindustrial average** finished with a loss of 1.7 percent. The **Nasdaq composite** dropped 1.7 percent.

The decline in the S.&P. on Tuesday left the benchmark index down 1.5 percent for the year.

Document NYTFEED020180424ee4o006el

THE WALL STREET JOURNAL.

Markets

Copper Climbs on Growth Hopes; Copper prices have risen about 6% from their year-to-date lows in March, though they remain down on the year

By Christopher Alessi and Amrith Ramkumar
561 words
24 April 2018
03:29 PM
The Wall Street Journal Online
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English

Copper prices rose Tuesday, with traders interpreting a softer Monday stance from the U.S. Treasury on Russia's United Co. Rusal as a positive for global trade.

Front-month copper for April delivery added 1% to $3.1385 a pound on the Comex division of the New York Mercantile Exchange. Prices have risen 6% from their year-to-date lows in March, though they remain down on the year, with analysts noting that the global trade backdrop and economic data from China now look more favorable.

Some analysts have worried that protectionist trade policies could lead to higher manufacturing costs and slower global economic growth and lower demand for raw materials. But some expect the U.S. and China to

negotiate a compromise over trade policy, and interpreted the U.S. Treasury's Monday statement suggesting it might relieve sanctions against Rusal as another positive for the global economy.

Treasury also extended the deadline for investors dealing with Rusal to late October, leading some analysts to think the impact on metals markets and input costs for manufacturers could be muted. Although that could lead to lower prices of aluminum in the short term, some think the news could support other industrial metals.

"This is a broad positive for metals prices," said Caroline Bain, chief commodities economist at Capital Economics. "Economic protectionism is negative for economic growth and metals demand," she added.

Data Tuesday also showed copper imports in China, the world's largest copper consumer, rose nearly 6% in March from a year earlier. Some analysts remain worried that lukewarm consumption from China and a lack of supply disruptions could hurt copper prices.

Still, prices could post a fifth consecutive week of gains this week, with some investors expecting continued global economic strength to benefit the demand picture.

"Strong refined copper demand due to macroeconomic tailwinds in the U.S. and Europe may help to provide some support for copper in the near term," Sucden Financial analysts said in a quarterly report published Tuesday.

Aluminum for delivery in three months on the London Metal Exchange tumbled 3% to $2,227 a metric ton, extending Monday's losses. Some analysts no longer expect Treasury's actions against Rusal to disrupt global supply, after the initial sanctions announcement sparked a furious price rally that is now being retraced.

Nickel and palladium have also been **volatile** because of Rusal's ties to Norilsk Nickel Mining & Metallurgical Co., a major producer of the metals. On Tuesday, nickel declined 2% on the LME after also posting steep Monday losses, and the most-actively traded palladium futures in New York dropped 0.8%.

Among precious metals, front-month gold for April delivery edged up 0.7% to $1,331.40 a troy ounce to end a three-session losing streak. A stable dollar has made gold more expensive for overseas buyers recently, while the yield on the benchmark 10-year U.S. Treasury note approaching 3% has stoked investors' worries about higher interest rates, which tend to make gold less attractive relative to Treasurys.

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THE WALL STREET JOURNAL.

Markets

Why the U.S. Bond Milestone Will Ripple Across Global Markets; The 10-year U.S. Treasuryyield climbs above 3% for first time since beginning of 2014

By Mike Bird
1,142 words
24 April 2018
12:56 PM
The Wall Street Journal Online
WSJO
English

In globally connected markets, what U.S. consumers and businesses pay for their mortgages and loans can affect financial assets from Beijing to Buenos Aires.

The yield on the 10-year U.S. Treasurybriefly reached 3% Tuesday for the first time since the beginning of 2014, a long-awaited landmark in the move away from years of ultralow borrowing costs.

Asset prices, currencies and borrowing costs around the world are steered by movements in U.S. government bonds, considered by many investors to be the ultimate safe asset.

A shift in yields can hit dollar-denominated debt issued in emerging markets or the global currencies that move against the greenback as it reacts to U.S. rates. As rates rise in the U.S., global investors may be shifting cash to take advantage of higher returns, affecting trillions of dollars' worth of assets in markets around the world.

The benchmark 10-year **bond yield** has climbed from a low of 1.36% in July 2016.

"Treasurys will always be the global driver for markets. If they move, other markets are unlikely to stay still. The U.S. sets the global cost of capital," said Andrea Iannelli, investment director at Fidelity International.

Yields are rising as a rally in the **oil price** brings anticipation of higher inflation and expectations that global central banks will act to curb it. But U.S. yields have been gradually rising anyway, as the Federal Reserve raises rates.

Companies and governments that issue their debt in U.S. dollars, particularly in emerging markets, feel the squeeze when U.S. yields rise.

The amount of dollar bonds issued in developing countries has more than tripled to nearly $3 trillion since 2008 and the start of the financial crisis, according to Bank for International Settlements data.

"Three percent in some ways is just a psychological level, but it does prompt investors to start to ask the question about who's exposed to interest-rate risk," said Charles St-Arnaud, senior investment strategist at Lombard Odier IM.

Emerging-market bonds typically suffer more when inflation is driving U.S. yields higher.

When yields rise on stronger growth prospects, the premium or spread to emerging-market debt tends to shrink, according to Michael Biggs, macro strategist and investment manager at asset management firm GAM. But when Treasury yields rise because of inflationary pressure or other risk factors, those in emerging markets generally rise in tandem or move higher.

"We're not worried when U.S. yields go up on the back of stronger growth, but on the back of stronger inflation, that's a whole different story," Mr. Biggs said.

Dollar-denominated emerging-market government debt has logged a negative return of minus 2.6% this year, while bonds denominated in their local currencies are up around 1.9%.

When rates rise, that will also typically push the local currency higher as money flows from abroad in to take advantage of the higher yield.

In recent days, there have been signs that the dollar is following Treasury yields higher. The U.S. Dollar Index was roughly flat after a five-day rally Tuesday, leaving it near its highest level in more than three months.

It follows a period in which the greenback has stayed weak, even as U.S. yields outstripped those in other countries.

A rising dollar makes greenback-issued bonds more expensive for issuers in other currencies, but most commodities are also denominated in the U.S. currency. When gold, for instance, fell on Monday, investors blamed the U.S. 10-year yield's move toward 3%.

Developed-market debt also moves with U.S. yields. International investors see U.S. government bonds as a close substitute for those of other large advanced economies, so moves in one market—particularly the Treasury market, as the largest—tend to spill over into others, research shows.

"The Treasury market, from last October, has really been the epicenter of the moves in global bonds," said Francesco Garzarelli, co-head of macro and markets research at Goldman Sachs.

German 10-year government-bond yields have risen by 0.2 percentage point this year, while their British and Canadian equivalents are both up by 0.3 percentage point. Still, a good deal of European government debt yields much less than Treasurys, with some bonds offering a negative yield. Germany's 5-year bond yielded minus 0.01% Tuesday. Swiss government debt maturing in eight years still offers a negative yield.

Federal Reserve research published last week indicates that when U.S. government bond yields react after interest-rate meetings, around half their move will be aped by the German government-bond market.

The market for U.S. government debt is both larger and more international than other major bond markets, leaving global investors more directly exposed to the Treasury market than U.S. investors are to conditions elsewhere in the world.

The gross external debt of the U.S. government—Treasury bonds and other debts held by overseas investors—reached $6.5 trillion at the end of 2017, up from $2.6 trillion in 2008.

Global stocks have also reacted to changes in yields world-wide. In the MSCI All Country World Index, cyclical stocks which tend to benefit as interest rates rise—like banks and companies selling discretionary consumer items—are roughly flat this year.

In comparison, the defensive sectors of the same index are down by more than 3%.

Many investors see 3% as a healthy level for 10-year yields given solid growth and rising inflation, and don't expect a violent spillover into other markets.

"If it doesn't go much sharply higher, I think it'll be limited in terms of reactions in international markets and in equities," said Silvia Dall'Angelo, senior economist at Hermes Investment Management.

But that doesn't mean there is no risk that yields rise further. That could come, for instance, from an increase in supply.

"The supply of Treasurys is on the rise, following Trump's tax cut. That's probably the biggest risk to Treasury yields being at these levels," added Ms. Dall'Angelo.

The U.S. is the only nation in the Group of Seven advanced economies that is forecast to increase its gross government debt levels in the next six years, according to the International Monetary Fund.

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

More

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* U.S. Stocks Turn Lower as Bond Yields Rise

* Flattening Yield Curve Raises Warning Flag (April 18)

Document WSJO000020180424ee4o002s1

WSJ PRO CENTRAL BANKING

Economy
U.S. Consumers More Confident in Economy; Overall confidence in the economy remains strong, according to a Conference Board report.

By Josh Mitchell
392 words
24 April 2018
11:05 AM
WSJ Pro Central Banking
RSTPROCB
English

Americans' spirits rose this month after dipping earlier this spring, suggesting they remain confident in the economy despite rising inflation and **stock-market** gyrations.

The Conference Board said Tuesday its index of consumer confidence rose 1.7 points from a month earlier to 128.7 in April. Confidence had dipped in March after hitting the highest level since 2000 in February.

Americans boosted their impressions of current economic conditions as well as their expectations for future conditions this month, the latest survey shows. In perhaps the most significant development, the share of Americans expecting their incomes to decline over the next six months—6%—fell to the lowest level since December 2000.

Confidence has steadily climbed since the recession and has repeatedly reached multiyear highs over the past year. Factors driving the increase include a sharp run-up in the **stock market** last year, strong job growth, modest inflation and rising property values. Also, a tax-cut package passed by Congress late last year has boosted Americans' take-home pay this spring.

Confidence has remained high despite headwinds, including rising gasoline prices of late and **stock-market volatility**. The average price of a gallon of regular gasoline in the U.S. stood at $2.798 on Monday, up nearly 35 cents from a year earlier, U.S. Energy Information Administration data show.

"Over all, confidence levels remain strong and suggest that the economy will continue expanding at a solid pace in the months ahead," Lynn Franco, director of economic indicators at the Conference Board, said in a statement.

Economists pay attention to confidence readings because they believe that when Americans feel better about the economy they are more likely to spend money, which in turn fuels corporate earnings and economic growth. However, consumer confidence and spending don't always rise in tandem. Government reports showed consumers slowed spending earlier this year.

Economists believe the economy grew at an annual rate of 1.8% in the first quarter, according to a Wall Street Journal poll, down from the fourth quarter's 2.9% pace. The Commerce Department will release its estimate of first-quarter gross domestic product on Friday.

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THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Small-Cap Trading Plan Is Criticized

By Alexander Osipovich
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24 April 2018
The Wall Street Journal
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B12
English

A proposal backed by the Trump administration to make the U.S. **stock market** more attractive for smaller companies came under criticism on Monday, as rivals called it a giveaway to **Nasdaq** Inc. and the New York Stock Exchange.

The proposal would allow small-cap firms to restrict trading in their shares to the exchange where they are listed, instead of the 12 exchanges currently in operation. Proponents say it would boost liquidity for small-cap stocks by funneling activity in their shares to one exchange.

That would also benefit **Nasdaq** and the NYSE, which dominate the market for U.S. corporate listings and could gain market share at the expense of competitors. **Nasdaq** floated the idea last year, and the Treasury Department endorsed it in October.

Securities and Exchange Commission Chairman Jay Clayton, a Trump appointee, has vowed to make the U.S. **stock market** work better for smaller companies. In a speech last week, he questioned whether small-caps were well served by a highly fragmented U.S. **stock market**.

Brad Katsuyama, chief executive of upstart stock exchange IEX Group Inc., blasted the **Nasdaq** plan in a meeting at the SEC on Monday.

"It's anticompetitive, in a way the commission has historically rejected," he said. IEX is seeking to start its own corporate-listings business.

Virtu Financial Inc., a high-speed trading firm, voiced doubt that tinkering with the plumbing of the U.S. **stock market** would stimulate trading in small-caps. "Liquidity in these names is actually pretty good," Stephen Cavoli, a senior vice president at Virtu, said at the SEC meeting.

Virtu runs a massive off-exchange trading business that executes many of the orders entered by customers of retail brokers. Such "internalizers" handle orders that otherwise might get executed at exchanges like the NYSE and **Nasdaq**. Internalizers could lose business if regulators push more trading onto exchanges.

Currently, around a dozen exchanges and more than 30 off-exchange "dark pools" compete for trades in U.S. equities. Much of that fragmentation resulted from past SEC efforts to break the dominance of the NYSE and **Nasdaq** and bring more competition to the trading space.

Nasdaq says that brokers who specialize in small-cap trades have a tough time navigating the complexity of U.S. markets. For such brokers, "having to trade potentially in 13 places is a challenge," **Nasdaq** chief economist Frank Hatheway said on Monday.

Advocates for small-caps say that thin liquidity hurts the sector. Light trading volumes in a company's shares can make it harder for the company to raise capital, said Adam Epstein, founder of Third Creek Advisors, which advises small-cap firms.

"It's a pretty austere challenge for these companies," he said at the SEC meeting.

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THE WALL STREET JOURNAL.

Markets

Metals Tied to Russia Slide on Softer Sanctions Position; A number of metals drop after the U.S. hints it would provide sanctions if the United Co. Rusal 's owner divests his holdings

By Amrith Ramkumar and Alistair MacDonald
519 words
23 April 2018
02:57 PM
The Wall Street Journal Online
WSJO
English

A number of metals tied to Russia tumbled Monday after the U.S. Treasurysoftened its stance regarding sanctions against United Co. Rusal , the world's second-largest aluminum producer.

Aluminum for delivery in three months on the London Metal Exchange plummeted 7% to $2,295.00 a metric ton, its largest one-day drop in eight years, while nickel shed 3.8%. The most-actively traded palladium futures in New York dropped 4.9%.

The metals had surged since April 6, when the U.S. announced sanctions against Rusal and owner Oleg Deripaska . Because Rusal owns more than 25% of Norilsk Nickel Mining & Metallurgical Co, a major nickel and palladium producer, recent **volatility** has also sparked a rally in those metals.

But on Monday, the U.S. hinted it would provide sanctions relief to Rusal if Mr. Deripaska divests his holdings. It also extended its deadline for companies to wind down dealings with the company to Oct. 23.

A number of Western institutions, including the LME and CME Group Inc .'s Comex, have sought to distance themselves from Rusal since the sanctions were announced April 6, leading to massive swings in stockpiles and prices.

Monday's news could cause the recent rally to reverse as traders wonder whether metals markets might not be impacted at all by sanctions, analysts said.

"It's very significant because it basically lets Rusal off the hook" if Mr. Deripaska sells his stake, said Edward Meir, a strategist at broker-dealer INTL FCStone . "It puts metal back into the supply chain."

While aluminum climbed to its highest level since 2011, nickel rose to its highest level in three years and palladium surged 13% in two weeks.

Now, some analysts expect markets to calm down given the Treasury's extension for investors dealing with Rusal.

"All these long supply chains have been thrown into chaos," said Oliver Nugent, commodities strategist at ING. "What they really need is time to rationalize."

Elsewhere in base metals, front-month copper for April delivery fell 0.8% to $3.1080 a pound on the Comex division of the New York Mercantile Exchange , following other industrial metals lower. Prices have fallen about 5.2% in 2018 with investors worried about an economic slowdown in China, the world's largest consumer of copper, and possibly oversupply.

Among precious metals, front-month gold for April delivery declined 1.1% to $1,322.50, extending a recent slide with the yield on the benchmark 10-year U.S. Treasury note approaching 3% and the dollar strengthening. Gold struggles to compete with yield-bearing assets like Treasurys as interest rates rise and becomes more expensive for overseas buyers when the dollar climbs.

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U.S. Markets
Markets
Stocks Lethargic as 10-Year Treasury Yield Nears 3%; The S&P 500 has now been in correction territory for its longest stretch since 2008

By Michael Wursthorn and Riva Gold
705 words
23 April 2018
05:59 PM
The Wall Street Journal Online
WSJO
English

The **S&P 500** was largely unchanged Monday as a **stock-market** rally that once appeared unstoppable entered its longest stretch of vulnerability since the financial crisis.

Monday's increase of less than 0.1% marked the 51st trading day since the index suffered a correction—a decline of at least 10% from a recent high—its longest stretch in correction territory since 2008.

Investors tepidly traded most of the day, with the fewest number of shares changing hands since Dec. 29. Analysts said many investors held off on making any meaningful changes to their stock portfolios to see whether a selloff in government bonds would push the benchmark 10-year U.S. Treasury note past the milestone of 3%, a level it hasn't reached since 2013.

The long-dated Treasury note reached as high as 2.996% in early trading Monday before moving back down to 2.973%.

The **10-year Treasury** yield is a key metric affecting borrowing costs for companies and consumers, and some analysts worry that rising rates can threaten economic growth and corporate profitability.

"This has investors debating whether the rise in Treasury rates will be enough to downgrade the strength of the economy," said Brent Schutte, chief investment strategist at Northwestern Mutual Wealth Management.

Mr. Schutte and other analysts say rates would have to move meaningfully higher to significantly disrupt the U.S. economy.

Key economic indicators, from manufacturing activity to retail sales, remain strong despite recent data showing some signs of slowing, he added.

Still, money managers are bracing for continued **volatility** as a raft of other inflationary pressures, including billions of dollars in tariffs on goods and signs of rising wages, are likely to force investors to consider big changes to their stock portfolios.

The **S&P 500** rose 0.15 points, or less than 0.1%, to 2670.29, while the **Dow Jones Industrial Average** fell 14.25 points, or less than 0.1%, to 24448.69. The **Nasdaq Composite** declined 17.52 points, or 0.2%, to 7128.60.

Energy stocks, which tend to benefit from some inflationary pressures such as rising commodity prices, rose 0.6% in the **S&P 500**, extending the sector's gain for the month to 9.3%, the best of any other industry in the index.

A half a percentage-point increase in the 10-year U.S. Treasury note earlier this year forced investors to consider whether the run-up in stock valuations could still be supported in an environment where less-risky assets offer a greater yield. That contributed heavily to the February selloff that initially knocked the Dow industrials and **S&P 500** into correction territory.

Major indexes have attempted to mount a recovery since then as many investors said strong corporate earnings and continuing global growth would help keep equity valuations desirable.

But if the **10**-**year Treasury** note climbs past 3% and shows signs of moving toward 3.25% and higher, investors will again be forced to ask whether it makes sense to stay invested in riskier assets with lower yields. The yield on the **S&P 500** was about 2% as of earlier this month, according to S&P Dow Jones Indices.

"It'll look like a **bear market** in bonds, which should make investors concerned since risk-free assets will be yielding more" than many stocks, said Michael O'Rourke, chief market strategist at the brokerage firm JonesTrading

Earlier, the Stoxx Europe 600 rose 0.4%, while most indexes in Asia inched lower. Japan's Nikkei Stock Average edged down 0.3%, and Hong Kong's Hang Seng fell 0.5%.

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THE WALL STREET JOURNAL.

Markets
Main Street's Gain May Be Wall Street's Pain; Profit margins so far appear to be headed even higher and sales are rising, but what happens if wage increases accelerate?

By James Mackintosh
944 words
23 April 2018
12:52 PM
The Wall Street Journal Online
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English

Sell a lot at a narrow profit margin, and you have a business model so well known it's become part of the language: pile 'em high and sell 'em cheap. Sell a little at a high margin, and you can happily survive, perhaps in luxury fashion or advanced manufacturing. But sell a lot at a high margin, and you're either a nasty monopoly or a disruptive technology company, or both.

These days, the biggest companies have high profit margins. There's a vital question for investors: Will those margins fall now that wage pressures are on the rise?

Put another way: Is Main Street's gain Wall Street's pain?

Certainly not in the first-quarter earnings season, the first to include the corporate tax cut. The consensus forecast for the **S&P 500** has after-tax adjusted profit margins hitting 11.1%, a new post-Lehman record, according to John Butters, a FactSet analyst. They're predicted to go even higher as the year progresses, too. Even better, sales are finally rising, predicted to be up 7.6% after years of disappointment.

The important question for investors is whether such wonderful outcomes are sustainable. Wage pressures have been easily manageable so far, but if wage rises accelerate and margins come under pressure, to what extent can higher sales compensate?

One way to think about this is through a simplified model of profits, where only sales growth and profit margins change. If **S&P 500** margins shrink to the 8% they averaged from 2000 until the 2007 peak, it would take five years of sales growth at the current rate for profits to be back up to their current level.

But sales don't usually rise anywhere near this fast. This cycle has been particularly poor, with sales per share for the **S&P 500** rising at an annualized 4.5% since the 2009 trough, helped by buybacks. But even in the long boom of the 1990s, they grew only 4.9% a year. It's true that in the 2002-07 period the growth rate approached 10%, but that proved horribly unsustainable when the housing bubble burst. Over 25 years, sales have grown at only 3.7% a year when recessions are included.

Worse, we should expect economywide sales to grow roughly at the speed of the economy itself, including inflation. That would make 5% sales growth an optimistic upper bound, combining the Federal Reserve's 2% inflation target and 3% real economy growth—a speed not reached in a full year in more than a decade.

On this optimistic view, if margins drop back to 8%, it would be seven years before profits rose back to where they stand now.

The more **bearish** view is that margins will fall even further, perhaps back to the norms of the 1980s. "If you're going to cut the margin in half, you need a hell of a lot of productivity and sales growth to offset that," says Edward Perkin, chief equity investment officer at Eaton Vance Management in Boston. He expects falling margins to hurt eventually.

The reason for hope is that the **S&P 500** isn't the U.S. economy. Big listed companies make half their revenue overseas, where many economies are growing faster. The index has more exposure to tech than the wider economy, and tech both has faster sales growth, thanks to disruption of old-line businesses, and fatter margins. More controversially, it's possible that big companies face less competitive pressure than in the past, which would allow them to maintain higher margins than smaller businesses and the economy as a whole.

Still, even if we bump up our growth assumption by a full point and assume margins only fall to 9%, it would take five years before profits grew back to their current level.

These calculations are super simplified, but the long-term challenge they expose is being ignored, partly because the short-term is expected to be great. The consensus for growth in total revenue and for sales per share is looking more like the start of a cycle than the end. Talk of higher wages hasn't yet shown up in the numbers. Finally, higher corporate debt makes the good times look even better, and so long as there's no recession looming, who cares if it also makes the bad times even worse?

Of course, both worse and better outcomes are possible for investors. Worse would be if higher wages were saved by households to replenish their rainy-day money, leaving companies with narrower margins but no faster sales growth.

Better would be if productivity accelerated, allowing wages to be pushed up without hurting margins so much. Every little bit helps, but it would require very optimistic assumptions about productivity to make a major difference to the growth margin trade-off.

None of this math will matter if capitalism is broken. Fat margins should attract new competitors trying to get their hands on some of the dough, driving margins back down again. But Silicon Valley increasingly looks like an oligopoly. Promising startups are bought by dominant companies, which choose not to compete with each other's core business. Weak antitrust enforcement has allowed companies to grow large in other sectors, too. Perhaps the real threat to margins comes from politics, and it matters whether these are disruptive companies helping the world, or nasty monopolies that need dealing with.

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THE WALL STREET JOURNAL.

US

U.S. Extends Deadline for Investors to Disentangle From Rusal; After European officials sought exemptions from sanctions meant to pressure Russia, Treasury extended deadline to Oct. 23

By Ian Talley in Washington and Amrith Ramkumar in New York
1,132 words
23 April 2018
12:33 PM
The Wall Street Journal Online
WSJO
English

Aluminum prices dived Monday after the U.S. Treasury Department extended a deadline for investors to exit their dealings with sanctioned Russian aluminum giant Rusal, a move intended to give breathing room to U.S. allies in Europe.

The Treasury also signaled Rusal and its related firms might be able to escape U.S. sanctions if their owner, Russian tycoon Oleg Deripaska, divested himself of the businesses and relinquished control. Rusal had petitioned to get off the sanctions list, the U.S. said.

The moves could ease the burden on Washington's European allies ahead of President Donald Trump's meetings this week with Chancellor Angela Merkel of Germany and President Emmanuel Macron of France. Before these meetings, European economic officials complained to the Treasury that companies in the region had extensive business ties with Rusal that would be hard to unwind quickly.

The Treasury's moves prompted a selloff in Russian-linked metals because it means more expected supply from Russia in global markets. Rusal is the world's second-largest aluminum producer.

Aluminum for delivery in three months dropped 7% to $2,295.00 a metric ton on the London Metal Exchange, its largest drop in eight years, while the most actively traded palladium futures in New York fell 4.9%. Shares of aluminum producer Alcoa Corp. closed down 14%, their largest drop since 2009.

A spokesman for Mr. Deripaska and his companies declined to comment. A Rusal representative didn't respond to a request to comment.

The U.S. initially had given investors until June 5 to disentangle from Rusal and several other Russian firms, part of a broader package of sanctions aimed at putting pressure on the Kremlin following its alleged meddling in U.S. elections, alleged cyberattacks on critical U.S. infrastructure, and military actions in Ukraine and Syria. Russian officials have denied both interfering in U.S. elections and engaging in cyberattacks.

European officials requested exemptions from the sanctions when finance ministers from around the globe met in Washington last week. The U.S. didn't raise the possibility of exemptions. But the Treasury responded Monday saying investors now have until Oct. 23 to wind down their activities.

Monday's decision was the second time in as many weeks that the administration walked back its Russia-sanctions policy, complicating its efforts to counter criticism the White House is pulling punches with Moscow.

Last week, the administration came under fire for deciding against hitting Russian firms involved in the Syrian conflict after Nikki Haley, the U.S. ambassador to the United Nations, said sanctions were forthcoming. White House officials later said Ms. Haley's comments were premature. Some analysts said on Monday that they didn't see the administration's sanction delay as an indication the U.S. is backing down.

Shares of Rusal plummeted 67% since the sanctions were announced. The company is responsible for about 6% of global aluminum production and operates smelters and refineries across the world. A wide range of Russian assets, including the country's main MICEX **stock index** and the ruble, also fell in the wake of the sanctions.

The Rusal sanction was the Treasury sending a pointed message to the Kremlin's oligarchs, said Sarah Ladislaw, a senior fellow at the Center for Strategic and International Studies, a policy research group. "But perhaps [U.S. officials] didn't realize the full extent of Rusal's integration in several major economies," Ms. Ladislaw said.

Prices for a number of metals linked to exports by Russia had surged since the U.S. sanctions were announced. European firms that rely on the Russian aluminum company for their own products said the Treasury's actions risked dealing a serious blow to their businesses.

In the days after the sanctions were made public, aluminum prices jumped more than 20%, as institutions and investors quickly tried to disentangle themselves from the Russian aluminum giant. In addition to raising input costs for European firms, the sanctions also impinged on European corporate contracts, financing and investment portfolios.

"The U.S. government is not targeting the hardworking people who depend on Rusal and its subsidiaries," Treasury Secretary Steven Mnuchin said in a statement. Rusal asked Treasury to be taken off the sanctions list, he said.

"Given the impact on our partners and allies, we are issuing a general license extending the maintenance and wind-down period while we consider Rusal's petition," Mr. Mnuchin said.

Some analysts expect Rusal shares, which trade in Hong Kong, to rise sharply when the market opens Tuesday and metals prices to come under further pressure.

Treasury said "the path for the United States to provide sanctions relief is through divestment and relinquishment of control of RUSAL by Oleg Deripaska."

Treasury's latest Russia sanctions targeted tycoons and government officials considered to be in the inner circle of Vladimir Putin, Russia's president.

If Mr. Deripaska divests and hands over the corporate reins, then Rusal might be able to win Treasury delisting, giving it freedom to continue doing global business. That would potentially sideline Mr. Deripaska as a power player in Russia and send a message to other Russian tycoons that they risk similar losses if they continue to support Mr. Putin. It could also diminish the economic and diplomatic fallout from Washington's more aggressive Russian policy.

Mr. Deripaska became a metals-industry titan in the 1990s following the collapse of the Soviet Union and emerged as the victor of the so-called "aluminum wars" in Russia. As principal owner of Rusal, he became one of the richest men in Russia with close ties to Mr. Putin.

In February, he quit as president of the firm, but maintains controlling interests.

The Russia sanctions, along with the U.S. steel tariffs and threats to slap major, economy-crippling sanctions on Iran if Europe doesn't agree to back new terms for the 2015 nuclear deal with Tehran, are fueling deepening diplomatic strains with U.S. trans-Atlantic allies.

Unlike previous rounds of sanctions targeting Russia, Washington this time didn't work as closely with Europe to develop actions that would minimize the impact on Europe.

"The message we are emphasizing is that it's important to coordinate our response to Russia," said European Union financial-services chief Valdis Dombrovskis in an interview last week. Coordinating punitive actions against Russia and Iran is especially important because of the negative economic impacts on the European economy, he said.

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THE WALL STREET JOURNAL.

Life
How to Protect a Retirement Plan in a Down Market; To avoid selling stocks at depressed prices, have a Plan B

By Michael A. Pollock
1,197 words
22 April 2018
10:06 PM
The Wall Street Journal Online
WSJO
English

Market corrections are a worry for all investors, but they can pose a particularly big problem for people who have just retired and are starting to dip into savings.

Each time retirees sell stock, it digs a hole out of which their portfolio must climb to keep producing the same amount of income over time. The more they sell—and the earlier—the deeper the hole.

This doesn't mean it's always bad for a retiree to sell stock. Selling when the market is strong can be not only profitable but responsible, especially as a way of keeping portfolio allocations in line with investment goals. Selling during a correction, however, when stock prices may have fallen to a fraction of their recent market value, not only might yield a lot less return per share, it could cause a retiree to run low on resources sooner than expected.

"If you get off course at the beginning, it could be very difficult to recover," says Dan Keady, chief financial planning strategist at New York-based financial services firm TIAA.

Despite recurring **volatility**, most retirees must hold some stocks to keep pace with inflation. For those investors in particular, it's important to have a Plan B to cover ongoing financial needs so that if stocks crater, the retiree can avoid being forced to sell shares at depressed levels.

Mr. Keady recommends being proactive and taking steps ahead of retirement, like projecting spending needs, matching them against expected income and creating a reserve with something other than equities to help cover shortfalls. Being better prepared also might include planning ways to cut spending.

Here are some thoughts and suggestions from advisers and planners on how to minimize the risk:

1. First do the math. A good place to start is to estimate how much of your monthly budget would not be covered by fixed sources of income, such as dividends, interest, pensions and Social Security. Most people mistakenly think this involves the tedious process of adding up a year's worth of receipts, says Joe Lucey, who heads Secured Retirement Advisors LLC in St. Louis Park, Minn. The much easier method, Mr. Lucey says, is to tally all the money taken from bank accounts in 12 months that hasn't been stashed away somewhere else. Next, calculate the income expected regularly from Social Security, pensions or other sources.

Once you know what the gap between expenses and income will be, set aside a cash reserve or other fixed-income asset big enough to spin off cash to cover that gap until the market recovers. This provides a buffer, says Jim Barnash, an adviser at SGL Financial, Buffalo Grove, Ill. A retiree's regular flow of income often covers as much as two-thirds of their total spending. But it's that uncovered third that represents how much a person has to withdraw from savings to maintain a certain level of spending.

There is no way of knowing with any certainty how long a downturn will last, and thus how big that reserve needs to be exactly. But most corrections, Mr. Barnash says, with the exception of the 2008-09 crisis, last three to nine months.

2. Balance with safer stuff. The non-equities part of a portfolio should be a mix of cash and bank certificates of deposit or highly rated short-term bonds, experts say.

Money-market yields have been rising as the Federal Reserve raises short-term interest rates. Some federally insured money-market accounts now pay 1.75% to 2% a year.

Because certificates of deposit and bonds with slightly longer maturities offer better rates than cash, advisers often create a basket of CDs or individual bonds with sequential annual maturities—a so-called ladder—to ensure a steady replenishment of cash in a portfolio.

Buying individual bonds can be challenging for nonprofessionals, but investors could also consider an ETF that invests in short-term government bonds, says Nikolaas Schuurmans, founder of advisory firm Pure Portfolios in Portland, Ore.

While the share price will fluctuate with shifts in market sentiment, such ETFs pose relatively little risk and could easily be sold to raise more cash, he says. Mr. Schuurmans uses Schwab Short-Term U.S. Treasury (SCHO), which charges 0.06% annually in expenses. A similar option, Vanguard Short-Term Treasury ETF (VGSH), has an expense ratio of 0.07%.

3. Watch the equity allocation. Although it's important to own some stocks, after about nine years of rising markets, many people may own more stocks than they think. Some also may be out of the habit of rebalancing a portfolio periodically and staying well-diversified, says Spuds Powell, managing director of the Los Angeles-based advisory firm Kayne Anderson Rudnick.

One thing to do right away: If the equity allocation has surged much above 60%—a common benchmark for how much to keep in stocks—consider paring it back, advisers say.

4. Plan to tighten the belt. Many people believe they will spend less in retirement than when they were working, says SGL Financial's Mr. Barnash. Actually, the opposite can be true, at least in the first few years. New retirees have more time to spend money and may indulge in expensive luxuries, such as traveling abroad.

Retirees often don't react well to suggestions that they spend less, but "realistically, you might have to cut spending some if there is a market downturn," says Mr. Keady of TIAA. One way he suggests of imposing self-discipline on spending is to keep annual withdrawals from savings at a constant rate, which might be around 4% a year. Thus, if a portfolio's principal value fell during a market correction, an investor would be withdrawing less while stock prices were lower, reducing sequence-of-return risk.

Advisers also sometimes suggest that people delay taking Social Security for a few years, because that can mean getting larger future Social Security payments, building in a higher level of dependable income.

5. Be wary of borrowing. Many people have substantial equity tied up in a home, and there are multiple ways of tapping it. A retiree could create a contingency reserve by taking out a home-equity loan or a line of credit and drawing against it, if necessary, during a market correction.

But in most cases, advisers caution against that. The strategy could backfire if a correction proved much deeper or longer than usual, leaving a borrower with a hefty debt burden.

"For people who have retired, whether they are taking regular withdrawals from savings or not, borrowing usually doesn't make sense because it tends to increase risk," says Mr. Powell of Kayne Anderson Rudnick.

Mr. Pollock is a writer in New Jersey. Email: reports@wsj.com.

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Economy

Transcript: Media Q&A With Charles Evans, Chicago Fed President; Topics included inflation, the labor market and trade

3,480 words
23 April 2018
11:08 AM
WSJ Pro Central Banking
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English

Charles Evans, president of the Federal Reserve Bank of Chicago, took reporters' questions Tuesday, April 17, 2018, following a speech in Chicago. Topics discussed included inflation, the labor market and trade. Here is a transcript of the exchange, lightly edited for length and clarity.

Q: So in the minutes we learned that no more (Federal Open Market Committee) officials see the risk to the inflation forecast as tilted to the downside. So I assume that includes you as well, of course, that number being zero. Did you shift your balance of risk? And, if so, can you explain why you don't see anymore, you know, the balance of risk to the downside?

CHARLES L. EVANS: So you got to be careful with that type of statement. So we put together our forecast for inflation a part of the Summary of Economic Projections. And then—depending on what our forecast is, then you kind of go, OK, has it kind of centered the risk around?

So we've had sort of a lower forecast for inflation, perhaps, than some others. And if you get that centered properly, then it's kind of like, oh, I think— (inaudible)—balance. I think there's a chance that we're going to get on to 2% more quickly. My forecast here has, like, the chance of it being a lot below that. There's some risk, but, you know, so our own outlook is sort of I think that inflation is headed for 2%. The March data roll off very soon and year over year is probably going to be close to 3%. Maybe that's sustainable. The last— (inaudible)—has clearly been 2% and the economy's doing, you know, quite well.

So do I think that it's likely that we're going to have a patch where we drop back down to 1 ½%? I don't see that as likely as I did a while back, and I do believe the labor market situation is really quite good and businesses seem to be pleased with their activities.

On the other side, it could be that inflation picks up more quickly than I'm thinking. (Inaudible)—looking for some type of extra relationship between labor market activity and inflation, sort of a so-called steeper Phillips curve coming about. So I think we just have to see that.

So, yeah, in our own forecast, we could see it sort of balanced around a path that is still going to take another year to get to 2% sustainably.

Q: Is the—is the labor market situation a key factor in that shift?

MR. EVANS: It's the easiest one to point to, I would say. I mean, (unemployment has) sort of been at 4.1% now for many months. Employment itself has been quite strong. We had a 300 number followed by a 100 number, but they're averaging in that 200,000 (to) 170,000 (jobs added per month) range, which is really quite large at this point in the expansion, when unemployment is low and labor-force participation, you know, has sort of stabilized for some time. So it's easier to point to the employment. But (economic) growth is looking like it's also very strong, well above trend growth at 1 ¾%. So all those things contribute to better inflation.

Q: Based on what you've seen over the last month or so, the economic data that you've seen, what are you thinking about in terms of rate increases moving forward and looking at May?

MR. EVANS: I think, you know, there might be unevenness in any data series month to month, but I think the data have been, you know, reasonably consistent. We've got a mature expansion. Labor market has been good. Consumer's been good over a long period of time. I think that's going to continue. Businesses are talking about investing more. Obviously, the tax implications are favorable for that. It's still early days, I would say, for people to try to figure out exactly whatever your plans are if they weren't expecting that ahead of time. **Financial markets** are showing a lot of optimism, as well. I think those are—

Q: So what are you thinking about for May?

MR. EVANS: Well, I mean, I think that we're on a good path. And, you know, we're going to have a gradual adjustment in monetary policy, I think, until we get to, you know, a more neutral setting of the (federal-funds) rate. And then a question's going to be whether or not inflation is about where it ought to be or, you know, that type of thing. So it's going to depend on how everything evolves from this.

But I do think that to the extent that inflation continues to move towards 2 percent, it can go above 2%—2 ¼, completely consistent with symmetry for our price objective as we move the funds rate more towards neutral. And then we see how far we have to go beyond that if—I mean, that's the question. That's sort of the debate.

Q: I think you said that it might take a year before inflation gets to 2% sustainably. Is that correct?

MR. EVANS: Yeah. So, I mean, you know, I get the point that data is going to roll off so that year over year is going to start looking better: 1.9, 2, 2.1 this year and next year. It sort of comes down to whether or not you think there's a lot of momentum for rising inflation. So is it going to go to 2.3? I don't see that. That would be an awful lot of momentum. That would be a slightly different inflationary environment than I am contemplating, and I would guess that, that would call for reassessing labor market slack, you know, scarce resources and things like that. But I kind of see, you know, a reasonably steady progress to 2%, and we're going to have to see whether or not longer-term inflation expectations move up more in line with 2%.

One of the things in judging sustainability I think is not only whether or not the actual inflation data get to 2%—we're a little bit beyond that—but also whether or not longer-term inflation expectations move up in a manner which I think would—it needs to be more consistent with 2%. They still seem to be a little lower than they were in the mid-2000s, when we had better inflation performance, above 2%.

Q: And I'm just curious, how long would you let inflation run above 2% before you would take it as a signal to stop raising rates?

MR. EVANS: To stop raising rates? I'm sorry, I didn't understand your question.

Q: Well, but how long would you let inflation stay above 2%, or how long would you see it above 2% before you take it as a signal to slow rate increases?

MR. EVANS: Well, if it's—if it's inconsistent with our inflation objective and it's on the high side, we might need to be doing more, not less. And so that's the part that I'm not quite sure about in your—in your question.

But I think, you know, as long as we feel like we're—you know, so I think a question's going to be, when we get the funds rate more in line with some neutral setting maybe that's measured by the long-run SEP for the nominal funds rate, are we going to be seeing inflation higher than we think consistent with our objective? And if it were higher, we'd have to go, you know, higher on the funds rate, I guess. But, you know, we'd have to see that trajectory. I don't think 2 ¼ is something to get, you know, our nose out of joint over, especially if the next year's forecast is not worse than that or, you know, is—shows improvement from that.

So that's why I think expectations are going to be very important. What's the trajectory of the funds rate path going to be required in order to keep those inflation expectations and the projections in line? Those would be an important—those are important questions as well once we get there, but I don't think we're even close to there now.

Q: One sort of technical question I had is, since it kind of dovetails with the topic of your speech, if the natural rate of unemployment is sort of supposed to reflect purely voluntary unemployment, you know, the (Bureau of Labor Statistics) breaks down reasons for unemployment, and the permanent job losers in Table A-11 of the Household Survey are still 25 percent of unemployed. So shouldn't that be, like, closer to zero if we're—

MR. EVANS: These are the long-term unemployed, you mean, or?

Q: Well, it's probably—there's probably a lot of overlap with long-term unemployed, et cetera. So, yeah, I mean, any of those numbers, when they're so high, how can we accept this concept of, you know, natural rate of unemployment being 4 ½%?

MR. EVANS: Well, I mean, you know, so you're picking at some of the weaknesses and inconsistencies in the concepts that come into play in terms of some natural rate of unemployment. So you could think about it as just the rate of unemployment that the economy grinds out when everything is just proceeding the way it's supposed to, and this can be repeated over a long period of time. If I knew exactly how to calculate that, that might give me some ideal— (inaudible)—into what you're talking about, whether or not a particular number of long-term unemployed is consistent with that or inconsistent with that.

In practice, because that turns on so many features of the economy and labor markets that would be uncertain, we're going to look at other indicators, too. And another one is inflationary pressures. It's simply do we think that monetary policy is trying to deliver some unsustainable economic outcome, such as unemployment which is just too low to be consistent with a well-functioning economy? And then it creates other problems.

Presumably, that would lead to higher inflation. That's one of the scenarios that I talked about. And, you know, if all of a sudden we saw this 4.1% unemployment was associated with much stronger inflation than what I have forecast, then I'd kind of think, oh, you know, that's probably more accommodative monetary policy that's probably sustainable and we need to sort of improve the setting of monetary policy— (inaudible)—the economic— (inaudible).

But any particular data observation is always difficult to reconcile completely with these concepts because they end up being sort of compromised across a number of different theoretical ideas. And so that's certainly hard in doing this. That's why when I get up there in a speech and I kind of say, geez, it's kind of uncertain as to what the natural rate is. It's a latent variable. It's hidden. And we can do a lot of, you know, high-level analysis that's detailed and one analysis might say, oh, geez, I think 3 ½ is sustainable, but another might say 5, and you've got to make a judgment – (inaudible).

Q: Just following up on your speech, of the different scenarios that you give, how concerned are you about the possibility that what's going on is the third scenario, which would be a more structural problem with the labor market? And can you talk a little bit more about what you're hearing or what you think is going on in terms of this idea that there is that employers are having a tough time finding workers and yet they aren't raising wages as we would have expected?

MR. EVANS: Yeah. So, so much of this comes down to whether or not wage data continues to be relatively modest growth or if we start to see stronger wage growth or if inflation starts to pick up. And so the puzzling aspect of this is that the labor market seems very strong, and yet firms are not, you know, competing against each other in order to hire just exactly the workers that they say that they need. They say they have needs for high-skilled workers, they absolutely have to, you know, have them. Why? How is it that they're getting by? If they really need workers, how are they producing what they think they need to produce if they don't have that? To take their comments at face value, I would think that they might be competing more.

Golly, you know, it might be the case that these are firms just in locations and they're not going to be able to attract the workers and, you know, getting somebody to move is much more expensive than what they're talking about. So maybe there's—maybe there's this range—maybe they need to offer much higher compensation and job attractiveness than what they're willing to do and it's too expensive a proposition.

I mean, competition would sort of say, well, if you can't compete, then you're not going to be able to continue and be successful, and so that's the nature of, you know, success and, you know, failure in the business world.

But, you know, if basically there's a limited number of these high-skilled workers, then it might—you know, is it the case that, one way or another, businesses all understand that if they raise wages, they're all going to compete against each other and not really attract more people in? That's sort of a noncompetitive explanation for this, which, again, if you've really got a successful business proposition and you're losing out because you don't have the workers, you'd be willing to pay them more, so there would be a break in that eventually, too.

But it could be that there are some structural issues related to regional challenges that firms face, skills. Who's going to train the workers? Things have changed a lot since the, you know, '70s and '80s when you had more of a presence of labor unions that would train their workers for businesses. That was part of the value proposition; now you've got less of that.

And sometimes you have conversations with businesses where they say, well, we actually are looking for this company over here that's a lot bigger to help our region train workers on behalf of everybody, and maybe they're – maybe they may have a consortium where they cooperate and what not. But it's sort of, like, I can't do this, hopefully somebody else, maybe it's a community college and what not.

But are they just sort of standard economic development questions that different municipalities and regions face when they get hit with shocks where, you know, there are three employers that are really important for them and they've lost one and how do they continue to survive and thrive and attract people? So we just hear more and more stories like that and how it plays out.

I think wages are going to be an important part of understanding what the ultimate solution is.

Q: There are some pockets of the country where there's stronger wage growth, like, you know, the Bay Area of San Francisco, for example. Does that suggest that it's not a structural problem?

MR. EVANS: You know, to the extent that everybody can't hire workers from the Bay Area and they need workers, I mean, it's sort of this, you know, regional, you know, challenge. And, you know, cost of living is very expensive there, so I'm guessing even in the Bay Area they have challenges finding all the workers that they really want. Everything takes place at a different price point, to some extent.

But that's part of what I was trying to get at with the large metropolitan areas might have some advantages. They've got challenges, too, of it's expensive to live there. And you start being attractive to some people, but not to others, and then people sort. Might take a long time for that to work its way out.

Q: So there's been, like, a flood of papers over, you know, recently, you know, about this sort of monopsony view of labor markets as opposed to kind of a competitive supply-and-demand model. How does that change monetary policy? What would the implications be there if, you know, really a better way to look at the labor market is in that sort of monopsony framework?

MR. EVANS: Well, those are important questions and I think we need to—– I think we need to study that, I think we need to try to measure, you know, how prevalent that is. There are a lot of theories that sort of have some modest kind of monopsonistic element to the labor market that allow wage-setting behavior as opposed to just competition. So it's not a foreign idea, but the question is how large is it, and is it really enough to distort the way that we think about this?

But I think that those are potentially important issues that would have a wide range of implications for how you would normally think about competitive economics and what the transition will be to the next stronger-growth period.

Q: Monetary policy?

MR. EVANS: I think we have to understand that—I mean, part of this is, you know, it's sort of like labor's share in income. You know, during the downturn, labor's share fell, capital's share of income rose. Back in the '70s and '80s, labor's share of income was relatively unchanging. I took classes where the instructor sort of said it's a rock-solid, planetary constant, 64% and other things like that, but it's moved around.

So part of it can be different bargaining power between the owner of the firm and workers, so monopsony plays some aspect of that as well with those changing market powers. Market share and—so it's not just technology. It can be technology, but it can also be changes in market power. And that's probably not the way you normally think about the silver and growth model, but it's in there.

Q: Part of your district, you know, has a lot of agricultural production. And with all this trade dispute with China, you know, there's some concern that, that part of the economy, the farm sector, will weaken further because of reduced exports to China. I'm wondering, what's your outlook for the farm sector? Do you see—has it changed at all because of the escalating trade conflict with China?

MR. EVANS: You know, well, commodity prices are, you know, relatively low, crop prices are relatively low. I mean, a different way of saying that is productivity in the farm sector is kind of high, people are producing a lot and so prices are low. We don't always hear that side of it, but that's part of it.

So, when you're producing a lot, you would certainly like to have the largest, most expansive market opportunities to sell your product as you can. These are commodities and so you can't really differentiate your product from everybody else, and so there's going to be a world price to that, so I think an environment where you have more opportunities to trade with people across countries are preferred by the farm sector.

And so Nafta is an important fundamental for continued strength in the farm sector. And, you know, to the extent that you can sell to China, that, you know, they don't produce as much food as they would like themselves and so they import, you know, a lot, you know, so I think the farm sector would certainly like more of that. I think that's what they must be concerned about and we'll see how it plays out.

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THE WALL STREET JOURNAL.
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Distrust Clouds Stock Fear Gauge --- Unusual movement in the VIX arouses worry over the soundness of the trading linked to it

By Gunjan Banerji
658 words
23 April 2018
The Wall Street Journal
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English

Investors are starting to wonder if Wall Street's fear gauge is broken.

The Cboe **Volatility** Index tracks how much investors pay for options they often use as insurance against future **stock-market** declines. Known as the VIX, it typically rises as stocks fall or vice versa, reflecting shifting demand for options used to hedge investments. Playing the VIX has become a cottage industry in recent years, with billions of dollars flowing into investment products aimed at hedging or exploiting **volatility** trends.

This past Wednesday morning, futures contracts that track the VIX spiked despite little movement in U.S. stock futures. The 12% rise within 30 minutes set off alarm bells on trading floors -- it was the biggest such move going back to 2010, according to data from Macro Risk Advisors, a derivatives brokerage.

Wednesday's trading, which many traders said was triggered by large orders for **S&P 500** put options expiring in one month, is now adding to concerns about the soundness of the entire ecosystem of VIX-linked trading.

"The VIX has grown enormously and my sense is that it's been showing some growing pains lately," said Sandy Rattray, who helped make the VIX tradable through the creation of futures contracts on it while at Goldman Sachs Group Inc. in 2004.

Exchange-traded products tied to the VIX came to the forefront of investor attention during a market rout in February. The episode raised questions about whether the world of **volatility** trading is morphing and if some products aren't doing what they advertise to do -- measure market anxiety.

VIX futures are dependent on what some say is an outdated auction that is subject to problems such as thin trading and potentially manipulation.

Chris Concannon, Cboe's president and chief operating officer, acknowledged that recent claims of alleged manipulation have been affecting the monthly auctions. Technology improvements will help, he said in an interview.

The accusations of manipulation have affected the willingness of trading firms to participate during the auction, he said. Cboe is "highly focused" on the process, he said.

Traders trying to unravel Wednesday's mysterious trading pointed to massive options orders that took place during a monthly auction just before market open. About $2 million in options bets triggered the extreme move, according to Macro Risk Advisors.

There is a long history of alleged manipulations in futures markets, though it is difficult to prove, lawyers and academics have said.

Still, it is unclear if there is any nefarious trading activity going on. Some, including Mr. Rattray, say even hedging activity could move the gauge. Traders also often arbitrage brief price discrepancies between VIX futures and **S&P 500** options.

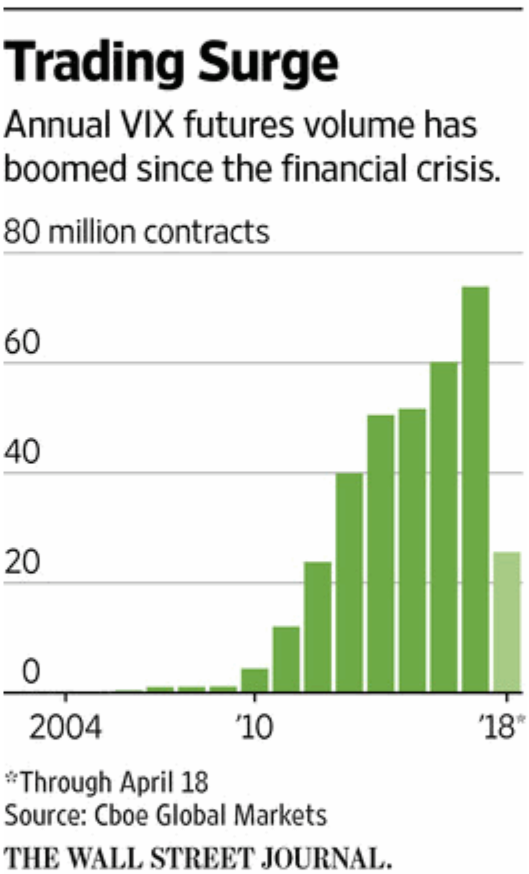
But at least nine lawsuits alleging VIX manipulation have been filed since February. The Financial Industry Regulatory Authority is looking into claims that the contracts have been tampered with. Cboe Global Markets, which oversees the VIX, works with Finra, Wall Street's self-regulatory watchdog, to surveil its markets.

The current auction system that Cboe runs has "significant flaws," Don Wilson, founder of DRW Holdings LLC, told The Wall Street Journal. DRW is a large Chicago trading firm involved heavily in the futures market.

"A widespread lack of understanding about how the settlement auctions work and the recent allegations of impropriety, you have a perfect storm," he said.

He proposes a system in which investors receive a set of **S&P 500** options when a VIX future expires, making it more of a "physically settled" futures market instead of "cash settled."

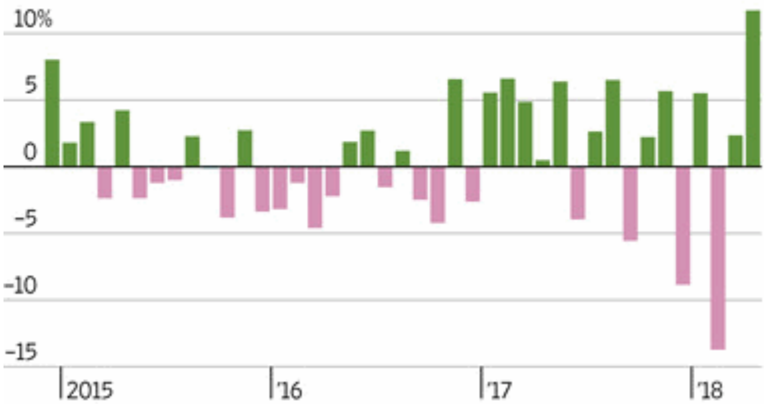
Mr. Wilson is fighting a case in which DRW is accused of manipulating interest-rate contracts in 2011. He and DRW deny the allegations. DRW is also named in one of the lawsuits, which the firm called "without merit."



Deviating Prices

There have been large differences between VIX futures prices at 9 a.m. and the final price at 9:30—after a monthly auction.

Difference between futures prices at 9 a.m. and 9:30



Source: Macro Risk Advisors

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Investors Find It Harder To Both Buy and Sell

By Gunjan Banerji and Sam Goldfarb
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Investors are having a tougher time trading in a number of **financial markets**, weakening their ability to raise cash or protect against big stock declines.

The capacity to get in or out of an investment, known as liquidity, was rarely tested during the long stretch when stocks and bonds rallied with little **volatility**. Now as inflation concerns, global trade anxiety and tensions in Syria roil markets, investors notice it is getting harder to trade as easily.

Chris Retzler, who manages the Needham Small Cap Growth Fund, tried to buy a small-cap tech stock in February, only to find that trading was thin and prices unattractive. Rather than paying up, he decided to wait for a couple of weeks until he found someone offering the stock at a reasonable price.

"There is very little you can do at that point other than be patient and not overpay," Mr. Retzler said.

The liquidity problem has been worsening for years. Investors say it began nearly a decade ago, when post-financial-crisis regulation prevented banks from trading for themselves, and forced them to hold larger amounts of capital -- thereby shrinking their inventory of riskier assets. This, in turn, reduced banks' ability to serve as intermediaries between buyers and sellers.

"It's like going into a grocery store and there's nothing on the shelves," said Jeffrey Cleveland, who said liquidity is a hot topic among the traders he confers with regularly as chief economist at Los Angeles money manager Payden & Rygel.

In the U.S. **stock market**, half of the more than 8,500 listed companies trade less than 100,000 shares a day -- a tiny sliver of what big stocks trade, according to an April 10 report from the Securities and Exchange Commission.

The SEC is weighing changes to create more liquidity in small-cap stocks, such as potentially concentrating trading in such shares to a single exchange.

"Thinly traded securities and their investors deserve a market structure that fits their particular needs," Brett Redfearn, head of the SEC's Division of Trading and Markets, said at a conference in New York last week.

Even in the world's deepest bond market -- U.S. government debt -- liquidity has worsened as trading activity can't keep up with booming supply. The Federal Reserve's network of primary dealers, which are required to bid at government bond auctions, reported $455 billion of daily Treasury debt trades for the seven days ended April 11. That figure has declined since 2007 -- even though since that time, tradable Treasury debt has more than tripled.

The recent spike in market **volatility** "suggests there is good reason to worry about how well liquidity will be provided during episodes of market duress," Charles Himmelberg, a Goldman Sachs Group Inc. economist, wrote in a recent report. "This could contribute to price declines and possibly prolonged periods of financial instability."

With less confidence that they can raise cash to make new purchases or meet client redemptions, some investors have sold more than they initially intended for fear that they might not be able to sell at a future time.

"You might as well sell when the liquidity is there" because it might not be there another day, said Marc Bushallow, managing director of fixed income at Manning & Napier.

This year's volatility has even hampered liquidity in the popular E-mini S&P 500 futures on the Chicago Mercantile Exchange, a derivative product widely used for betting on the stock market's direction or hedging against market swings. In the most active E-mini contract, the average number of contracts available to be bought or sold at the best price slumped from more than 500 in October to just 96 in March, according to MayStreet LLC, a data-analytics company.

In the options market, liquidity has deteriorated as new exchanges and more products have diluted trading, analysts say. Liquidity for options in February was worse than in August 2015, when China's unexpected devaluation of the yuan sent markets reeling, according to Option Research and Technology Services.

In March, Rohan Gupte, who trades at home, looked to add options on Amazon.com Inc. But when he noticed buy and sell prices further apart than usual, he decided not to pull the trigger. Wider spreads have become more commonplace among big tech stocks and indexes, causing him to back away from the market at times.

"I just avoid doing that," Mr. Gupte said.

Even one of the most popular contracts has experienced much thinner trading. The number of contracts backing buy and sell options quotes on the SPDR S&P 500 Exchange-Traded Fund Trust, which tracks the S&P 500 index, dropped off dramatically in February and March, falling by more than 30% from last year's average, data from S3 show.

In the corporate bond market, investors say they sometimes have to break orders into smaller pieces to complete larger purchases. But since a series of smaller trades takes more time, investors say the market can move against them while they are trying to buy.

"We like certain bonds at a given price, but we're not even done building our position and they're five points higher," said Matt Freund, co-chief investment officer at Calamos Investments.

Some traders believe liquidity issues may not last. With the Trump administration rolling back bank regulation, they hope trading could improve if banks are allowed to hold more assets that the current rules define as risky.

Traders say smaller bond transactions haven't been much affected. In corporate bonds, bid-ask spreads have been tighter than where they were before the financial crisis.

During recent bursts of market volatility -- from the 2013 spike in Treasury yields when the Fed started talking about tapering its bond purchases to the February surge in the Cboe Volatility Index -- those spreads barely budged.

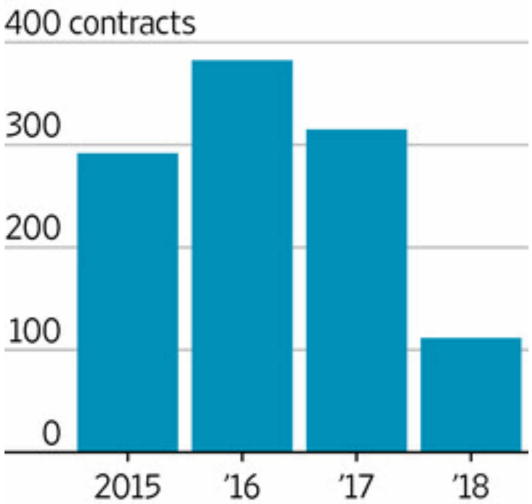
Another reason for less liquidity: many investors are more closely tracking bond indexes, creating large demand for newly issued bonds but little appetite for older ones.

The problem with investors managing against an index is that "everyone is chasing the same stuff," Payden & Rygel's Mr. Cleveland said.

Alexander Osipovich and Daniel Kruger contributed to this article.

Downsizing

The average size behind buy and sell quotes for U.S. listed options has shrunk dramatically this year amid heightened market volatility.



Note: Data are for options with monthly expiration dates.
Source: ORATS
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THE WALL STREET JOURNAL.

Markets

Oil Is Fast Approaching $70. Is the Economy Ready for It? Prices are seen in a range that could benefit the U.S. economy by bolstering the recovering energy industry without curtailing demand

By Stephanie Yang and Alison Sider
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22 April 2018
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The Wall Street Journal Online
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English

Oil prices are headed toward $70 a barrel, a weight on the U.S. economy that is bearable for now but could pose trouble if prices keep climbing.

The last time U.S. **oil prices** were at $70, in 2014, they were in the middle of a steep collapse. Many investors believed then that prices would soon stabilize, or even recover. Instead, they continued to plunge, eventually hitting a bottom in 2016 at $26. That tumble caused acute pain for oil producers, whose troubles rippled out into stocks, bonds and the broader economy.

This year's rally is a sign of how much has changed in a few years. Global growth has picked up, while U.S. unemployment has fallen. A gambit by the world's largest oil producers to cut production has been succeeding in eliminating a massive glut, with help from soaring demand.

Oil prices have climbed more than 60% since last summer's lows, and U.S. producers are exporting more crude than ever.

For now, some investors say **oil prices** are lodged in a range that could benefit the U.S. economy by bolstering the recovering energy industry without curtailing demand.

Yet even with the economy chugging along, rising **oil prices** dredge up fresh concerns. If crude continues to move higher, it could begin to stifle economic growth. Higher consumer prices for gasoline and other energy products act like a tax, while pushing inflation higher and increasing pressure on the Federal Reserve to raise interest rates more aggressively.

That, in turn, could slow growth and weigh on the **stock market**, which has already been knocked around by trade tensions, rising bond yields and recent bouts of **volatility**. Inflation concerns pushed the yield on the **10**-**year Treasury** note to the highest since 2014 on Friday, while major U.S. stock indexes closed lower, wiping out much of the recent gains after a string of upbeat earnings.

"Nothing can suck cash flow out of the economy faster than rising **oil prices**," said Joseph LaVorgna, chief economist for the Americas at Natixis.

When **oil prices** fell below $40 a barrel, financial distress from the energy sector started to spread, said Jason Thomas, director of research at the Carlyle Group.

But if **oil prices** continue rising, they could boost inflation expectations, which would raise bond yields and the cost of financing.

"We're starting to move out of that Goldilocks zone," Mr. Thomas said. "Certainly $10 to $15 a barrel more there starts to be this drag."

President Donald Trumptweeted Friday that **oil prices** are "artificially Very High!"—a sentiment that would have been unthinkable even a few months ago. **Oil prices** tumbled after his comment, but recovered to settle at $68.38 a barrel Friday.

A major force behind rising **oil prices** has been a policy reversal from the Organization of the Petroleum Exporting Countries. In 2014, the group opted to continue pumping oil at high rates in an effort to protect its market share against encroaching U.S. shale producers. Two years later, OPEC reversed course, enlisting other major producers such as Russia in a coordinated production cut that has helped to nearly eliminate a supply overhang.

"The conversation is changing," said Antoine Halff, senior research scholar at Columbia University's Center on Global Energy Policy. "A year ago the conversation was 'lower for longer' and the 'age of abundance'" for oil, he said. Now, "the idea of cheap oil forever is being challenged."

A booming global economy has also been key, keeping demand high as excess oil and fuel gets soaked up by consumers around the world. The first quarter was likely the strongest for global oil demand growth, year over year, since the fourth quarter of 2010, Goldman Sachs said.

But higher prices could threaten that. When drivers take to the road this summer, they will likely be paying the highest prices for gasoline since 2014. That will likely negate any financial benefits from tax cuts this year for low-income households, according to Deutsche Bank, and could further eat into disposable income.

"The higher prices get, over all, the consumer side of the economy will be affected. It's like a tax increase on consumers as gasoline prices go up," said Ann-Louise Hittle, vice president of oil markets at research firm Wood Mackenzie.

Some analysts believe that concerns that higher prices will cut into demand are overblown.

For one thing, oil's gains have been gradual. Gasoline prices are still far from highs in 2008, when the national average topped $4 a gallon at times.

Demand has remained strong even as oil and fuel prices have been rising, and many analysts believe that prices still aren't high enough to prompt big changes in behavior.

And with the U.S. now on track to overtake Russia as the world's largest oil producer, a large swath of the U.S. economy stands to benefit from higher prices. **Oil prices** are even higher abroad, which has made it lucrative for U.S. producers to ship more crude overseas. Brent, the global benchmark, climbed to $74.06 a barrel Friday.

"In the past, any time **oil prices** have gone up it was as a result of supply constraints and the U.S. was at the mercy of foreign oil," said Joseph Tanious, senior investment strategist at Bessemer Trust. "But U.S. oil production has picked up in a meaningful way—there could be also some benefits to having modestly rising **oil prices**."

Oil's rise has started to lift energy companies' share prices, which had been slow to react to higher prices. Oil-and-gas companies have taken over as the U.S. **stock market**'s priciest segment, according to Credit Suisse analysts. Energy shares have gained 1.5% so far this year after a nearly 10% gain over the past month.

But even some producers worry about what will happen if higher **oil prices** stick around too long.

"We're going to lose demand. It's going to move more toward alternative energy," Scott Sheffield, chairman of Pioneer Natural Resources Co., said at an energy conference last week. "I don't think it does anybody any good to see $70, $80 crude."

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Economy

Europe Confronts Blowback From U.S. Economic Moves; French finance minister indicates that until the U.S. removes threat of tariffs on European steel and aluminum, the bloc wouldn't join in Washington's campaign to pressure Beijing

By Josh Zumbrun, Tom Fairless and Ian Talley
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English

German Chancellor Angela Merkel and French President Emmanuel Macron visit Washington this week with strains hanging over European economic relations with the U.S.

The strains—over trade, sanctions and other matters—were evident during semiannual meetings of the International Monetary Fund and World Bank this in Washington this weekend.

European capitals find themselves facing blowback from U.S. confrontations with China, Russia and Iran, including the threat of steel and aluminum tariffs, the prospect of the U.S. pulling out of the nuclear deal with Iran that the U.K., France and Germany helped negotiate; and proposed sanctions on Russia. Other tensions loom with the U.S., including Europe's plan to tax digital companies.

Ms. Merkel and Mr. Macron visit Washington as a number of deadlines loom, including May 12, Mr. Trump's self-imposed date for essentially getting out of the Iran deal, and May 1, for steel and aluminum tariffs taking effect in Europe.

"We are allies," French Finance Minister Bruno Le Maire said Friday in a news conference. "We can't live with a Sword of Damocles hanging over our heads."

He indicated that until the U.S. removes the threat of tariffs on European steel and aluminum, the bloc wouldn't join in Washington's campaign to pressure Beijing.

"If we want to discuss China we must first get rid of that threat," Mr. Le Maire said. "This can't just be bilateral work."

At a press conference Saturday, Treasury Secretary Steven Mnuchin was asked if the U.S. had been successful recruiting or persuading allies to its international efforts against China.

"We're not looking to recruit other people," he said. "What we are looking to do is have discussions with our other partners, they share similar issues, a lot of these issues are not unique to the United States."

Mario Centeno, the Portuguese finance minister, who presides over meetings of Eurozone finance ministers said, in reference to trade, that "Europe is of course not happy with this dimension of the global debate, we made it very clear to the U.S."

Many European policy makers have sympathy for U.S. frustration with China's trade practices.

European Union financial-services chief Valdis Dombrovskis, said the EU was eager to work with the U.S. "in a multilateral way" on China's trade practices. He said that the EU was negotiating in good faith on steel and aluminum tariffs, but would be prepared to retaliate on trade if exemptions aren't granted.

"Of course, if for whatever reason they are imposed, we are ready to react in proportional way which is in line with WTO rules," Mr. Dombrovskis said. He added that the Trump administration's justification for imposing the tariffs—on national security grounds—didn't make sense. "We certainly do not see the EU as a threat of national security for the U.S."

U.S. trade partners are accelerating trade deals with others to protect themselves. The EU announced Saturday it had struck a free-trade deal with Mexico, whose trade agreement with the U.S. is being renegotiated after being attacked by President Donald Trump. The EU said the deal would eliminate almost all tariffs on goods bought and sold between the two regions, including in the agricultural sector.

The EU-Mexico deal follows a December free trade agreement between the EU and Japan that the European Commission touted as "a powerful signal to the rest of the world that two large economies are resisting protectionism."

"The list of partners willing to work with the EU in defending open, fair and rules -based trade is growing fast," European Commission president Jean-Claude Juncker said in a statement.

The United Kingdom shares concern with the U.S. about China, but has found itself worrying it could suffer collateral damage in the spat between the world's two largest economies.

"We do not believe that the implementation of tariffs is the way ultimately to resolve problems in the global trading system," said Philip Hammond, the U.K.'s Chancellor of the Exchequer. "We do expect to suffer perhaps as much as many, and more than some, if global trade were affected by such actions."

In challenging Russia and Iran, the Trump administration is ramping up sanctions as a primary policy tool to challenge threats to national security without military confrontation.

Europe is feeling the blowback. The European Union is Russia's biggest trading partner, while Russia is the E.U.'s fourth largest trading partner.

European finance ministers urged the U.S. Treasury against a major escalation in sanctions against Russia and asked Mr. Mnuchin to exempt their firms from the latest round of sanctions. Ms. Merkel may press Mr. Trump to exclude existing contracts from Russian sanctions, Austrian finance minister Hartwig Loeger said Sunday.

German firms said complying with U.S. sanctions could cost them hundreds of millions of dollars in lost contracts and raise production costs.

Similarly, European nations are worried about the U.S. pulling out of the 2015 Iran nuclear deal, which could involve Washington imposing sanctions back onto broad swaths of the Iranian economy, including oil exports and financing.

Many European nations, including Germany, Italy and Spain, have business ties to Iran in the energy and industrial sectors. **Oil prices** could also go back up, hitting Europe as its economy is gathering pace.

"The message we are emphasizing is that it's important to coordinate our response to Russia," said Mr. Dombrovskis of the EU. Coordinating punitive actions against Russia and Iran is especially important, he said, because of the negative economic impacts on the European economy.

Other European officials put in it more bluntly in private meetings with U.S. officials and finance executives this week. "We still want to keep trans-Atlantic unity, but it is increasingly difficult to do that," one European diplomat said.

Collectively, all of the policies putting Europe at odds with the U.S. are going to drive political pressure within Europe in a direction that many don't want, said the diplomat. "All mixed together, this is not a good recipe."

Stephen Fidler contributed to this article.

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The New York Times

Money and Business/Financial Desk; SECTBU
In a Hot Global Economy, a Surplus of Frowns

By NEIL IRWIN
1,295 words
22 April 2018
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Late Edition - Final
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English

By a lot of measures, these are very good times for the global economy. Nearly every major region of the planet is enjoying solid growth and prosperity simultaneously for the first time in a decade.

Yet the world's top economic policymakers, who are gathered in Washington this week, are sounding awfully glum.

''The present good times will not last for long,'' said Maurice Obstfeld, chief economist of the International Monetary Fund, as he released the fund's latest projections, which foresee a solid 3.9 percent expansion of the global economy in 2018.

Or as his boss, the I.M.F. managing director Christine Lagarde, put it, ''The current global picture is bright, but we can see darker clouds looming.''

The pessimism among policymakers -- who are attending spring meetings of the I.M.F. and World Bank in Washington this week -- contrasts with **financial markets**. Despite a bumpy couple of months, stocks and most other financial assets are still priced at levels that suggest growth will continue apace for some time to come.

''Economists are paid to worry,'' said Nathan Sheets, chief economist at PGIM Fixed Income and a former official at the United States Treasury and the Federal Reserve. ''We're paid to find problems and challenges. I think the markets, on the other hand, are pretty good at living in the moment.''

What are these policymakers so worried about? Is this just a bunch of economists living up to their field's reputation as the dismal science -- or worse, letting their own policy preferences shape their forecasts? Or is the world economy, for all its apparent prosperity, actually in peril?

Let's look at the interrelated threats the economists see.

Trade War Worries

President Trump tweeted last month that trade wars are ''good, and easy to win,'' but it is safe to say that leading economic policymakers do not agree. They instead see the risk of ruin in the administration's tariff threats -- a cycle of retaliation that could disrupt companies' supply chains and cause global commerce to falter.

Ms. Lagarde argued in a speech last week that the global trading system has had tremendous benefits in terms of reducing poverty and creating higher-wage jobs. ''But that system of rules and shared responsibility is now in danger of being torn apart,'' she said.

For now, this remains more a theoretical risk than a cause of major disruption to economic expansion.

The Trump administration has threatened a withdrawal from the North American Free Trade Agreement, a steep tariff on steel and aluminum imports, and the intention to tax $50 billion (or maybe $150 billion) of Chinese imports. But it has then backed away, entering Nafta renegotiation, granting exceptions to the steel and aluminum tariffs to many countries, and delaying tariffs on Chinese imports.

Essentially the Trump administration pattern so far has been to pair belligerent language with comparatively restrained action. Trading partners have worked to find resolutions rather than let a full-scale trade war erupt.

There is a tentative deal to renegotiate the United States' trade agreement with South Korea, for example, and Nafta negotiations are continuing.

A World of Financial Imbalances

Global policymakers are worried about more than conflict over trade. They also see an emerging series of financial imbalances and risks that could cause, or worsen, the next downturn.

For years, for example, some countries -- Germany, Japan and China prominent among them -- have persistently run current account surpluses, meaning they export more than they import and essentially export capital to the rest of the world. Others, including the United States and Britain, have run persistent current account deficits.

Over time, these patterns can create vulnerability to financial shocks; they helped fuel both the 2008 global financial crisis and the 2010 eurozone crisis. And the I.M.F. projects that they will worsen in the next couple of years, despite steady economic growth.

For example, Germany's current account surplus is set to rise from 8 percent of G.D.P. in 2017 to 8.2 percent in 2018 and 2019, according to the World Economic Outlook. The United States' current account deficit is forecast to rise to 3 percent of G.D.P. from 2.4 percent.

The tools to prevent those shifts are within each country's purview. Germany could spend more on domestic investment, and the United States could reduce its budget deficit, which might start to reduce those imbalances. Neither has much evident political appetite to do so.

At the same time, years of efforts by central banks to fuel economic recovery have left interest rates low worldwide and prices in **financial markets** relatively high.

The I.M.F.'s Global Financial Stability Report, released Wednesday, warns that "easy financial conditions risk fueling financial vulnerabilities that may put medium-term growth at risk."

So, for example, if inflation starts to perk up and the world's central banks raise rates to try to prevent it from taking root, there could be a cascading series of disruptions to **financial markets** that have become accustomed to cheap money.

High Debt, Low Rates and the Next Recession

Another worry: While the major economies look relatively strong right now, they may also prove brittle when the next shock arises.

Rather than using this period of stability and prosperity to pay down debts, some major economies are moving in the other direction -- including with rising public debt levels in the United States and high private debt levels in China.

"In the United States, the fiscal impulse is important, but that is something that at some point doesn't give you any more mileage in terms of growth," said Agustín Carstens, general manager of the Bank for International Settlements and former governor of the Bank of Mexico, in an interview Wednesday. "And China need to continue improving the quality of growth from the point of view of the dependency on credit."

That dependency on debt means that whenever the next economic downturn arrives, governments may have less leeway to deal with it by opening the floodgates of public spending.

And with interest rates still low across the entire advanced world, one of the normal tools for dealing with a recession still has limited power. For example, the Federal Reserve entered the last downturn with its short-term interest rate at 5.25 percent, before cutting to nearly zero by December 2008. Currently, that target rate is between 1.5 percent and 1.75 percent.

The European Central Bank has even less room to maneuver, with its policy rates still near zero.

In effect, a decade after the financial crisis, if another recession were to arise, both central banks and fiscal authorities may find themselves short of ammunition to fight it.

People Who Tend to Fret

There is surely an anthropological dimension to the kind of worrying that is emerging from conference halls in Washington this week.

The people who end up as central bankers or finance ministers or I.M.F. officials tend to worry a lot about what could go wrong. They also tend to place greater value than most on the kinds of international institutions that underpin the global trade system, of which the Trump administration is deeply skeptical.

But there's also no doubt that the largely good economic news of the moment comes with some warnings worth listening to. Even when enjoying sunny weather, it never hurts to know what you'll do if it starts to rain.

Christine Lagarde, the I.M.F. managing director, has said that dark clouds are looming despite the current strength of the global economy. (PHOTOGRAPH BY SHAWN THEW/EUROPEAN PRESS AGENCY, VIA SHUTTERSTOCK)

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THE WALL STREET JOURNAL.
U.S. EDITION

The Intelligent Investor: This Index Argument Doesn't Hold Water

By Jason Zweig
901 words
21 April 2018
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Corrections & Amplifications

Actively managed mutual funds voted in favor of management-compensation proposals at major companies 88.9% of the time. The "Intelligent Investor" column on Saturday incorrectly said they vote in favor 89.9% of the time.

(WSJ April 23, 2018)

(END)

David Winters, a veteran value investor, has a provocative idea: Index funds aren't the dirt-cheap choice we all believe them to be.

These autopilot portfolios that seek to match the market, not to beat it, have become the most popular investment vehicle in history. Tens of millions of investors hold roughly $4 trillion in U.S. **stock index** funds, which report annual ownership costs as low as 0.03%, or $3 on a $10,000 investment.

Those expenses are drastically understated, says Mr. Winters, portfolio manager of Wintergreen Fund. In his latest letter to shareholders in the $303 million fund, Mr. Winters argues that the typical **S&P 500 index** fund incurred ownership costs exceeding 4.3%, or more than $430 per $10,000, in 2016.

I think Mr. Winters is wrong, and it is worth noting that Wintergreen has underperformed 90% of similar funds over the past 10 years, according to Morningstar Inc. Still, his argument is a reminder that costs can lurk unobserved and that many fund managers shirk their duty.

Under Securities and Exchange Commission rules, companies must give shareholders the opportunity to express their approval or disapproval of management pay at least once every three years. Although companies can ignore them, those votes are a handy way to measure how often fund managers oppose executive-pay plans.

Wintergreen estimates that for the year ended June 30, 2016, leading **S&P 500 index** funds approved such proposals 97% of the time.

As a result, says Mr. Winters, companies can more easily get away with overpaying their bosses. In doing so, they issue new shares of stock, diluting the ownership interest of outside investors. Then, to counteract that, companies buy back shares at inflated prices.

Wintergreen estimates those combined costs at $908 billion for 2016, equivalent to an extra expense of 4.3%.

"Because the index funds have become so dominant," says Mr. Winters in an interview, "they have effectively created a hidden cost that affects the whole market."

Here's why I think he is wrong. Far from every dollar that companies spend on paying their bosses is wasted, nor is every buyback misbegotten. Those expenditures can often add, rather than subtract, value. Mr. Winters says his firm's calculations "aren't meant to be a judgment" on every company's practices.

Furthermore, according to the Investment Company Institute, index mutual funds and exchange-traded funds hold 13% of the total market value of U.S. stocks. Actively managed funds run by stock pickers own 16%. Other types of investors hold the remaining 71%. Thus, index funds own only a sliver more than an eighth of U.S. stocks. It seems silly to blame them exclusively.

But Mr. Winters is right about a broader point: Too many investors rubber-stamp rich executive pay for poor performance. It's just that active funds are almost as guilty as their passive peers.

Mr. Winters concedes that his 4.3% cost estimate applies to anyone who owns the **S&P 500**, not just index-fund investors. "The active funds certainly have responsibility, too," he says.

Because index-fund managers seek only to track but not to beat the market, they derive no direct benefit from improving how a given company is run or how its managers are paid. Active managers trying to outperform can, in principle, do just that by shaking a company up or by turning its pay packages down.

So do they?

Miriam Schwartz-Ziv, a finance professor at Michigan State University, has analyzed how funds cast votes on companies' executive-compensation plans.

In data from 2011 through 2013 gathered for research with Russell Wermers at the University of Maryland, Prof. Schwartz-Ziv found that active funds were 19% more likely to vote against pay proposals than index funds are.

Pay close attention here. Active funds voted against management-pay plans 11.1% of the time; index funds, 9.3%. And 11.1% is 19% bigger than 9.3%.

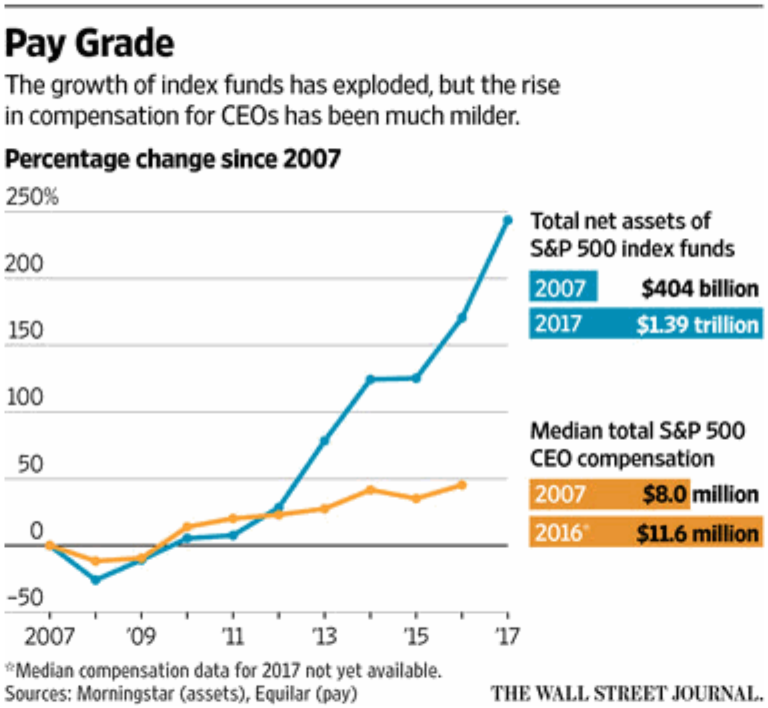
Now flip the numbers. Active funds voted in favor of pay proposals 89.9% of the time; index funds, 90.7%.

For their part, the managers of index funds say they closely monitor the companies they own.

"It's precisely because we cannot sell shares, and will be a major shareholder for years at a time, that we engage" with companies on pay and other practices, says Ed Sweeney, a spokesman for BlackRock Inc., with $4.1 trillion in index funds globally. The firm has a staff of 32 monitoring how its portfolio companies are run, Mr. Sweeney says; that will double over the next three years.

"Investing is a very competitive business," says James Rowley, an investment strategist at Vanguard Group, which manages a total of $3.4 trillion in index funds. "Active fund managers want one stock to do better relative to others. We want all our underlying portfolio companies to compete against each other to do better." Vanguard has a staff of 20 monitoring corporate governance, with plans to add more.

In short, the idea that index funds cost 4.3% a year doesn't hold up, and implying that they are lap dogs for corporate management ignores the fact that the typical manager of an actively managed fund is no Doberman or Rottweiler.



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THE WALL STREET JOURNAL.
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Oil Pact's Extension Bolsters Crude Rally

By Benoit Faucon and Summer Said
977 words
21 April 2018
The Wall Street Journal
J
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English

JEDDAH, Saudi Arabia -- A group of some of the world's biggest crude producers said they would keep a tight grip on output for the rest of the year, and perhaps into next, capitalizing on the success so far of a risky bet they made 18 months ago to throttle back and lift **oil prices**.

Senior officials from OPEC, Russia and other big producers gathered here Friday said they were happy with a deal they put in place to 2016 to limit production and erase what was then a large glut of stored oil sloshing around the world.

As the meeting ended, President Donald Trump weighed in via Twitter, calling **oil prices** "artificially Very High" and drawing wider attention to the economic and geopolitical stakes stemming from recently climbing crude prices. On Friday, Brent crude futures, the international benchmark, hit its highest price since November 2014, settling up 0.4% at $74.06 a barrel.

The pact has largely worked: The members of the Organization of the Petroleum Exporting Countries and big non-OPEC producers, led by Russia, have stuck to eliminating 2% of the world's production, as measured at the time.

That has helped erase the glut. Amid rising demand from healthy economic growth in the U.S., Europe and Asia, the pact has also helped lift international **oil prices** to today's relatively lofty levels.

Officials from Saudi Arabia and Russia signaled Friday that they weren't finished yet. Saudi Arabian Oil Minister Khalid al-Falih said "it's not mission accomplished." His Russian counterpart Alexander Novak said Moscow was committed to "100%" compliance related to its part of the cutbacks. He said the producers in the pact "need to extend [the] partnership" through next year.

Mr. Novak had previously signaled Russia was content with today's higher prices, leading some observers to speculate he might push to exit from the pact when it expires at the end of the year. Russian producers have pressured the Kremlin to let them open their taps.

Mr. Falih signaled moderation in continuing cutbacks. He said producers that were part of the pact won't keep cutting output "indefinitely." And he said any new production regime next year shouldn't "shock the market." Mr. Falih took aim at Mr. Trump, telling reporters at the meeting "there is no such thing as an artificial price."

After the president's tweet, **oil prices** quickly lost about 50 cents a barrel. Prices rose later in the day. On the New York Mercantile Exchange, West Texas Intermediate futures ended up 0.1%, at $68.38 a barrel.

Saudi and Russian oil officials said they and their allies achieved more than 140% of their agreed oil-production cuts in March. The voluntary cuts aren't the only supply concerns bolstering crude. Geopolitical tensions in the Middle East have boosted sentiment, especially after a U.S.-led strike on the Syrian administration last week. Syria doesn't pump much oil, but worry over wider military intervention in the oil-rich Middle East rattled markets.

Investors also are monitoring the U.S. stance on the international nuclear agreement with Iran, due for review in May. A reinstatement of sanctions could hit oil production and reduce global supply from one of OPEC's largest members. Output in Venezuela, another big producer, has fallen sharply amid its economic crisis.

Brent is "ticking higher by the day, as OPEC cuts are intact, global oil demand growth is firm, Venezuela oil production is in a death spiral, renewed Iran sanctions are imminent and sanctions toward Russia on oil and not just aluminum is possible," said Bjarne Schieldrop, chief commodities analyst at SEB Markets.

The **bullish** comments by Messrs. Falih and Novak early Friday were carried by financial wires services and TV news channels around the world, sending oil markets modestly higher early Friday. That is, until Mr. Trump tweeted just before 7 a.m., and about an hour after the oil officials in Jeddah addressed a news conference.

"Looks like OPEC is at it again," he wrote, calling **oil prices** "artificially Very High! No good and will not be accepted!"

Rising **oil prices** can quickly translate into higher pump prices, acting like a tax on American consumers who often cut back on other spending. It also can hit fuel-intensive industries like aviation and manufacturing. But overall, they don't pose the same threat to the U.S. economy they once did.

Over most of the past decade, U.S. shale producers have revolutionized America's petroleum industry -- boosting output sharply and rapidly reducing the country's dependence on foreign oil imports.

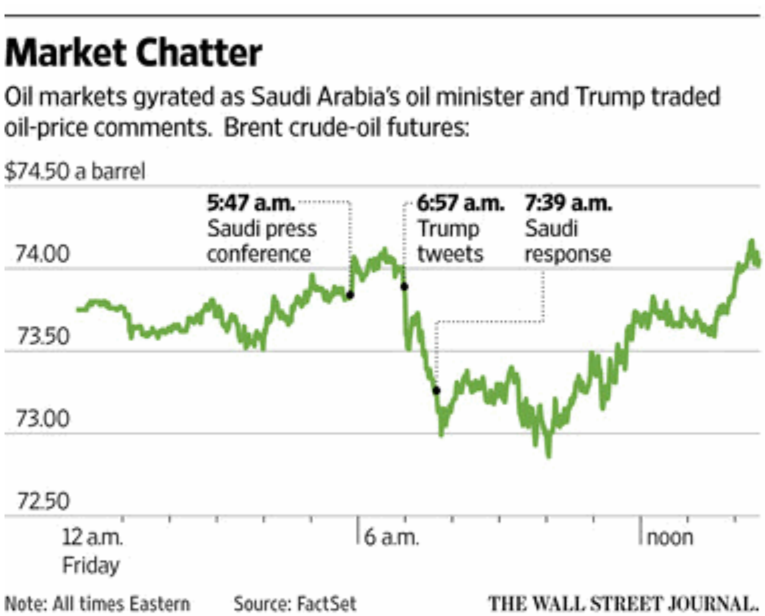
Despite Mr. Trump's assertion that the U.S. wouldn't stand for higher prices, Washington's levers of influence over crude markets are limited. U.S. oil production depends on scores of independent producers, rather than a state-owned oil company that can turn on or off the taps, like those in OPEC.

Mr. Trump could sell oil from the U.S. Strategic Petroleum Reserve or try to pressure Saudi Arabia to exit a deal to limit production. Tom Pugh, a commodities economist at Capital Economics, said neither measure was likely to succeed.

"There's very little he can really do, unlike the Saudis who control their own output," said Mr. Pugh. "And it's just a tweet for now, we have to see if this becomes a theme."

Mr. Trump has warmly embraced Saudi Arabia on a number of other fronts, recently hosting the country's crown prince and de facto leader, Mohammed bin Salman. While the two discussed a range of issues publicly, from defense contracts to Mideast geopolitics, Saudi oil policy wasn't one of them.

Georgi Kantchev contributed to this article.



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The New York Times

Business/Financial Desk; SECTB
Slumping Tech Companies Weigh Down Wall Street

By THE ASSOCIATED PRESS
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21 April 2018
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English

A steep slide in technology companies weighed on U.S. stocks on Friday, pulling the market lower for the second day in a row.

Losses among retailers, packaged food and beverage makers and other consumer goods companies also helped weigh down the market. Banks rose as bond yields continued to climb, reflecting increasing investor concerns of higher inflation in the wake of rising oil and other commodity prices.

The **Standard & Poor's 500-index** fell 22.99 points, or 0.9 percent, to 2,670.14. The **Dow Jonesindustrial average** slid 201.95 points, or 0.8 percent, to 24,462.94. The **Nasdaq composite** index lost 91.93 points, or 1.3 percent, to 7,146.13. The Russell 2000 index of smaller-company stocks gave up 9.69 points, or 0.6 percent, to 1,564.12.

For every stock that rose on the New York Stock Exchange, two declined. Still, the indexes finished the week with a gain.

Bond prices continued to slide as bond yields rose. The yield on the **10-year Treasury** rose to 2.96 percent.

The pickup in bond yields helped drive bank shares higher. When bond yields rise, they drive up interest rates on mortgages and other loans, which can translate into bigger profits for banks. Regions Financial gained 4.1 percent to $18.89.

Technology stocks were the biggest contributor to the market decline, adding to the sector's losses for the week. It's still up 4.4 percent this year. Apple finished lower for the third day in a row, losing 4.1 percent to $165.72.

Mattel was one of the biggest decliners among consumer-focused companies. The struggling toymaker slid 3.6 percent to $12.96 after announcing that its chief executive, Margo Georgiadis, is stepping down and is being succeeded by a company director and former studio executive.

Crude **oil prices** reversed early an decline prompted by news that representatives from OPEC nations and allied oil ministers were meeting in Saudi Arabia to discuss their agreement to maintain cuts to production in a bid to keep prices up. Benchmark U.S. crude gained 9 cents to settle at $68.38 per barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, added 28 cents to $74.06 per barrel in London.

The dollar rose to 107.60 yen from 107.41 yen on Thursday. The euro fell to $1.2283 from $1.2337. The pound weakened to $1.4023 from $1.4078 after the Bank of England's governor cast some doubts about the possibility of a rate increase next month.

Gold fell $10.50 to $1,338.30 an ounce.

CHART: The **S. & P. 500 Index**: Position of the **S. & P. 500 index** at 1-minute intervals on Friday. (Source: Reuters)

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THE WALL STREET JOURNAL.

Markets

How Switzerland Lost a Currency Battle, but Won the War; Swiss economy, with its nimble labor market and emphasis on high-value exports, has shown resiliency to the strong franc

By Brian Blackstone and Pat Minczeski
995 words
20 April 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

ZURICH—The euro briefly exceeded 1.20 Swiss francs Thursday and again early Friday, a level it hasn't reached in over three years, marking a milestone for Switzerland's economy that was battered, but not broken, by its strong currency.

Switzerland's ability to survive, and even thrive, is a counterpoint to recent comments by policy makers around the world who seemed to signal a preference for weaker currencies to juice exports or inflation.

It is a contradiction that has bedeviled the Alpine economy for years. The Swiss economy was considered stable and safe by global investors, driving up the franc's value, which in turn put the foundation of its export-led growth at risk.

The Swiss lesson, analysts said, is that nimble labor markets, productivity and an emphasis on high-value exports that aren't super sensitive to prices are just as important to a country's competitiveness as the exchange rate. A strong currency raises purchasing power for households and businesses.

"In 2015, when [the Swiss National Bank] gave up the euro-franc floor and you had this sharp appreciation, people thought the economy would cave in but it didn't. It looks like the Swiss economy was resilient to the strong franc," said Stefan Gerlach, chief economist at EFG Bank and former deputy governor of Ireland's central bank.

How we got here: During the financial crisis and eurozone downturns, the Swiss franc strengthened, buoyed by its haven status

The Swiss National Bank imposed a floor of 1.2 francs a euro, and bought assets in other currencies to boost them against the franc

On Jan. 15, 2015, the SNB stunned global **financial markets** by abandoning the euro-franc floor.

The euro fetched 1.2008 francs early Friday, up 12% in the last year. Analysts attributed the move, in part, to reduced political uncertainty in Europe and greater investor confidence in the global economy, easing demand for the haven franc.

The franc is by no means weak, and it is still considerably stronger than the 1.40 to 1.50 rate to the euro before Europe's debt crisis began in 2010. The Swiss currency is up 3% against the U.S. dollar in the past year.

Exchange rates have been front and center for finance officials this year. U.S. Treasury Secretary Steven Mnuchincaused a stir three months ago with comments that investors interpreted as signaling a preference for a weaker dollar.

"A weaker dollar is good for trade. In the longer term, a stronger dollar is a reflection of the strength of the U.S. economy," he said at the World Economic Forum in Davos, a departure from the unwritten code among policy makers not to comment too directly on currencies.

Since then, President Donald Trump has chastised China and Russia for their currency policies. "Russia and China are playing the Currency Devaluation game as the U.S. keeps raising interest rates," he wrote on Twitter Monday. "Not acceptable!"

The Swiss, for their part, have tried to devalue the franc on and off for several years. In September 2011, the SNB said that it wouldn't allow the euro-franc rate to fall below 1.20 and that it would intervene in currency markets if needed to enforce that floor. They held the line for more than three years.

But by early 2015 the peg became too costly to maintain and exposed the Swiss central bank to financial risks given the vast sums of foreign stocks and bonds it accumulated through years of currency intervention.

Without warning, the SNB abandoned the euro-franc floor on Jan. 15, 2015. That sent the franc soaring as much as 30% against the euro in a single day even though the SNB also cut its deposit rate to minus 0.75%. In the blink of an eye, one euro went from buying 1.2 francs to buying less than one franc.

That made Swiss products from watches to machine tools and ski vacations a lot more expensive in other countries. And it made foreign goods cheap, pushing consumer-price inflation into negative territory. The worry was that this combination—coupled with negative interest rates—would plunge the wealthy but export-dependent economy into recession.

Abandoning the peg hit tourism…

…and exports sensitive to exchange rates.

But some of Switzerland's major exports aren't sensitive to exchange rates

While sectors like tourism suffered, the overall economy avoided recession and, in recent months, has been growing at around a 2% annual rate. The unemployment rate is below 3%. After years of deflation, annual inflation is positive, but low, at 0.8%. The trade surplus was 35 billion francs ($36.2 billion) last year, roughly 5% of Swiss GDP, led by its large surplus with the U.S.

After a dip, the Swiss economy recovered...

...and prices are rising, albeit at a modest pace.

"If you're Switzerland and you have fine-tuned manufacturing that's hard to replicate, you can survive currency fluctuations," said Peter Rosenstreich, head of market strategy at Swissquote Bank.

Still, protecting the Swiss economy has been costly, with foreign reserves rising in both euro and dollar terms

There is another plus: a supercharged franc made the already rich Swiss even richer. Wealth per adult rose 130% to $537,600 from 2000 through mid-2017, according to a report from Credit Suisse last year, and Switzerland "continues to lead the global rankings."

"We note that a large part of the rise is associated with the appreciation of the Swiss franc against the U.S. dollar between 2001 and 2013," the report said.

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WSJ PRO BANKRUPTCY

Markets

Venezuela Bonds Deliver Top Returns in Emerging Markets This Year; Venezuela bondholders form committee to prepare for restructuring talks

By Matt Wirz and Julie Wernau
890 words
20 April 2018
02:17 PM
WSJ Pro Bankruptcy
RSTPROBK
English

One of the worst bond trades of 2017 has become one of the best so far this year: It's Venezuela.

The country's sovereign bonds are the top performers in emerging markets this year, up 9.7% as of Friday, compared with a drop of 2.3% for the benchmark JPMorgan EMBI Global Diversified Index. The bonds lost 34% last year as Venezuela's economic crisis worsened with skyrocketing infant mortality, plummeting oil production and shortages of food and medicine.

The government of President Nicolás Maduro stopped paying most debts of the country and state-oil company Petroléos de Venezuela, or PDVSA, last fall, but prices of their bonds have been rising since February. Analysts say regime change seems more imminent, an event they believe could lead to stabilizing the economy and oil production, and restructuring more than $150 billion of unpaid debts.

A committee of Venezuela's largest bondholders has formed and hired financial adviser Millstein & Co. to prepare for eventual negotiations with a new government, a person familiar with the matter said.

Fund management companies with large Venezuelan bond investments include Ashmore Group, Fidelity Investments, Goldman Sachs Asset Management, GMO, Pictet Asset Management and T. Rowe Price Group. Ashmore, Fidelity, Goldman, GMO and T. Rowe declined to comment. Pictet couldn't immediately be reached for comment.

A restructuring is still far off, but bondholders are organizing now in hopes it will help them stay unified and bargain for higher payouts when talks begin, the person familiar with the matter said. The committee will also start liaising with Venezuela's other large creditors, including China and Russia, the person said. Both countries provided billions of dollars in trade finance to the Maduro government and may compete with bondholders for repayment.

Mr. Maduro is up for re-election on May 20. Local polls show his challenger, Henri Falcón, as a clear favorite, but the U.S., European Union and Canada have raised questions about the legitimacy of the election process, and many political analysts expect Mr. Maduro to prevail. If Mr. Maduro wins, some investors expect the U.S. to impose long-threatened sanctions against Venezuela's only real source of dollars, oil exports to the U.S., depriving Mr. Maduro of the financial resources to remain in power.

U.S. Vice President Mike Pence called for greater international pressure to isolate Mr. Maduro at a meeting of leaders from across the Americas held in Peru this month.

To maintain power, Mr. Maduro will likely "become more authoritarian, but that is going to lead to more sanctions and social unrest," said Mauro Roca, Latin America sovereign analyst at the TCW Emerging Markets Group, which holds more Venezuelan debt than the benchmarks it follows. "Now it doesn't seem this situation is going to last for years. We are entering a period that will be measured in months."

The prospect of a regime change is the only event that matters to bondholders, says Siobhan Morden, strategist at Nomura Securities. Even if Mr. Maduro remains president after the election, declining revenue from the collapse in oil production could make it difficult to continue to pay the military that protects the Maduro government. The military's loyalty to Mr. Maduro is crucial for him to maintain power.

The Trump administration has barred U.S. investors from buying new bonds from Mr. Maduro's government, but they continue to trade its existing debt.

About $3 billion face amount of PDVSA bonds have changed hands since Feb. 1, according to data from MarketAxess. The oil company's most traded bond due in 2022 was quoted at 33 cents on the dollar Friday from 20 cents in February. That compares with an even bigger rally in Venezuelan bonds in 2016, when investors bet the Maduro administration would choose to use dwindling cash reserves to make bond payments rather than pay for basic imports like food and consumer goods.

Regime change may be closer, but current prices are too high given the potential chaos such a power shift could bring said Greg Saichin, head of emerging-markets fixed-income investing at Allianz. "The risk to that scenario is pandemonium if different factions start pushing their own guys," he said. "**Bond prices** could go to the teens."

Even if Venezuela achieves a relatively smooth transition, there will be intense political pressure to repudiate its bond debts because of the humanitarian crisis afflicting much of the populace there, Mr. Saichin said. Allianz doesn't own unsecured Venezuelan bonds but does hold some bonds backed by shares in PDVSA'S U.S. subsidiary, Citgo Petroleum Corp., he said.

But Jan Dehn, head of research at Ashmore Group, a large holder of Venezuelan debt, said some investors are underestimating how quickly Venezuela could turn around if new leadership were to reopen the country's oil reserves to foreign firms.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
Bargaining Chips in a Trade War; U.S. semiconductor makers are vulnerable because they produce and sell a lot in China, where deal making may also prove difficult

By Dan Gallagher and Justin Lahart
528 words
20 April 2018
05:30 AM
The Wall Street Journal Online
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English

Qualcomm's unwelcome role as punching bag in the U.S.-China trade dispute highlights the vulnerabilities of industries like chip makers as the rhetoric heats up.

China's antitrust regulator raised questions Thursday about the company's proposed $44 billion acquisition of NXP Semiconductor. Qualcomm has since refiled for approval but has set a deadline of July 25, after which it would walk away and pay NXP a termination fee.

The White House is expected to soon unveil new tariffs on an additional $100 billion in Chinese imports, in addition to the $50 billion already proposed. China's ability to evenly match the U.S. on tariffs is limited, since it imports only about $130 billion in U.S. goods annually, much lower than the more than $500 billion the U.S. imports from China. But as the case with Qualcomm shows, China has other sources of leverage that it can bring to bear.

Sales by U.S. companies' Chinese units were $356 billion in 2015 (the last year with available data), according to the Commerce Department. That was more than double the value of what the U.S. exported to China that year. China accounts for more than a third of total sales for semiconductor companies in the **S&P 500**, according to FactSet.

The chip industry is especially exposed to trade tensions between the U.S. and China. U.S.-designed chips go into many of China's exports, but China has now made it a priority to build its own chip industry. Both countries consider protecting their semiconductor industries to be in their national interests.

Investors have spent the past month worrying that U.S. chip makers could get caught in a trade war. The PHLX Semiconductor Index is down 6% since President Donald Trump announced the first tariffs on Chinese goods on March 22. That's by far the worst performance of other tech subsectors in that period, and lags behind the nearly 2% gain of the **S&P 500**.

The trade troubles present U.S. chip companies with two major problems.

The first is that regulatory actions will limit their ability to make acquisitions. Mr. Trump's surprise intervention in Broadcom's attempt to buy Qualcomm last month, and China's subsequent resistance to Qualcomm's efforts on NXP, show that deal making in the new environment will be fraught with additional risk.

Second, the industry is extremely dependent on China. Sales of U.S. chips in China largely don't show up in trade statistics because they are manufactured overseas, where they are also consumed by manufacturers that use them in smartphones, computers, servers, cameras and other gadgets.

But if chip companies are among the most vulnerable to actions by China, they are hardly alone. What has happened to Qualcomm should put plenty of companies on edge.

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THE WALL STREET JOURNAL.

Business

China Wants Prices Just Right for Tech Listings Lured Home; Officials are working to reverse a long-standing trend of marquee companies listing overseas

By Chao Deng
882 words
20 April 2018
12:56 AM
The Wall Street Journal Online
WSJO
English

BEIJING—China's government wants Alibaba Group Holding Ltd. and other Chinese tech giants listed abroad to trade on the nation's stock markets. Now regulators are trying to figure out how to do that without seeing those shares fall too low or soar too high.

Officials at the country's securities regulator and its two main stock exchanges are racing to issue China's first class of securities known as depositary receipts and are facing pressure to get the details right, according to people familiar with the deliberations. The receipts are a type of security offered on a local stock exchange by a company listed in another country.

Chinese leaders see a successful launch as key to reversing a trend of nearly two decades that saw marquee tech companies list overseas where financing was more reliable. These companies are now some of the world's most valuable. Bringing them home will help deepen China's stock markets and boost its competition with the U.S. over future technologies.

"It's in China's national interest to give more of a Chinese identity to these firms," says Lyndon Chao, head of equities at industry group Asia Securities Industry **Financial Markets** Association.

Among tricky issues the officials will face are those regarding timing and valuation, the people familiar said. Many of the Chinese tech companies have seen their share prices rocket during the yearslong U.S. tech boom, then dip in the U.S. markets' recent pullback.

That's fueling Chinese officials' fears that the depositary receipts will begin trading at high prices and then drop, hammering ordinary investors.

At the other extreme, interest in owning shares in choice companies—like e-commerce giants Alibaba and JD.com Inc., and smartphone maker Xiaomi Corp.—is likely to be high. An initial low price could then soar, causing investors to pull money from other stocks and driving down share prices of other companies, according to the people familiar.

"We must find a balance," one person said.

A task force comprised of officials from the China Securities Regulatory Commission and the exchanges are looking at everything from accounting rules to disclosure requirements, this person said. The commission wants to move forward quickly, the people said. Some investment bankers believe an Alibaba listing could come this summer.

Unlike in the U.S., the securities commission gets to decide which companies list. It regularly tinkers with the pace of approvals to nurture stable markets and tightly controls foreigners' access.

The securities commission didn't respond to a request for comment, nor did the Shanghai and Shenzhen stock exchanges.

Many of the tech firms that listed overseas did so because they were incorporated abroad, making them ineligible at the time to offer shares at home. But Chinese leaders recently allowed an exception. In March they approved a plan to allow foreign-listed companies specializing in innovative technologies—with at least 200 billion yuan ($31.8 billion) in market capitalization—to trade on mainland stock exchanges.

By using depositary receipts, the securities commission can create a separate set of new rules, instead of revising regulations that apply to all currently listed companies.

"It's a breakthrough….in a regulatory structure that is not accommodating" to listings of foreign-incorporated companies yet, Hong Kong Exchanges and Clearing Ltd. Chief Executive Charles Li said Friday at D.Live, The Wall Street Journal's tech conference.

A report by China's state-owned brokerage Citic Securities identified six "China-concept" stocks listed abroad likely to satisfy the regulator's requirements for capitalization, innovation, competitiveness and other factors: Alibaba, JD.com, search engine Baidu Inc., gaming and internet company Netease Inc. and telecommunications operators China Mobile Ltd. and China Telecom Corp.

Their combined market capitalization is 5.3 trillion yuan, in Citic's estimate. Allowing them to list 5% of their overseas tradable capitalization is roughly the total amount raised in new public share offerings on the Shanghai and Shenzhen exchanges last year, Citic said.

That will give them outsize influence on the Chinese market, some analysts believe, just as U.S. exchanges are experiencing greater **volatility**.

"The timing isn't appropriate," Dong Dengxin, a Wuhan University of Science and Technology professor of finance, wrote on social media last month. "If the U.S. market crashes, [Chinese depositary receipts] will too."

The depositary receipts wouldn't be exchangeable with U.S. shares, limiting some risk. But officials are still concerned professional investors who can access both markets could make a windfall from a price gap.

Regulators have already fast-tracked a public-offering approval for one tech company and are eager to make it easier for more. That's providing a tailwind for the depositary receipts. And it could stir up bad blood among the hundreds of domestic firms currently awaiting permission to list, one of the people familiar said.

"It's a bit like the older son came back from a trip and the father is happy to see him," said the person. "Meanwhile, the smaller son who never went away isn't happy."

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THE WALL STREET JOURNAL.

Markets

Oil Settles Slightly Higher, Torn Between OPEC Meeting and Trump Comments; The world's biggest crude producers reaffirm their commitment to limiting output as Trump calls oil prices 'artificially' high

By Georgi Kantchev and Christopher Alessi
695 words
20 April 2018
03:43 PM
The Wall Street Journal Online
WSJO
English

Oil prices closed little changed Friday, pulled between comments from President Donald Trump that high crude prices "will not be accepted" and a meeting between major oil producers where they recommitted to limiting output.

Light, sweet crude for May delivery settled up 9 cents, or 0.1%, at $68.38 a barrel on the New York Mercantile Exchange, hovering near their highest close in more than three years. Brent, the global benchmark, rose 28 cents, or 0.4%, to $74.06 a barrel.

Oil sold off after Mr. Trump tweeted, "**Oil prices** are artificially Very High! No good and will not be accepted!"

The president's comments came as the Organization of the Petroleum Exporting Countries and other major producers outside the cartel, including Russia, gather in Jeddah, Saudi Arabia, to assess compliance with a coordinated plan to hold back crude production.

Responding to Mr. Trump's tweet on the sidelines of the ministerial monitoring meeting, Saudi Arabian Oil Minister Khalid al-Falih -- the de facto head of OPEC -- said "there is no such thing as an artificial price." Markets, he added, "determine prices."

Earlier in the day, Mr. Falih said OPEC output reductions were "far from over." His Russian counterpart, Alexander Novak, said his country was committed to complying completely with agreed cuts.

OPEC and 10 producers outside the cartel have been holding back oil output by around 1.8 million barrels a day since the start of 2017. The deal is set to expire at the end of this year, but Saudi Arabia has indicated the participants could continue to hold back output into 2019.

Mr. Trump's options to influence crude prices are limited since U.S. oil production depends on scores of independent producers rather than a state-owned oil company like those in OPEC, analysts said.

"There's very little he can really do, unlike the Saudis who control their own output" said Tom Pugh, a commodities economist at Capital Economics. "And it's just a tweet for now, we have to see if this becomes a theme."

Mr. Pugh said Mr. Trump could sell oil from the U.S. Strategic Petroleum Reserve or try to pressure Saudi Arabia to exit a deal to limit production, but neither measures are likely to succeed.

OPEC's secretary-general, Mohammed Barkindo, said Friday that the U.S. oil industry "is benefiting" from the OPEC production cuts. Indeed, higher prices have incentivized U.S. shale oil producers to ramp up production over the past year, breathing new life into an industry that had been weighed down by excess global supply and low prices, analysts say.

OPEC and its external allies achieved more than 140% of their agreed oil-production cuts in March, officials at the meeting said. That contributed to rebalancing the market after a three-year glut and helped send the **oil price** on a rally that has added over 125% to the price of brent since January 2016.

In April, geopolitical tensions in the Middle East have largely driven the price, not least after a U.S.-led strike on the Syrian regime last week. Investors are also monitoring the U.S. stance on the international nuclear agreement with Iran, due for review in May. A reinstatement of sanctions could hit oil production and reduce global supply from one of OPEC's largest members.

Brent is "ticking higher by the day, as OPEC cuts are intact, global oil demand growth is firm, Venezuela oil production is in a death spiral, renewed Iran sanctions are imminent and sanctions toward Russia on oil and not just aluminum is possible," said Bjarne Schieldrop, chief commodities analyst at SEB Markets.

Gasoline futures settled up 0.9% to $2.0959 a gallon and diesel futures settled up 0.6% at $2.1230 a gallon.

Stephanie Yang contributed to this article.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Retreat But Post Weekly Gains; Strong advance by GE is offset by selling in technology shares, notably Apple

By Riva Gold and Akane Otani
669 words
20 April 2018
04:42 PM
The Wall Street Journal Online
WSJO
English

* Tech shares fall; Apple tumbles

* Asian chip makers under pressure

* Pound continues its slide

U.S. stocks tumbled into the end of the trading week, wiping out much of the gains they had accumulated during a string of upbeat corporate earnings reports.

Major indexes struggled for traction after the opening bell, then extended losses in afternoon trade, with the **Dow Jones Industrial Average** shedding nearly 300 points at its session low.

Among the hardest hit in the **stock market**: Apple, which tumbled following analyst reports that suggested smartphone sales could slow in the coming months. Shares of companies selling consumer goods ranging from laundry detergent to cigarettes also slid, hurt by disappointing results Thursday from Philip Morris International and Procter & Gamble.

The day's moves marked a stark reversal from earlier in the week, when stocks had largely nudged higher, thanks to a string of earnings reports that helped reassure investors that firms largely were on strong footing.

To some, the slowdown in the stock rally this year shows investors have already largely priced in solid earnings growth.

"Now we're in this sixth quarter in a row of strong earnings, and there's an expectation built in," said Ernie Cecilia, chief investment officer at Bryn Mawr Trust. "The risks are that earnings do not come in according to expectations, particularly in higher-valued areas of the market."

The Dow industrials fell 201.95 points, or 0.8%, to 24462.94 for its third straight daily loss. The **S&P 500** lost 22.99 points, or 0.9%, to 2670.14 and the **Nasdaq Composite** lost 91.93 points, or 1.3%, to 7146.13.

Despite the day's moves, all three indexes ended higher for the week, with the Dow industrials rising 0.4%, the **S&P 500** adding 0.5% and **Nasdaq** advancing 0.6%.

General Electric jumped 55 cents, or 3.9%, to $14.54 Friday after the company said it was making progress on its cost-cutting efforts and reaffirmed its 2018 financial target.

But selling in technology shares offset gains elsewhere, with Apple declining 7.08, or 4.1%, to 165.72—its biggest one-day percentage loss since February—after analysts warned of a possible slowdown in iPhone sales.

Meanwhile, selling in government bonds accelerated as inflation expectations picked up, sending the yield on the benchmark 10-year U.S. Treasury note to 2.949%—the highest closing since January 2014—compared with 2.828% last Friday. Yields rise as **bond prices** fall.

That helped lift shares of financial institutions, whose net interest margins—a key measure of lending profitability—tends to rise with interest rates. The **S&P 500** financial sector posted a 1.6% weekly gain, with American Express and Charles Schwab both up more than 7% since last Friday.

Elsewhere, the U.K.'s FTSE 100 index added 0.5% Friday, among the best performers globally, as its exporters received a bump from a slide in the British pound.

The pound lost 1.6% against the U.S. dollar for the week as investors parsing comments from Bank of England Gov. Mark Carney have bet that the next U.K. interest-rate rise could come later than May. Higher rates typically support currencies by making them more attractive to yield-seeking investors.

Meanwhile, semiconductor shares continued to struggle for traction after Taiwan Semiconductor, one of the world's biggest chip makers, said Thursday it expects second-quarter sales to come in below analysts' estimates, due to soft demand for high-end smartphones.

Shares of Taiwan Semiconductor dropped 6.3% Friday in their worst day since 2013, pushing Taiwan's benchmark Taiex **stock index** down 1.8% and pressuring smartphone-component makers across the region.

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