The New York Times

Business Day; DealBook
Major Rental-Home Companies Set to Merge as U.S. House Prices Recover

By MATTHEW GOLDSTEIN
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After the housing market collapsed more than a decade ago, new investors poured in to buy foreclosed homes and rent them out. Now, a $4.3 billion deal suggests that the bargain-hunting binge in housing is finally over.

Two of the biggest institutional single-family landlords in the United States said Thursday that they planned to merge, an indication that the housing market has recovered much of the ground it lost in the financial crisis. And as home prices rise in many areas, affordable housing, for deep-pocketed investors and young first-time buyers alike, is becoming harder to find.

The two institutional landlords, Invitation Homes, a rental business spun out of the private equity giant the Blackstone Group, and Starwood Waypoint Homes said they would combine to create an entity with about 82,000 homes in more than a dozen big markets.

The deal could set the stage for other institutional investors to join forces. With fewer opportunities to buy homes at a discount, the keys to growth will be reducing operating costs, gaining market share and potentially increasing rent.

With consolidation, Wall Street-backed firms' once-bold strategy of cleaning up the mess created by the crisis by going to foreclosure auctions and snapping up hundreds of cheap homes has ended.

Wall Street jumped into foreclosed homes reckoning that there would be a fundamental shift in housing, with millions of people losing their houses and becoming renters — at least until they could repair their credit scores.

On the eve of the crisis, the rate of homeownership — the percentage of households that own a home — hovered around 69 percent. Today, it is 63.7 percent, according to the United States Census Bureau. And last year, the number of new renters again outpaced the number of new homeowners, according to Harvard University's Joint Center for Housing Studies.

But the economics of buying recently foreclosed homes to rent out have become more challenging for Wall Street firms that seek to generate double-digit returns for investors, and for publicly traded real estate investment trusts that promise shareholders hefty quarterly dividends.

For the past year or so, many institutional investors have had to compete with potential homeowners shopping for foreclosed homes posted for sale on multiple listing services.

"As home prices rise, most of the institutional investors are dramatically slowing the rate at which they buy new homes," said Laurie Goodman, director of the Urban Institute's Housing Finance Policy Center. "And with the easy money days behind them, they need a more efficient cost structure." She said the merger was a way accomplish that by gaining further economies of scale.

Blackstone was one of the first private equity firms to begin buying foreclosed homes in the wake of the financial crisis, fixing them up and renting them out. The firm, which began buying homes in earnest in 2011, is estimated to have spent $10 billion on its foreclosed-home-to-rental bet.

Invitation Homes, which emerged from that push with almost 50,000 homes, is a company that Blackstone built from scratch.

Purchases by Invitation Homes have dropped sharply since 2013, when it was buying hundreds of homes each week. Its acquisitions are down more than 90 percent from then, and the period of "hyper growth" for the industry has passed, said a person close to the company who was not authorized to speak publicly.

In all, institutional investors have bought an estimated 200,000 single-family homes to operate as rentals.

But that is a fraction of the overall number of rental homes in the United States. According to housing industry estimates, there are as many as 17 million single-family rentals across the country, most owned by mom-and-pop landlords or firms operating fewer than 100 such homes.

Before the crisis, there were about 10 million rental homes, an indication of how many homeowners were displaced by the worst housing crisis since the Great Depression.

Consolidation among institutional investors began three years ago with American Homes 4 Rent, which owns 49,000 rental homes, buying Beazer Pre-Owned Rental Homes. A few months later, Starwood Waypoint bought Colony American Homes in an all-stock deal that valued Colony American at $1.5 billion. Most of the mergers since then have been small, and the deal between Invitation Homes and Starwood Waypoint would be the biggest in an industry that did not exist a decade ago.

The move by institutional investors into the housing market has been credited by some with helping to stabilize the sharp and steady decline in home prices early in the financial crisis. The presence of private equity firms and hedge funds in the market also helped attract the interest of smaller investors.

But big firms like Invitation Homes and American Homes have drawn criticism from housing advocates for renting their homes at prices that are unaffordable for the working poor.

Few renters with federal rent subsidies known as Section 8 live in homes owned by Invitation Homes and other institutional investors. That is partly because such investors have tended to operate in largely suburban communities and have avoided buying homes in urban areas.

In the past, Blackstone has said that 72 percent of houses owned by Invitation Homes have monthly rents within federal affordability guidelines for the markets where it operates.

This year, housing advocates and some legislators criticized Fannie Mae, one of two government-controlled mortgage finance giants, for agreeing to guarantee a $1 billion financing deal for Invitation Homes without getting any assurances that the company would do more to provide affordable housing.

Kevin Stein, a lawyer and deputy director of the California Reinvestment Coalition, a group that supports the rights of tenants and homeowners, said he was concerned that the merger of Invitation Homes and Starwood Waypoint would increase their power to raise rents.

"What is the level of concentration? This is a concern to our members," Mr. Stein said. "There are so many communities in California where people are being driven out because of housing costs, and this is part of the dynamic."

Under the terms of the deal announced on Thursday, each Starwood Waypoint share will be converted into 1.614 Invitation Homes shares. The total enterprise value of the combined company, including debt, would be $20 billion, the companies said.

Invitation Homes' shareholders will own roughly 59 percent of the combined company's stock, while Starwood Waypoint's investors will own the rest.

Blackstone, which took Invitation Homes public in January in an offering that raised $1.7 billion in net proceeds, would continue to have a stake in the combined company.

After the merger, which is subject to the approval of shareholders, is completed, John Bartling, Invitation Homes' chief executive, will step down. Fred Tuomi, the current chief executive of Starwood Waypoint, will be the chief executive of the combined company.

The new company’s 11-member board will include six members of the Invitation Homes board, including the chairman, Bryce Blair, who will be chairman of the new company’s board. Jonathan D. Gray, head of global real estate for Blackstone and an architect of its single-family rental trade, also will be on the board.

The combined company will operate as Invitation Homes and trade under the Invitation Homes ticker symbol.

On a day when a nervous **stock market** declined, shares of both Invitation Homes and Starwood Waypoint surged. Invitation Homes’ shares gained 3.91 percent; Starwood Waypoint’s shares rose 5.15 percent.

Follow Matthew Goldstein on Twitter @MattGoldstein26.

* Freddie Mac Follows Fannie Mae to Rental Market, With Affordability as Goal

* How Housing’s New Players Spiraled Into Banks’ Old Mistakes

* American Homes 4 Rent to Merge With Rival

Invitation Homes is majority owned by the Blackstone Group, one of the first private equity firms to begin buying foreclosed homes in the aftermath of the 2008 financial crisis, then fixing them up and renting them out. | Lance Rothstein

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THE WALL STREET JOURNAL.
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Workers' Pace Dents Growth --- U.S. productivity rose in the second quarter, but not enough to fuel a robust expansion

By Ben Leubsdorf
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10 August 2017
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U.S. worker productivity picked up modestly in the second quarter but showed little sign of breaking out of the sluggish trend that has prevailed for more than a decade, holding back economic growth and living standards.

The lethargic pace of productivity growth seen in recent years could have a critical effect on the future trajectory of wages, prices, overall economic output and government budget balances.

Rapid productivity gains, as seen during the information technology-fueled boom of the late 1990s and early 2000s, can boost household incomes, economic growth and government tax receipts. But sluggish productivity gains can slow economic growth and prevent wages from rising much.

Following an "unusually bad" stretch in 2016, "we're pretty much on track with where we've been," said economist Martin Baily, a senior fellow at the Brookings Institution in Washington.

Nonfarm business-sector productivity, a measure of the goods and services produced per hour worked by individuals, rose at a 0.9% seasonally adjusted annual rate in the second quarter, up from a 0.1% growth pace in the first quarter.

Compared with a year earlier, which is how economists often look at the longer-term trend, productivity was up 1.2% in the second quarter. That was a pickup from last year, when productivity posted its first calendar-year decline since 1982. It also matched the average pace since 2007, but remained well below the post-World War II average of 2.1% annual growth.

"That's a very slow rate of growth, and something that I think all of us would like to see going faster," Mr. Baily said.

In the U.S., productivity growth was slowing before the recession began in December 2007 and has been historically weak throughout the recovery that began in mid-2009. That likely restrained wage growth and overall growth in economic activity.

"If labor productivity grows an average of 2% per year, average living standards for our children's generation will be twice what we experienced," Federal Reserve Vice Chairman Stanley Fischer said in a July speech. "If labor productivity grows an average of 1% per year, the difference is dramatic: Living standards will take two generations to double."

Some forecasters think continued modest productivity gains will help keep overall economic growth from exceeding its recent pace of roughly 2% a year.

President Donald Trump has said he wants to boost U.S. economic growth above 3% a year.

"If we can't get productivity up, it's just not going to happen," said Glenn Hubbard, dean of Columbia Business School and a former top White House economist under President George W. Bush.

Mr. Hubbard said the government can help to boost productivity growth by overhauling business taxes, rolling back regulations and supporting basic research. Such steps could increase business investment and the know-how that helps to fuel growth.

"Those would be the ingredients," he said. "I would start with tax reform, and I hope that's coming."

Mr. Baily, who was chairman of the White House Council of Economic Advisers under President Bill Clinton, said a corporate-tax overhaul, deregulation and other actions by the Trump administration could help improve the productivity outlook, but likely not enough to generate sustained 3% growth in gross domestic product.

"Assuming they're able to do what they say they're going to do. . . I could imagine this could add perhaps a half percentage point to productivity growth," he said.

"That would be an achievement," he added, though "it's not going to give this administration the GDP growth rates that they're looking for."

Mr. Fischer, the U.S. central bank's No. 2 official, said in his speech last month that "reasonable people can disagree about the right way forward, but if we as a society are to succeed, we need to follow policies that will support and advance productivity growth."

He also said that "government policy works best when it can address a need that the private sector neglects, including investment in basic research, infrastructure, early childhood education, schooling and public health."

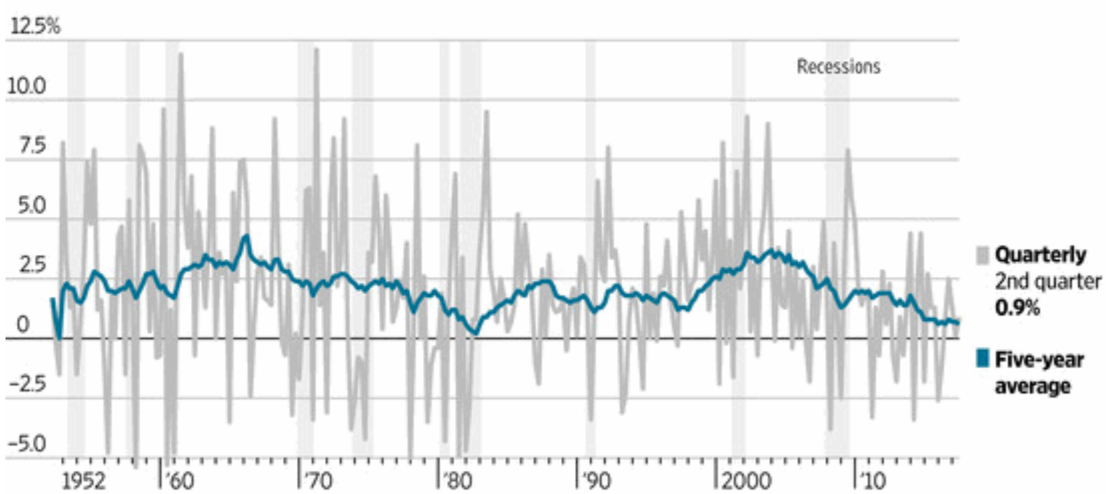
Productivity data tend to be **volatile** from quarter to quarter, and the Labor Department in Wednesday's report released revisions going back several years.

The productivity trend was slightly stronger than earlier estimated in 2014 and 2015, and slightly weaker than initially thought in 2016. Productivity fell 0.1% last year, the first calendar-year decline since 1982.

Unit labor costs at nonfarm businesses rose at a 0.6% rate in the second quarter, less than economists had expected. From a year earlier, unit labor costs fell 0.2%.

Counterproductive

Productivity growth, though volatile in the short run, has slowed markedly since the information technology-fueled boom of the late 1990s and early 2000s.



Note: Nonfarm business-sector productivity figures have been annualized and adjusted for inflation and seasonality
Source: Labor Department
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Traders Prep for Swings in Retail --- Wagers rise on big moves after companies report their results as sector's woes continue

By Gunjan Banerji
549 words
10 August 2017
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Short sellers and options traders are betting on more turbulence for the struggling American retail sector.

U.S. retailers are shutting stores at the fastest pace in more than a decade. A wave of bankruptcies has hit the group, and an exchange-traded fund tracking major retailers has declined 8% in 2017.

The stresses have pushed investors to take out about $130 million from the SPDR S&P Retail ETF in the past month, according to data from FactSet.

Now, options traders are pricing in big swings for heavyweights such as Macy's Inc. and J.C. Penney Co. Both have shed more than a third of their market values this year.

Options traders are betting on as much as a 16% one-day move in shares of J.C. Penney after the company's earnings are released on Friday -- a move that is greater than the average 8.5% after the retailer's past eight releases, Trade Alert data show.

J.C. Penney's stock "is sitting near long-term lows, and some traders are shopping for another drop," wrote David Russell, Chicago-based senior manager at the brokerage E*Trade Financial Corp. in a note on the options activity ahead of the retailer's report. J.C. Penney shares hit a record closing low of $4.33 this year.

Options activity on major retailers such as Macy's and Nordstrom Inc. has also turned **bearish**, he said in an interview.

For Macy's, which reports results on Thursday, traders project a 9.3% move, slightly under the average 9.6% swing after the past eight earnings releases, the data show.

The estimates don't indicate which direction shares might sway, just the magnitude of the move. The percentages are based on a trade known as a straddle, which entails buying puts and calls -- options to sell or buy a security -- at the same price, called a "strike."

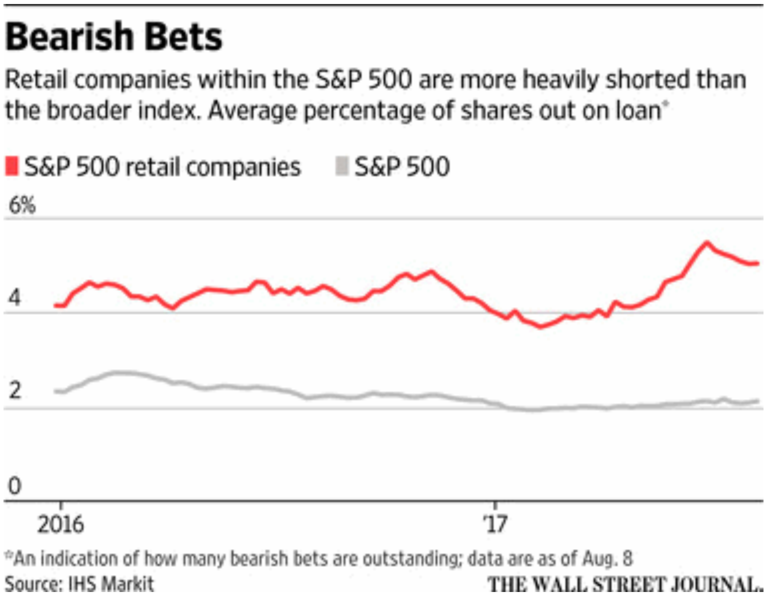
As earnings from some of the biggest U.S. retailers ramp up, investors are shorting, or betting against, the companies more heavily than other stocks within the **S&P 500 index**, data from the research firm IHS Markit show.

Investors have also increased **bearish** options bets on the SPDR S&P Retail ETF, or XRT. The number of **bearish** put options outstanding has increased by 30% since the beginning of April, while the number of calls, or **bullish** options, has fallen by 23% over that period, data from Trade Alert show. Investors can use options to make directional bets or hedge existing holdings.

Earnings seasons have become crucial for stock performance, spurring greater **volatility** than in prior years, according to Goldman Sachs Group Inc. data. For many sectors, more than 30% of quarterly returns stemmed from earnings week itself, the firm wrote in a July report.

Still, others may be positioning for a rebound. E*Trade's Mr. Russell said traders have been scooping up call options on Target Corp. recently. The company's shares have fallen 20% so far this year.

"It looks like traders are hedging, or maybe even looking for a bounce," Mr. Russell said.



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Korean Investors Shrug Off Tensions

By Min Sun Lee
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South Korean stocks retreated and the country's currency fell to a four-week low after the U.S. and North Korea traded threats late Tuesday.

Still, plenty of Koreans say they will keep buying shares, the latest sign that many investors are reluctant to pull back from global stock markets that have rallied this year.

The warlike rhetoric doesn't faze avid stock investor Park Young-sook, for example. The 60-year-old private-school owner from the Seoul suburb of Suwon has been putting money into South Korean stocks for more than a decade, and has seen tensions with the country's northern neighbor rise and fall. She sees North Korean belligerence as largely irrelevant to the performance of her portfolio -- or a chance to buy more if the market dips.

"In the long term, North Korea risk is an investment opportunity," Ms. Park said. "Our country or companies will not fail because of North Korean risk."

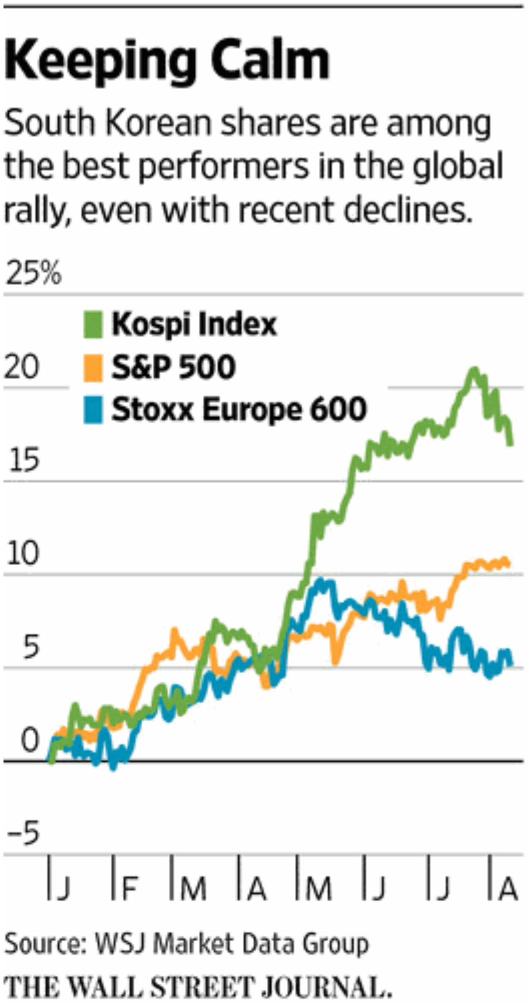
People like Ms. Park are a big reason South Korea's **stock market** remains near records despite an escalating war of words between U.S. President Donald Trump, who on Tuesday threatened North Korea with "fire and fury," and North Korean leaders, who responded that the country was considering a missile strike at a U.S. military base in Guam.

Korea's benchmark **stock index**, the Kospi, has fallen slightly since its record of 2451.53 in July, and dropped a further 1.1% on Wednesday to 2368.39. The won weakened to a four-week low of 1,135 per dollar. The cost of South Korean credit-default swaps -- derivatives that let investors hedge against sovereign default -- rose in July, in a sign that some investors thought risks in the country were rising.

Yet the Kospi is up 17% this year, making it one of the best-performing indexes in the world. In July, it notched its first eight-day winning streak in six years, despite a string of North Korean missile tests and the prospect that South Korea's most powerful businessman, Samsung conglomerate heir Lee Jae-yong, could be sentenced to years in prison.

Far from feeling cowed, South Korea's mom-and-pop investors are taking on more risk, with an unusually large increase this year in the number of people making big stock trades of 100 million won (around $89,000) or more, and $76.3 billion -- a record amount -- of borrowing to fund stock purchases at the end of July.

Kim Sung-woo, who quit his job as a software developer to become a full-time stock investor last year, said his only concern about the escalating rhetoric from North Korea and the U.S. is that it will spook foreign investors who have flooded into South Korean stocks this year. South Koreans are "used to it," he said.



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A Currency Safe Haven Is Feeling Less Safe

By PETER S. GOODMAN
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LONDON -- It is the closest thing to a certainty in the global economy. When trouble flares and anxiety mounts, people who manage money traditionally entrust it to a seemingly indomitable refuge, the American dollar.

Yet on Wednesday, in the hours after President's Trump's threat to unleash ''fire and fury'' on North Korea if it continued to menace the United States, global investors sold the dollar. The same dynamic played out in June, as Saudi Arabia and other Arab nations imposed an embargo on Qatar, delivering a fraught crisis to the oil-rich Persian Gulf. And the dollar dipped in July after President Vladimir V. Putin of Russia expelled 755 American diplomats, ratcheting up tensions between the two nuclear powers.

Since the beginning of the year, the dollar has surrendered nearly 8 percent against a basket of major currencies.

The dollar remains the dominant instrument for global trade, a role it is unlikely to surrender anytime soon. Yet those who trade in currencies see tentative signs that the dollar may be losing some status as markets grapple with the unorthodox actions of the man leading the nation printing the money.

Donald J. Trump's presidency has been so full of departures from the norms of international relations that uncertainty has seeped into the calculation of America's plans. That has subjected the dollar to additional skepticism, enhancing the fundamental factors pulling it down, from worries about the strength of the American economy to improved fortunes in Europe and Asia.

The dollar has in some sense become an international medium of expression about the American political environment. Its value offers a gauge of sentiment for Mr. Trump's prospects in achieving his economic goals, as well as worries about his potentially impulsive declarations.

''At the margin, investors may be a little more cautious in treating the dollar as safe haven,'' said Jeremy Cook, chief economist at World First, a London-based company that handles foreign exchange transactions. ''Certainly, the sentiment toward the viability of the Trump administration has not helped. There's the risk that at 3 a.m., Trump tweets something and the dollar gets hit.''

Before Mr. Trump was even sworn in, many investors were buying into the so-called Trump trade, a bet that the new president's plans for tax cuts, deregulation and a hefty dose of infrastructure spending would spur economic growth. This formulation has earned favor in the **stock market**. During the Trump administration, American shares have reached new highs, propelled by strong corporate profits and executives exuding optimism.

Yet the Trump trade was also a wager that the dollar would climb as investment flooded into the United States to exploit fresh growth opportunities.

Those expectations have been overwhelmed by the turbulence of the Trump presidency. Senior government officials have been hired and fired at the pace of a reality television show. Myriad disclosures have intensified questions about whether Mr. Trump's coterie colluded with Russia to influence the American election. Big parts of his agenda have stalled.

All the while, Mr. Trump has unleashed his signature Twitter rants, sometimes undercutting the positions of his cabinet members and sowing confusion. In the estimation of many economists, the dollar's fall reflects an assumption that his administration will be hard-pressed to deliver on key goals.

"The potential for serious investment and tax reform and economic growth in the United States is unlikely to be realized," said Ian Goldin, a former World Bank vice president and now professor of globalization and development at the University of Oxford. "There's just a mood that gets amplified every time we have a disaster in the White House, or a new tweet."

Currency values are both **volatile** and relative. The dollar's worth must be understood as a reflection of contrasting economic prospects in the United States and other lands.

Mr. Trump's pro-growth initiatives have been sidelined just as the Federal Reserve has lifted interest rates, constraining American expansion. At the same time, Europe -- long a morose topic in the global economic conversation -- has shown encouraging signs of vigor.

Spain has seen its economy return to pre-crisis size. France elected a new president, Emmanuel Macron, who has engendered hopes he will deliver growth. Even Greece, still saddled with gargantuan debts, has lately flashed signs of improvement.

Given these shifts in fortune, investors have been inclined to sell dollar holdings while shifting the proceeds into euros. Since January, the dollar has lost more than 11 percent against the euro.

"Foreign exchange markets were persistently discounting Europe's strength," said Adam S. Posen, a former official at the Bank of England, and now president of the Peterson Institute for International Economics in Washington. "They are playing catch-up."

But the dollar has slipped even against currencies of nations in precarious positions.

Since early January, it has lost more than 6 percent compared with the Japanese currency, the yen. The strength is perhaps a testament to recent signs of burgeoning activity in Japan's economy even as the government contends with a series of scandals.

After Britain's decision to abandon the European Union, the pound plunged last year, lifting the price of imports while diminishing growth. Britain is now consumed with fractious divorce proceedings that seem likely to end its inclusion in Europe's vast common marketplace, threatening its exports. Still, the pound has gained more than 7 percent against the dollar since the middle of January.

For American exporters, a weaker dollar effectively makes goods cheaper on world markets. Not coincidentally, multinational companies based in the United States have seen their earnings soar.

A weaker dollar also makes vacations in the United States cheaper, attracting more international tourists and bolstering employment in the hospitality industries.

But given that the United States imports more than it exports, a cheaper dollar effectively increases prices on wares for American consumers, from clothing to electronics to tools.

A weaker dollar may be pleasing to Mr. Trump. He has previously called for a cheaper greenback to make it easier for American companies to sell goods abroad. He has railed against countries that have large trade surpluses with the United States, such as China and Germany, while accusing them of profiting from undervalued currencies.

Yet if a weaker dollar is part of the administration's designs, it does not appear to be jibing with other elements of its plans. Since January, the dollar has slipped nearly 4 percent against China's currency, the renminbi. At the same time, Trump administration officials have been readying a case aimed at punishing China for unfair trade practices.

Currencies tend to be nudged by scores of factors that play out at once, rendering speculative any conversation about daily price movements. Evidence is mixed on whether the dollar is less of a safe haven. While the value of the American currency has dropped, so has another traditional refuge, the Swiss franc. This may indicate that geopolitical events have simply not reached a point at which investors are seeking shelter.

"Risk factors are playing out as opposed to 'head for the hills' kind of panic," said Lutfey Siddiqi, a visiting professor at the London School of Economics. "What has certainly happened is that the outlook for the United States is dramatically less clear than it was at the start of the year."

But the reaction on Wednesday to the latest tensions on the Korean Peninsula bolstered the notion that the dollar is functioning differently. The yen rallied, and so did gold -- both safe havens. The dollar dipped.

The fate of the dollar is now subject to the influences of a presidential administration that has given markets an expectation for the unexpected. As traders seek to divine the risks of geopolitical hot spots, this appears to be weighing on the American currency.

''There is some erosion in the relative stability of the United States in light of this administration's inconsistency on global affairs,'' said Mr. Posen of the Peterson Institute. ''The U.S. is at relatively more risk than we thought in the past.''

Foreign exchange traders, top, watching Donald J. Trump give his victory speech last November. At left, driving past a display board outside the North Korean embassy in Beijing. Investors must account for American uncertainty now. (PHOTOGRAPHS BY YUYA SHINO/GETTY IMAGES; YUYA SHINO/GETTY IMAGES) (B2) CHARTS: How Many Yen a Dollar Buys; The Dollar's Decline (Source: The Federal Reserve Bank of St. Louis.) (B2)

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Stocks Fall as Tensions Rise Between U.S. and North Korea

By PRASHANT S. RAO
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The New York Times on the Web
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Saber rattling between the United States and North Korea sent stock markets lower on Wednesday as investors shifted their money into assets considered to be havens in times of trouble.

Stocks in the United States opened lower, following on from declines in Europe and Asia earlier in the day. The **Dow Jonesindustrial average** fell 0.3 percent in early trading in New York, while the **Nasdaq** dropped nearly 1 percent. The declines came after stock markets in Britain, France and Germany fell in the European afternoon, and share indexes in Japan and South Korea closed down.

Investors appeared to be moving their money into the relative safety of bond markets. Yields on 10-year Treasuries, as well as British and European bonds, which move inversely to the price, were lower on Wednesday morning. The price of gold, which tends to perform well in times of high tension, was also up.

The weaker markets followed President Trump's warning to North Korea that it would see "fire and fury like the world has never seen" if it continued to threaten the United States. Several hours later, North Korea said it was considering a strike that would create "an enveloping fire" around Guam, the Pacific island where the United States stations military personnel.

France's CAC 40 share index dropped 1.5 percent by the afternoon in Europe, while Germany's DAX fell 1.3 percent. Earlier, Japan's benchmark **stock index** closed down 1.3 percent and South Korea's declined 1.1 percent.

Still, the limited reaction suggests investors have not yet become alarmed by the escalating rhetoric. North Korea has long loomed as a potential disruptive force in Asia, and even South Korean investments have been largely stable during past provocations.

Most Asian markets have made significant gains in recent months as part of a strong performance worldwide, thanks to improving corporate profits in the United States and elsewhere. Perceptions that China has managed problems like heavy debt and capital outflows fairly well for now, as well as slow but steady economic growth in Japan, have helped stocks in the region.

Follow Prashant S. Rao on Twitter @prashantrao.

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Beneath Markets' Calm Are Signs of Growing Investor Caution

By LANDON THOMAS Jr.
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President Trump threatened nuclear war with North Korea, and the markets yawned.

While stocks in Asia sold off initially, the main market measures in the United States fell less than half a percent on Wednesday and ended the day nearly unchanged, as investors stuck to focusing on buoyant economic fundamentals and ignoring the chaos of American politics.

But beneath the calm there were signs that investors — who have been conditioned since the presidential election in November to embrace risk instead of running from it — are becoming more cautious.

The price of gold, a traditional safe investment, has been rising, and on Wednesday it continued its march, increasing more than 1 percent on the day.

Gold's strong move pushed it just barely ahead of the benchmark **Standard & Poor**'**s 500**-**stockindex** for the year — up 10.75 percent, compared with 10.69 percent for the S.&P., according to Y Charts, a data-gathering company.

On Wednesday, the **S**.**&P**. **500** and the narrower **Dow Jonesindustrial average** ended the day virtually flat.

Earlier, the Nikkei index in Japan closed down 1.29 percent, while the Kospi index in South Korea ended down 1.10 percent. European stocks were also lower, with London down 0.56 percent and Frankfurt down 1.12 percent.

Prices of United States Treasury securities — often in demand in times of turmoil — rose early in the day, driving their yields, which move in the opposite direction, lower. But Treasury prices gave up ground in the afternoon, and the yield on the benchmark **10**-**year Treasury** note slipped to 2.25 percent, from 2.26 percent on Tuesday.

Gold futures rose 1.59 percent, to $1,282.40 an ounce.

Gold tends to outperform stocks when the markets are sliding, so it is unusual for such a conservative investment to beat equities when they have been on a tear as has been the case this year.

What is driving this anomaly, some say, is a recognition that eventually investors will not be able to ignore recent headline risks — whether nuclear tensions with North Korea, a trade war with China or a debt ceiling crisis in Washington.

"There has been a Pavlovian response by investors to disregard any piece of bad news or any spike in **volatility**, and that has been a very profitable strategy," said Russ Koesterich, a portfolio manager for BlackRock's $39 billion Global Allocation Fund. "But we do think that there are risks in the world that are not being priced in."

To Mr. Koesterich's point, some of the best-performing investments in the world this year have been exchange-traded vehicles that investors can use to bet against the VIX, the Chicago Board Options Exchange**Volatility** Index, better known as Wall Street's fear gauge.

The VIX rose nearly 9 percent on Wednesday after Mr. Trump's comments about North Korea, before settling up just 1.37 percent, at 11.11 for the day. The index has been trading at historically low levels, and many investors continue to wager that lots of money pouring into markets and an improving global economy will keep the index quiescent.

Mr. Koesterich, however, has been taking the opposite side of that trade. Since the beginning of the year, he has been adding to his gold position, and it is now the Global Allocation Fund's second-largest position, according to Y Charts.

"Gold can help especially if the dollar is not a safe haven anymore," he said, referring to how the dollar has weakened in response to the spate of news from Washington. "It is a good headline hedge."

Mr. Koesterich is not alone in adopting a wary stance, especially now in August, when trading desks on Wall Street empty out and lower levels of buying and selling can result in sharper downward moves in the market.

While few people are predicting an actual crash, a growing number of **stock market** specialists are warning that in the coming months, markets are likely to start reacting more to so-called macro events such as political **volatility** and the realization that central bankers in Europe and the United States are moving toward a more restrictive stance on interest rates and intervening in markets.

That is because the benign market conditions of recent months have been spurred by better economic news, and, in particular, by a very good spate of second-quarter earnings.

Once investors return from vacation, the theory goes, and with no good earnings news to inspire them, they will be more sensitive to headline events.

That could result in sharper moves downward in **stock market** indexes.

"There are risks," said Marko Kolanovic a market strategist and derivatives specialist at JPMorgan Chase, who warned in a recent report about an increase in trading **volatility** this fall. "China, North Korea and the normalization of policies by central banks, which has been underappreciated by the market."

Since 2012, after a sharp rise during the financial crisis, gold, as an investment, has not performed well as investors have chased returns in buoyant stock and bond markets.

But while many investors have shaken off scares such as Britain exiting the European Union or political unrest in Washington, the view is taking hold that gold can be a very good hedge against more serious threats like nuclear confrontation in Asia.

"There has been a wall of money supporting markets so far," said Stuart Culverhouse, a market strategist at Exotix Capital in London. "But this time we are not just talking about a macro surprise — we are talking about full-on military action."

* In the Age of Trump, the Dollar No Longer Seems a Sure Thing

* Market's Surge Meets Dollar's Swoon

Document NYTFEED020170809ed89006bv

THE WALL STREET JOURNAL.
U.S. EDITION

Stock Investors Enjoy a Sleepy Summer --- Shares have risen in unusually calm trading, but sometimes August brings jolts

By Steven Russolillo
748 words
9 August 2017
The Wall Street Journal
J
B16
English

It might seem like the dog days of summer for investors. But August is known for offering **financial markets** a range of surprises.

Trading has slowed as stocks have risen steadily around the world, a reflection of quiet markets and sleepy sessions that have stretched from Asia to Europe to the U.S. **Volatility** has remained historically low, traders have fled for vacations and pullbacks have been nonexistent.

Two years ago this week, though, China ruined the summers of many foreign-exchange and equity traders with a surprise devaluation of its currency. The move not only stoked fears about the world's second-largest economy, but it also rippled across Asian markets and sent tremors around the world. Chinese stocks plunged, and its foreign-exchange reserves fell, bringing an abrupt end to a sleepy summer.

Few at the moment expect a repeat of such magnitude as two years ago. In China, reserves rose in July for a sixth straight month and the yuan is up about 3% against the dollar this year. A rebound in exports fueled stronger-than-expected economic growth of 6.9% in the year's first half.

Asian stocks, broadly, have rallied as a result. Hong Kong's Hang Seng Index, which has risen in 19 of the past 22 trading days, is up 27% this year so far and is among the world's top-performing indexes. The MSCI AC Asia Pacific ex-Japan Index, a broad barometer that counts large Asian companies listed globally, is up 25% and trading at a nearly 10-year high.

Even hedge funds, long criticized for high fees and underperformance, are doing well in the region. Chinese hedge funds gained 16% in the first half of the year, significantly outperforming a benchmark tracked by data provider Hedge Fund Research. In the second quarter, Asia hedge funds collectively attracted their first quarterly asset inflow in two years, HFR said.

"It was a very good first six months for a lot of hedge funds and portfolio managers," said Arthur Kwong, head of Asia-Pacific equities at BNP Paribas Asset Management in Hong Kong. "If you made a lot of money in the first half, there's little reason you need to take extra risk in the summer months."

The situation in other parts of the world is similar. In the U.S., the **Dow Jones Industrial Average** rose above 22000 last week for the first time in what has been a methodical move higher. Through Tuesday, the Dow's average daily move in either direction this year has been 0.31%, the smallest swing in 53 years, according to The Wall Street Journal's Market Data Group. Ten years ago, this average daily move was more than double its current level.

U.S. stocks got a slight jolt late in Tuesday's session, after President Donald Trump demanded North Korea not make any more threats to the U.S., saying the U.S. would respond with "fire and fury." The **Dow Jones Industrial Average** was down 0.3% at its intraday low, and closed down 0.1%.

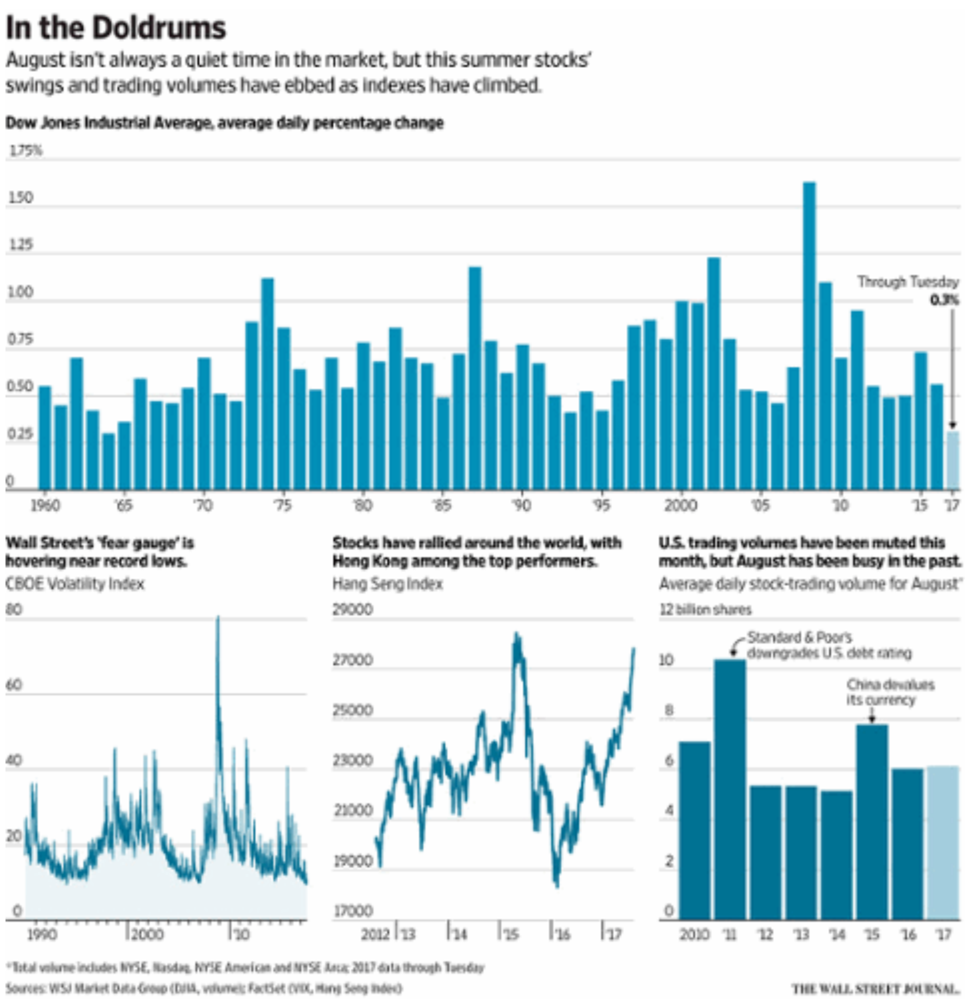
August is typically a time for slow trading volume, too. Average daily activity in early August, as measured by NYSE composite volume, has been lower than this year's daily average.

History shows that just because markets are quiet now doesn't mean they will stay that way for the rest of the summer.

In August 2011, Standard & Poor's surprise downgrade of its U.S. debt rating prompted some of the most **volatile** days on record for U.S. stocks. In August 2007, the subprime-mortgage meltdown in the U.S. was morphing into the global financial crisis. And in the summer of 1997, a financial crisis that started in Thailand eventually spread throughout Asia, as currencies of many of the region's hardest-hit economies such as Thailand, Indonesia, Malaysia and South Korea lost more than 50% of their value against the U.S. dollar.

For now at least, investors say they wouldn't be surprised if the calm in markets continues.

"Nowadays, the market is behaving quite differently from the big moves in recent summers," Mr. Kwong of BNP Paribas Asset Management said. "But when everyone comes back from vacation, I'd still expect more **volatility** in September and October."



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The New York Times

Business Day; DealBook
Morning Agenda: Stocks Decline on North Korea Tensions

By CHAD BRAY
992 words
9 August 2017
05:52 AM
NYTimes.com Feed
NYTFEED
English

Stock markets in Europe and Asia were modestly lower on Wednesday as increased tensions between the United States and North Korea sent investors looking for havens.

President Trump threatened to unleash “fire and fury” on North Korea if it took action against the United States and its citizens. The chilling language came less than two weeks after North Korea successfully tested an intercontinental ballistic missile: Experts said the device appeared capable of reaching the West Coast of the United States.

Stocks were down nearly 1 percent in early trading in France and Germany on Wednesday, and the FTSE 100 index declined 0.7 percent in London. That came as stocks fell a little more than 1 percent in Japan and South Korea and as futures suggested that markets could open lower in the United States.

Investors appeared to be seeking the relative safety of bonds, and the price of gold rose as it which tends to do during global tensions.

Related Reading

• The dollar used to be the ultimate haven in the global economy. But in the Trump era, it no longer seems a sure thing.

Walt Disney Takes on Netflix

The Walt Disney Company is trying to beat Netflix at its own game.

Saying it would no longer offer new Pixar and Disney movies on the streaming platform in 2019, the entertainment giant instead outlined on Tuesday new platforms for its movies, television shows and sports properties.

Disney is the latest entertainment company to begin its own streaming venture in hopes of attracting cord-cutters who increasingly watch content online, instead of through traditional cable outlets. The company is familiar with the trend: The decline in cable subscribers has cut into subscriptions for Disney’s flagship sports network, ESPN.

But Disney will find a crowded landscape when its entertainment venture has its debut in two years.

• CBS said this week that it would expand its All Access pay service to areas outside the United States and that a streaming service for its live sports coverage would begin this year.

The traditional over-the-air broadcaster is reviving a franchise with the television series “Star Trek: Discovery” in September, exclusively on its streaming platform.

• HBO, the home of “Game of Thrones” and “Westworld,” expanded its HBO Now service to noncable subscribers two years ago.

• AMC, the broadcaster behind “Better Call Saul,” “Preacher” and “The Walking Dead,” is dipping its toe into the streaming waters by offering a pay service, AMC Premiere, that allows subscribers on Comcast’s Xfinity TV service to stream live programming and watch commercial-free content for a monthly fee.

Disney does have at least one thing going for it: content.

Its ESPN streaming offering will have about 10,000 regional and national events in its first year, and its Disney-branded entertainment service will include a library of movies and TV shows from Disney Channel, Disney Junior and Disney XD, as well as original content.

Diversity Debate Swirls Around Google

Google finds itself uncomfortably at the center of a debate over the lack of diversity in the technology industry.

The tech giant fired a 28-year-old software engineer on Monday after he distributed a memo titled "Google's Ideological Echo Chamber." The engineer, James Damore, has said he will probably take legal action against the company.

The 10-page memo argued that "biological" and "personality differences" between men and women played a role in why fewer women were in tech roles. Efforts to increase the representation of women in the industry were discriminatory in a way, he said, that was "unfair, divisive and bad for business."

The memo was rebuked by other employees, but it has become a rallying cry for others outside the company, particularly conservatives and the alt-right, who are concerned about a stifling of debate in Silicon Valley.

Eric Weinstein, a managing director at Thiel Capital, an investment firm run by Peter Thiel, a billionaire and supporter of President Trump, said Google was sending the wrong message to women.

Dear @Google,Stop teaching my girl that her path to financial freedom lies not in coding but in complaining to HR.Thx in advance,A dad — Eric Weinstein (@EricRWeinstein) August 8, 2017

Julian Assange, the WikiLeaks founder, offered Mr. Damore a job. And others started a crowdfunding page on Mr. Damore's behalf.

Harassment Scandal Still Clings to Fox

A sexual harassment scandal continues to dog Fox News. A lawyer has asked for more than $60 million to settle a series of disputes with Fox News and 21st Century Fox.

The scandal has already cost the broadcaster tens of millions of dollars in settlements, tarnished its reputation and led to the ouster of its founding chairman, Roger E. Ailes, and Bill O'Reilly, its top-rated host.

It also has threatened Fox's $15 billion bid to acquire full ownership of Sky, a European satellite giant.

At a mediation proceeding last month, the lawyer Douglas H. Wigdor asked for the double-digit settlement figure, according to two people familiar with the matter.

Fox declined the offer and Mr. Wigdor has since gone public with a defamation and racial-discrimination case that includes explosive claims focused on an article about the death of Seth Rich, a young aide for the Democratic National Committee.

Mr. Wigdor also has sent a letter to the British authorities examining the Sky bid, asserting that Fox had not been transparent during the regulatory review.

Britain's culture secretary said on Tuesday that she had written to the Office of Communications, known as Ofcom, to seek clarification of an earlier review on whether the company had met British broadcasting standards.

Follow Chad Bray on Twitter @Chadbray.

Nikkei **stock index** data from a securities firm in Tokyo on Wednesday. Asian stock markets slid after President Trump and North Korea traded threats. | Eugene Hoshiko/Associated Press

Document NYTFEED020170809ed89002p9

The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Indexes Take Late Tumble After Day of Listless Trading

By THE ASSOCIATED PRESS
579 words
9 August 2017
The New York Times
NYTF
Late Edition - Final
2
English

Losses in health care and consumer-focused companies pulled stocks broadly lower on Tuesday, snapping a 10-day winning streak for the **Dow Jonesindustrial average**.

Energy stocks also fell, along with the price of crude oil. Only utility stocks eked out a gain on a day of mostly listless trading as investors watched the latest company earnings and geopolitical news.

The market slide accelerated slightly in the last half-hour of trading as President Trump denounced North Korea's nuclear program.

He spoke after a new report asserted that United States intelligence had determined that Pyongyang had produced a nuclear warhead that could fit inside its missiles.

''That may have weighed a little bit'' on markets, said Phil Guarco, global investment specialist at J.P. Morgan Private Bank.

The **Standard & Poor**'**s 500**-**stockindex** fell 5.99 points, or 0.2 percent, to 2,474.92. The Dow slid 33.08 points, or 0.2 percent, to 22,085.34. The **S**.**&P**. **500** and Dow were both coming off record highs.

The **Nasdaq composite** index lost 13.31 points, or 0.2 percent, to 6,370.46.

Bond prices were little changed. The yield on the **10**-**year Treasury** note held steady at 2.26 percent.

The market indexes wavered between small gains and losses for much of the morning, then veered lower by afternoon. The slide deepened after Mr. Trump's remarks on North Korea were broadcast.

At a briefing at his golf course in Bedminster, N.J., on opioid addiction, Mr. Trump warned North Korea not to make more threats against the United States, adding that North Korea would be ''met with fire and fury like the world has never seen.''

The **Volatility** Index, a measure of how much **volatility** investors expect in stocks, jumped 10.4 percent.

Beyond geopolitical concerns, investors continued to assess company earnings reports.

Avis Budget Group, the car rental company, slumped 9.9 percent after cutting its guidance following a weak second quarter. The stock fell $3.30 to $30.09.

SeaWorld Entertainment slid 6.2 percent after reporting second-quarter revenue that fell short of Wall Street's expectations. The stock fell 85 cents to $12.76.

Traders snapped up shares of companies that delivered strong quarterly results.

Michael Kors, the luxury handbag and apparel designer and retailer, climbed 21.5 percent after its latest quarterly results beat analysts' forecasts as sales improved. The stock was the biggest gainer in the **S**.**&P**. **500**, adding $8.02 to $45.25.

Ralph Lauren gained $10.39, or 13.3 percent, to $88.53, while LendingClub, a peer-to-peer loan company, added 99 cents, or 18.1 percent, to $6.45.

Henry Schein, a health care equipment and services company, declined amid a slide by health care stocks. Its shares slid $9.77, or 5.3 percent, to $174.02.

Benchmark United States crude fell 22 cents to $49.17 a barrel on the New York Mercantile Exchange. Brent crude, the international standard, lost 23 cents to $52.14 a barrel in London.

Gold fell $1.80 to $1,256.40 an ounce. Silver gained 14 cents to $16.39 an ounce. Copper rose 4 cents to $2.94 a pound.

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

Document NYTF000020170809ed8900050

The New York Times

Breakingviews
Business Day; DealBook
Strong Yuan Could Open Door to Relaxing Currency Curbs

By PETE SWEENEY
417 words
8 August 2017
03:14 PM
NYTimes.com Feed
NYTFEED
English

China has room to start easing policies curbing capital flight.

Foreign exchange reserves have stabilized at $3.1 trillion, outflows have stabilized and the currency has rallied. That is thanks to the United States dollar's plunge – a trend exacerbated by the disarray of the Trump administration – and a far stronger domestic economy.

If Beijing wants to attract more foreign money into mainland stocks and bonds, it might be time to start selectively relaxing cross-border curbs.

The Chinese government still looks tense. Officials are pursuing banks and corporations for violating foreign exchange regulations, and investigations are reportedly underway into big offshore investments by private companies. There are signs that capital is still sneaking out of China through disguised channels like tourism spending. Thus the only currency liberalization under consideration is a widening of the yuan's trading band, a move that would make no practical difference.

But conservatism is not costless. China wants more overseas money in the debt markets, to lift the pressure on domestic banks, introduce more market discipline and push the internationalization of its currency. Capital controls deter otherwise enthusiastic foreign institutions from investing. Lifting them would help convince skeptics that Beijing is ready to resume reform. It would also serve as a sign of confidence that might dissuade Chinese onlookers from rushing for the exits before they close even tighter.

To be sure, some caution is warranted. If the United States economy keeps heating up, the Federal Reserve may increase interest rates aggressively, and the dollar could rise again. Alternatively, a disaster — like a war with North Korea — could set off a flight to dollar safety.

But even if the dollar were to strengthen again, that would not necessarily result in another round of panicked outflows. Many of the worries that aggravated capital flight in 2016 have since eased. Producer prices, industrial profits, private investment and market interest rates are all rising.

The **stock market** is snortingly **bullish**; the benchmark Shanghai **stock index** is up more than 12 percent this year. And in any case, the Trump era is damaging the dollar's status as a safe-haven currency. This year, it's the euro that is rallying.

If Beijing believes this economic upturn is durable, there is a window of opportunity to reopen the capital doors.

Pete Sweeney is Asia editor for Reuters Breakingviews. For more independent commentary and analysis, visit breakingviews.com.

Thomas White/Reuters

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The New York Times

Business/Financial Desk; SECTB
Technology Firms Drive Stock Indexes to New Highs

By THE ASSOCIATED PRESS
631 words
8 August 2017
The New York Times
NYTF
Late Edition - Final
6
English

Gains in technology companies helped lift stock indexes higher on Monday, nudging the market once again into record territory.

The **Standard & Poor's 500-stockindex** closed at a high, as did the **Dow Jonesindustrial average**. The latest gain extended the Dow's winning streak to 10 days.

Traders bid up shares in microchip makers and other technology companies. Grocery chains, drugstore operators and other consumer-focused companies also helped drive the market higher. Energy companies declined the most, along with the price of crude oil. Banks and industrial companies also lagged.

Investors were mostly focused on the latest company earnings and deal news.

''Earnings have been strong, particularly revenue growth has come in stronger than initial estimates,'' said Quincy Krosby, chief market strategist at Prudential Financial. ''And over all, the guidance has been strong.''

The **S.&P. 500 index** rose 4.08 points, or 0.2 percent, to 2,480.91. The Dow gained 25.61 points, or 0.1 percent, to 22,118.42. The **Nasdaq composite** added 32.21 points, or 0.5 percent, to 6,383.77.

Bond prices rose. The yield on the **10-year Treasury** note fell to 2.26 percent from 2.27 percent late Friday.

Positive economic data and strong company earnings have helped nudge the **stock market** mostly higher in recent weeks.

Heading into Monday, about 82 percent of **S.&P. 500** companies had reported quarterly results, with roughly 52 percent posting better-than-expected earnings and revenue, according to S.&P. Global Market Intelligence. Of those, technology companies led all others with 73 percent of the sector's results beating Wall Street's expectations.

Investors have welcomed the positive earnings growth, pushing the market toward a record level again and fueling speculation about how high the market can go before there is a pullback.

''What you want to see is a broad range of stocks pushing the market higher, and what we're seeing are fewer stocks pushing the market higher,'' Ms. Krosby said. ''That's not necessarily a prescription for a major pullback, but it's something to watch.''

Technology companies led the market's gainers on Monday. Lam Research rose $5.79, or 3.9 percent, to $155.84. KLA-Tencor rose $3.18, or 3.6 percent, to $92.01.

Energy stocks were on the other end of the spectrum. Pioneer Natural Resources fell $5.70, or 4.2 percent, to $129.64, and Newfield Exploration lost $1.39, or 5 percent, to $26.44.

Traders also continued to bid up shares in companies whose earnings exceeded analysts' forecasts.

Tyson Foods climbed $3.60, or 5.7 percent, to $66.90. The meat processor's forecasts also pleased investors. ON Semiconductor jumped $1.23, or 8.1 percent, to $16.33.

Some companies' results disappointed the market.

Armstrong Flooring slumped 17.5 percent after the company's latest quarterly results fell well short of analysts' forecasts. The stock slid to $14.25, losing $3.03.

Oil prices fell. Benchmark United States crude fell 19 cents, or 0.4 percent, to $49.39 a barrel in New York. Brent crude, the international standard, lost 5 cents, or 0.1 percent, to $52.37 a barrel in London.

Gold added 10 cents to $1,264.70 an ounce. Silver held steady at $16.25 an ounce. Copper rose 2 cents to $2.91 a pound.

The dollar climbed to 110.72 Japanese yen from 110.67 yen on Friday. It weakened against the euro, which rose to $1.1793 from $1.1769.

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

Document NYTF000020170808ed8800055

THE WALL STREET JOURNAL.
U.S. EDITION

Financial Stocks Sway to the Bond Market's Tune

By Chris Dieterich
324 words
8 August 2017
The Wall Street Journal
J
B10
English

Financial stocks this year are more closely tethered to government-bond yields than ever.

The tight relationship is an indication that traders are playing big-picture macroeconomic trends over stock-specific fundamentals. That focus could provide an opportunity for investors willing to look past the expected trajectory of interest rates as banks increase the capital they return to shareholders.

Higher rates tend to boost lenders' profitability, so financial stocks often beat the **S&P 500** when government-bond yields rise and lag behind when they fall. This year, the degree to which that is happening is unprecedented. This is evident in the six-month correlation between the performance of financial stocks versus the **S&P 500** and the yield on benchmark **10**-**year Treasury** notes, according to David Kostin, chief U.S. equity strategist at Goldman Sachs Group.

This gauge of correlation reached 0.69 in May, the highest ever, and was recently 0.62. Correlation is measured on a scale of minus-1 to 1. A reading of 1 means the two assets move in perfect unison, while minus-1 means perfect opposition; a reading of zero means no relationship.

To Mr. Kostin, the high correlation between financial stocks and bond yields signals that investors are too focused on the prevailing rates environment, seemingly at the expense of the sector's other virtues.

Goldman estimates that the largest banks will boost dividends at an annualized rate of 17% during the next two years. Share repurchases by these firms are expected to increase 45% this year from 2016.

"Increased capital return should boost banks stocks beyond levels implied by interest rates," Mr. Kostin wrote.

Investors had bid up financials in anticipation of corporate tax cuts, relaxed regulations and firmer economic growth. A stronger economy strengthens the case for the Fed to raise interest rates.

Document J000000020170808ed8800011

THE WALL STREET JOURNAL.
U.S. EDITION

The Dow Moves at a Snail's Pace

By Ben Eisen
402 words
7 August 2017
The Wall Street Journal
J
B8
English

For all the records the major stock benchmarks are setting, they are moving at a snail's pace.

The **Dow Jones Industrial Average** rose 67 points, or 0.3%, on Friday after a labor market report showed strong hiring in July.

On Thursday, the blue-chip index rose 10 points, or 0.04%. On Wednesday, it climbed 52 points, or 0.2%. And on and on.

The index hasn't even had a move of more than 1% in either direction since the days of mid-May.

Stocks, of course, have mostly risen all year, propelling the Dow past 22000 for the first time ever last week. But the markets march higher has been characterized by slow, plodding moves.

The Dow's average daily move in either direction this year through Thursday is 0.31%, the smallest since 1964, when it hit a record-low 0.30%, according to an analysis by The Wall Street Journal's Market Data Group.

During the index's move to 22000 last week from its first close above 21000 in March, the index had only four days on which it moved by more than 1%.

Fewer swings often mean less **volatility**.

The CBOE**Volatility** Index, an options-based measure of implied **stock market** swings, has hovered near its lowest levels on record.

That has unnerved some investors, who fear the markets are in a period of calm before a storm.

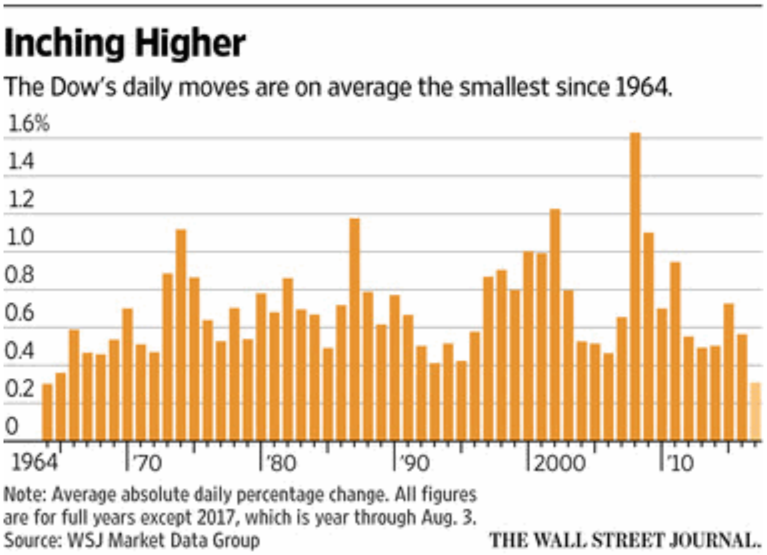
The lack of movement has become more evident throughout the year.

Last month, the average daily up-or-down move in the Dow over the previous 252 days (the typical number of trading sessions in a year) fell to its lowest levels since June 1965, and remains near those levels, according to the analysis.

That moving average for the index has been trending downward broadly since a spike during the financial crisis, but it recently marked a new leg lower.

Still, the Dow has climbed to 34 records this year. It is just taking a longer time to rack up gains.

While the benchmark has had nine straight days of gains through Friday, it has climbed just 2.7% during that period, well below the 3.9% rise during a seven-day streak in December and a 5.8% jump during a same-length streak in November.



Document J000000020170807ed870001x

The New York Times

Breakingviews
Business Day; DealBook
Why Tesla Motors Is Fueling Up on Debt

By TOM BUERKLE
462 words
7 August 2017
02:53 PM
NYTimes.com Feed
NYTFEED
English

Elon Musk is an entrepreneur in a bubble.

Forced to choose between issuing a bit more of Tesla's turbocharged stock or tapping the overheated junk-bond market to finance the Model 3 ramp-up, Mr. Musk, the company's founder, opted for the latter. It raises execution risk for the $60 billion electric-car maker, but not by enough to persuade the chief executive to loosen his grip on the wheel.

Tesla has just over $3 billion in cash, but it is burning through roughly $1 billion a quarter as it embarks on one of the most daunting gambits in automotive history: taking production of its mass-market vehicle from zero to 400,000 or more a year in just 18 months.

Fortunately for Mr. Musk, investors can't seem to shower his ambitions with too much money. Tesla's stock has risen by 67 percent this year. The company is valued at some 27 times 2020 earnings, implying the kind of growth that even the most **bullish** of analysts don't expect, according to Reuters Breakingviews calculations.

The textbook financing solution would be to issue more of that high-priced paper. Selling five million shares at a 15 percent discount to market would raise the same $1.5 billion and dilute Mr. Musk's 20.4 percent stake by only 3 percent, assuming he didn't pitch in more himself.

But he doesn't have to when the high-yield bond market is on a tear. Investors desperate for income have depressed the yield gap between single-B-rated junk bonds and United States Treasury bonds by nearly 2 percentage points over the past year, to 3.59 points, according to Bank of America Merrill Lynch. Standard & Poor's Global Ratings affirmed its B-minus rating on Tesla, saying the boost to liquidity should offset the company's "significant execution risks."

The bond sale will raise debt to a lofty 5.5 times forecast 2017 earnings before interest, taxes, depreciation and amortization, or Ebitda. But Ebitda is set to more than double next year to $2.2 billion and then almost triple by 2020, according to Thomson Reuters data.

Even if Mr. Musk is not as successful as Wall Street estimates, he should sell more than enough cars to make the leverage, and the additional interest bill, easy for bondholders to swallow.

Tom Buerkle is associate editor of Reuters Breakingviews. For more independent commentary and analysis, visit breakingviews.com.

* Elon Musk Reassures Investors as Tesla Ramps Up Model 3 Output

Tesla Motors is seeking to raise $1.5 billion in a bond offering to help finance production of the the Model 3 sedan. | Tesla Motors, via Associated Press

Document NYTFEED020170807ed87005se

THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Monthly Analysis --- Monthly Monitor: Foreign Funds Win It Again

By William Power
313 words
7 August 2017
The Wall Street Journal
J
R2
English

In the stock-fund Olympics, the U.S. keeps getting nudged off the podium lately.

International-stock funds in the latest month scored a total return of 3.2%, once again outpacing the average diversified U.S.-stock fund, which advanced 1.5%. For the year to date, international funds are now beating their American counterparts by 19% to 9%, according to Thomson Reuters Lipper data.

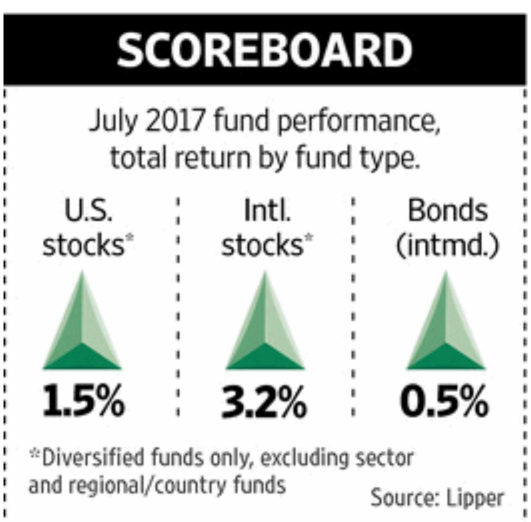
The performance is a turnaround from the recent past, when U.S. funds have dominated. Cheaper valuations globally have helped the non-U.S. funds.

"International is starting to catch up. The key to that is better profits in the rest of the world," says Paul Quinsee, global head of equities at J.P. Morgan Asset Management in New York. The dollar's recent declines also are helping returns from foreign funds, he notes.

Not that U.S.-fund investors are complaining, on average. Fueled by good corporate earnings, the U.S. **stock market** continues to set records despite high valuations. And that has pushed nearly all categories of stock funds to solid gains so far in 2017. Large-capitalization growth funds are leading the way, up 3% for July and up nearly 19% for the year to date.

"The U.S. [market] is doing fine, but you still are coming off this long-term outperformance" versus non-U.S. stocks, says Tom Martin, senior vice president with Globalt Investments in Atlanta. "People ought to be moving toward a higher level of international exposure."

Bond funds, meanwhile, were up modestly. Funds focused on intermediate-maturity, investment-grade debt (the most common type of fixed-income fund) were up 0.46% for July and are up 2.9% for the year to date.



Document J000000020170807ed8700005

THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Monthly Analysis --- Fundamentals of Investing: Everyone's a 'Buy and Hold' Investor Now --- But it takes guts to stay that way; Otherwise, it's time to reduce exposure

By Mark Hulbert
1,051 words
7 August 2017
The Wall Street Journal
J
R2
English

As the U.S. **stock market** continues to set all-time highs, many investors are proudly adhering to their mantra of "buy and hold." That is what financial advisers preach, and investors are sticking to it.

For now, anyway. The tougher question is this: Will they stick to buy and hold if the market tumbles? If experience is a guide, the answer for almost all of them will be "no." And that means, once again, they will fall into the classic trap of buying high and selling low.

The trap snares them in several ways. Some who now think of themselves as buy-and-hold investors will be quick to throw in the towel at the first sign the market might be entering a correction. These investors then tend to sit on the sidelines too long and don't reinvest until prices are relatively high again.

Others, perhaps most, wait until it's clear that a **bear market** is well under way before giving up on buying and holding and becoming a market timer.

Regardless, one consequence is that market timing becomes progressively more popular the further the market falls. That is because almost all attempts at market timing during bear markets will improve performance compared with buying and holding, since any retreat to cash -- even if chosen randomly -- will tend to do better than remaining fully invested. Thus, as the **bear market** leads to bigger and bigger losses, and a bottom nears, erstwhile believers in buying and holding start genuflecting at the altar of market timing.

Consider the several hundred **stock-market** timers tracked by the Hulbert Financial Digest during the 2007-09 **bear market**: No less than 94% outperformed a buy-and-hold strategy. (See accompanying chart.) Not surprisingly, believers in buying and holding were scarcely seen in March 2009, at the **bear-market** bottom.

Conversely, market timing becomes progressively unpopular during bull markets. That is because, during multiyear uptrends, buying and holding will inevitably beat almost all attempts to time the market. One by one, previous believers in market timing recant and declare themselves latter-day converts to the buy-and-hold religion.

Since the March 2009 **bear-market** bottom, 98% of market timers monitored by Hulbert Financial Digest have lagged behind a buy-and-hold strategy. No wonder market timing isn't very popular these days.

An implication of this cycle is that market timing's popularity will hit bottom just as the **stock market** hits its top. James Stack, editor of the InvesTech Research investment advisory newsletter, is detecting early warning signs of exactly that, arguing that market timing is about as unpopular today as he's ever seen. He says current attitudes are reminiscent of the mood in the months leading up to the **bull-market** tops of early 2000 and autumn 2007.

Mr. Stack hastens to add that he's not yet ready to declare the **bull market** to be over. But he recently reminded clients, "Excitement is highest as the roller coaster goes over the top."

Note carefully that these popularity swings have nothing to do with whether market timing has become a better or worse strategy over the long term. Virtually all studies have found that the vast majority of market timers lag behind a buy-and-hold strategy over periods encompassing one or more full market cycles. From a purely statistical point of view, of course, those studies' conclusions are equally compelling regardless of whether we're at the bottom of the **bear market** or at the top of a **bull market**.

But investors are emotional beings rather than statistically motivated automatons. And the recent past plays a huge role in their attitudes. At the bottom of bear markets, when by definition doom and gloom is the most widespread, it takes rare courage and discipline to remain a believer in buying and holding for the long term.

If you nevertheless do throw in the towel at the bottom of a **bear market**, you almost certainly won't even tiptoe back into equities until the market has staged a rally that is powerful enough to convince you that it is more than just a dead-cat bounce. That in turn means you will have suffered through all or nearly all of the **bear market**'s losses and enjoyed only a fraction of the **bull market**'s subsequent gains. That is one reason most market timers end up lagging behind the market over time, even for those who successfully sidestep some of the **bear market**.

It is important to understand this if you are to have any hope of avoiding a similar fate. Now is the time to engage in honest soul-searching about your commitment to buying and holding. If you don't really have what it takes to stick to that strategy through a **bear market**, you should reduce your equity exposure to a level you would be willing to stick with through a major decline.

How big of a decline? During the 2000-02 **bear market**, the **S&P 500** fell 49.1%. This benchmark did even worse in the 2007-09 **bear market**, falling 56.8%. There is no shame in admitting that you don't have the intestinal fortitude to stay fully invested through declines of this magnitude. Most who claim they do have what it takes are kidding themselves.

If you do decide to reduce your equity exposure now, where should you invest the proceeds? Bonds are one obvious alternative, though they carry their own risks since interest rates are trending upward. One way to minimize that risk is by keeping maturities short. One low-cost possibility is Vanguard Short-Term Bond ETF (BSV), which owns bonds with an average maturity of 2.9 years. Its current yield is 1.7%, and it has an annual expense ratio of just 0.07%, or $7 per $10,000 invested.

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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs: A Monthly Analysis --- Need to Know: Before You Buy In to Emerging Markets... --- These funds are hot right now; Here are eight factors investors should consider

By Simon Constable
933 words
7 August 2017
The Wall Street Journal
J
R8
English

Investors are flocking back to emerging markets, after dumping billions of dollars of emerging-markets securities and funds late last year.

For those who are thinking of following suit by putting their money to work in emerging markets, here are some important considerations.

1. Why the turnaround?

Investors are getting excited about emerging markets across the globe, placing bets on countries as diverse as India, the Czech Republic and Russia. Starting with December last year, each month an average of $24.4 billion has flowed into emerging-markets stocks and bonds, according to data from the Washington-based Institute for International Finance. The eight straight months of inflows follow a sustained run of cash out of those countries that started on Nov. 11, just after the U.S. election, and became the longest continuous run of daily outflows -- not ending until Dec. 16 -- since the institute started tracking these flows in 2005. The outflows reversed course as concerns faded that the dollar would surge in the wake of the election because of rising interest rates in the U.S., and that trade wars would break out across the globe -- both bad for emerging-markets economies and companies.

2. Expect **volatility**

The recent sharp changes in flows into and out of emerging-markets securities added to a history of **volatility** in those markets. Annualized **volatility** for the S&P Emerging Broad Market Index was 23.3% over the 10 years through July 31, compared with 15.2% for the **S&P 500**, according to an analysis from S&P Dow Jones Indices. The figures for the past five years showed a similar trend. The **volatility** measures are based on returns in U.S. dollars.

3. The dollar matters

The strength of the dollar makes a big difference to returns. "Emerging-market economies and stock markets will do especially well if the dollar weakens under Trump," says David Ranson, director of research at HCWE & Co. He explains that while a rising dollar attracts more capital into the U.S., a falling one repels it, sending some of that money into emerging markets. A weaker dollar also boosts returns on foreign securities for U.S. investors. Mr. Ranson notes that the value of the dollar hasn't changed dramatically since President Trump took office. Still, it is worth watching.

4. Business confidence is key

The dollar is just one part of the equation. Business confidence is also important. Despite the rush out of emerging-markets securities after the U.S. election, they have done well over the past year, Mr. Ranson notes. The S&P Emerging Broad Market Index was up almost 20% in the 12 months through July 31. That reflects reduced business anxiety around the world, Mr. Ranson says. He uses yield spreads in the U.S., or the difference between what businesses pay to borrow money and the lower rates the Treasury pays, as a benchmark for such anxiety. Those spreads have shrunk about 30% on average over the past 12 months, according to Federal Reserve data.

5. Little correlation

A portfolio allocation to emerging-markets stocks likely won't perform in the same way as U.S. stocks. "In 2013 emerging-markets stocks were down while U.S. stocks were up," says Charlie Bilello, director of research at investment-advisory firm Pension Partners in New York. "You need to understand that wasn't the first time and it won't be the last time that such a thing happened." The lack of correlation can be frustrating when emerging markets are down, but should help reduce the overall **volatility** of a portfolio that holds assets from various regions.

6. The Fed isn't everything

Myths about emerging markets abound. One relates to U.S. interest-rate policy. The Fed's policies don't necessarily dictate how emerging markets will perform. "It's just not as simple as if the Fed hikes rates then emerging markets go down" because more money will be drawn to U.S. securities, says Mr. Bilello.

7. Neither are commodities

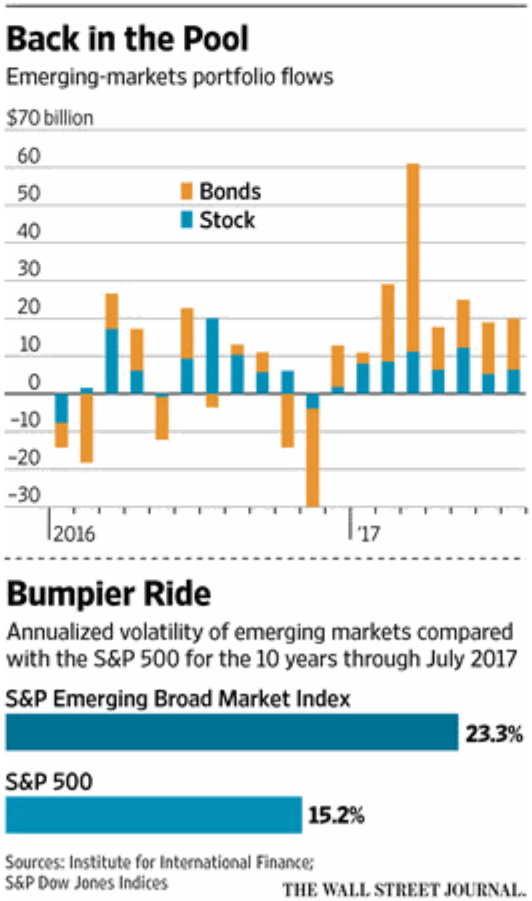
Another myth is that all emerging-markets economies, and so company earnings, are related to the strength of **oil prices** or other commodities. A case in point is India, which imports oil and therefore tends to benefit from lower energy prices. Of course, Russia is an example of an emerging market that does depend in large part on oil exports. "Most of the other countries are not driven by energy," says Mr. Bilello.

8. Value matters

Be wary of investing just because economic growth is faster in an emerging market than in the leading industrial countries. "Growth shouldn't be the primary reason," says Tim Courtney, chief investment officer of Exencial Wealth Advisors in Oklahoma City. That's because the expectation of relatively high economic growth rates already is factored into the prices of many emerging-markets securities.

The trick is to look at the valuations of the stocks in those countries, Mr. Courtney says. In general, stocks in emerging markets right now are trading at big discounts when compared with the shares of similar U.S. companies, he says. "When you have a wide discrepancy in valuations, those assets that are priced more cheaply tend to outperform," Mr. Courtney notes.

Mr. Constable is a writer in Edinburgh, Scotland. He can be reached at reports@wsj.com.



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THE WALL STREET JOURNAL.
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Value Loses Shine in Torrid Growth Era --- Highfliers like Amazon are investor darlings as doubts mount over old investment style

By Steven Russolillo
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The Wall Street Journal
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English

Value investing is mired in one of its worst stretches on record, prompting concerns that the investment style favored by generations of fund managers is losing its effectiveness.

Value stocks, those that are cheaper than many peers relative to earnings or reported net worth and are typically purchased by fund managers anticipating long-term appreciation, have significantly lagged behind their growth-stock counterparts so far this year, compounding a gap that has persisted since the end of the financial crisis.

Instead, investors have gravitated toward companies with fast earnings or price growth, such as Amazon.com Inc., Netflix Inc. and Tesla Inc., and the market's price/earnings ratio has continued to rise -- a trend that many value investors contend can't continue forever.

Stocks that look cheap relative to traditional fundamental metrics such as profit or cash flow have fallen so far out of favor that Goldman Sachs in June questioned whether the markets are witnessing the death of value investing. With value investments in Europe and Asia also struggling, value funds globally are on track to post their worst performance this year relative to growth funds since before the financial crisis.

The struggle for value stocks over such a prolonged period contradicts the popular investment approach coined by financial analyst Benjamin Graham, known as the father of value investing, and since popularized by Warren Buffett. The billionaire investor and Berkshire Hathaway Inc. chairman has attracted a legion of followers who remain confident that value investing will never go out of style.

From the Great Depression to the U.S. tech bubble to the global financial crisis, the notion that a new paradigm would replace value investing has repeatedly occurred. Those predictions have almost always ended poorly.

While value investing appears to have lost some luster now as the so-called FAANG stocks -- Facebook Inc., Amazon, Apple Inc., Netflix and Google parent Alphabet Inc. -- have surged in value, the most steadfast devotees to value-style investing are often the ones that benefit most in market downturns.

The market's attraction to highflying stocks punished value investors in a similar fashion in the late 1990s during the dot-com bubble. Growth stocks beat their value peers toward the end of two major bull markets that peaked in 2000 and 2007, before large market selloffs reversed the trend, putting value stocks ahead.

Some investors today worry that the longer growth stocks are viewed as nearly invincible, the worse the likely pullback will ultimately be. "The super-stocks that lead a **bull market** inevitably become priced for perfection," said Howard Marks, the co-founder of Oaktree Capital Management who correctly estimated in January 2000 that tech and internet stocks were overheated and about to fall -- two months before the dot-com bubble burst. "And in many cases, the companies' perfection turns out eventually to be either illusory or ephemeral."

The attraction to growth stocks, investors and analysts say, stems from the low interest rates, slow economic growth and mild inflation that have gripped the world. Central banks have been accommodative for so long that they have skewed conventional investor wisdom, analysts say, benefiting companies that can generate growth.

In the U.S., the Russell 1000 Growth Index beat its value-stock counterpart by 10 percentage points in the first half, the widest spread over that period since 2009. Over the past decade, the performance of U.S. growth stocks has been almost three times better than that of value stocks, contributing to what index fund giant State Street Global Advisors calls "the longest period of underperformance for value since the late 1940s."

Investors have pulled $116 billion from U.S. large-cap value funds over the past 10 years, according to Morningstar, with more than one-fourth of that outflow occurring over the past 12 months.

In Europe, the MSCI Europe Value index, which includes stocks with low valuations on metrics such as price/earnings and price-to-book ratios, gained 3% in the first six months of the year. The MSCI Europe Growth index gained 9% over the same period. The trend also holds true in Asia, where an MSCI regional value index underperformed its growth counterpart by 10 percentage points in the first half.

"In this low-inflation, low-growth world we've become accustomed to, investors are chasing anything that has growth tied to it," says Kelman Li, an analyst at Bernstein Research in Hong Kong. "When that happens, value suffers."

Many of the largest stocks in Asia with low price/earnings ratios have been among the worst performers this year, he said. Yet since 1990, value stocks have actually outperformed growth. Mr. Li calls this phenomenon a "historical paradox" for investors in Asia and emerging markets, who typically search for growth.

For now, "every market in Asia screens as overvalued," Mr. Li said. "The bias toward growth continues."

Value fund managers have felt the pinch. The median value fund around the world trailed the median growth fund by 7 percentage points in 2017's first half, on pace for the worst underperformance since 2007, according to eVestment. The data and analytics firm measured actively managed value and growth funds in the U.S., Europe and Asia -- which collectively have $8.8 trillion in assets under management -- and found that so far this year value funds have lagged behind growth in all three regions for the first time since 2010.

To be sure, much of value's underperformance could still be cyclical. "Sometimes value investing strategies will probably cease to work as investors flock to exploit them, yet it certainly does not follow that value investing as a whole will ever be out for good," Nobel Prize-winning economist Robert Shiller wrote in his book "Irrational Exuberance."

But for some who have practiced value investing throughout their careers, value stocks' time in the wilderness is starting to seem awfully long. "This time seems very, very different," longtime value investor Jeremy Grantham, the co-founder and chief investment strategist at Boston money manager GMO, wrote in a recent quarterly letter. In a follow-up note, he added that valuations have stayed richer for far longer than historical cycles have previously dictated. "As a value manager, I wish it were not so."

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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs: A Monthly Analysis --- News Challenge: Funds and Investing: Test Your Smarts on...Active vs. Passive Investing

By Ryan Vlastelica
1,009 words
7 August 2017
The Wall Street Journal
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R6
English

One of the biggest trends on Wall Street over the past decade has essentially taken place behind the scenes. Stocks and bonds, as ever, fluctuate daily, but the way investors are accessing and holding them has changed. Passive investing, in which an investor owns a fund that mimics the holdings of an index like the **S&P 500**, is gaining ground at the expense of active management, in which the holdings of a portfolio are selected by a manager.

The shift has upended the asset-management world, but how much do you know about the continuing active-vs.-passive debate? Here's a quiz to test your knowledge.

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1. What renowned figure is often called "the father of passive investing?"

A. Warren Buffett

B. Benjamin Graham

C. Jack Bogle

D. Edward Thorp

ANSWER: C. The founder and former CEO of Vanguard Group introduced the first index-based mutual fund for the general public in the mid-1970s (it tracked the **S&P 500**).

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2. Proponents of passive investing argue that it offers _________ compared with traditional active management.

A. Better risk-adjusted returns

B. Greater tax efficiency

C. Lower fees

D. All of the above

ANSWER: D. According to S&P Dow Jones Indices, the number of U.S. actively managed stock funds that are able to consistently beat the market over long periods is essentially zero. Meanwhile, index funds charge much cheaper fees on average, and exchange-traded funds, an increasingly popular way to invest in passive strategies, offer greater tax efficiency than traditional actively managed mutual funds.

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3. Exchange-traded funds are dominated by passive strategies, but actively managed ETFs do exist. In terms of assets, what percentage of the ETF market do they represent?

A. 0-5%

B. 5-10%

C. 10-20%

D. More than 20%

ANSWER: A. Actively managed ETFs have only $37.6 billion in assets, compared with almost $3 trillion in passive funds, for a market share of 1.3%, according to Morningstar data. Managers say the transparent nature of ETFs is one reason active ETFs haven't caught on. Because managers have to disclose their holdings daily, the argument goes, they lose the "secret sauce" of their strategies, diminishing their effectiveness.

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4. Roughly speaking, how big of a swing was there from active products to passive ones in 2016?

A. $100 billion

B. $500 billion

C. $700 billion

D. $1 trillion

ANSWER: C. According to Morningstar, actively managed funds saw $285.2 billion in outflows last year, while passive ones had inflows of $428.7 billion, a trend that has persisted thus far this year.

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5. What U.S. regulation is seen as accelerating the move into passive products?

A. Dodd-Frank

B. The fiduciary rule

C. Glass-Steagall

D. The Volcker rule

ANSWER: B. The Labor Department's fiduciary rule requires that brokers act in the best interest of their clients when providing retirement advice, rather than advocating for investments on which they may make a higher commission.

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6. The explosion in passive investing has made Vanguard a prominent shareholder in major companies. The firm's passive funds have at least a 5% stake in how many S&P components, and how does that compare with 2005?

A. 468 companies, up from three

B. Eight companies, up from zero

C. 238 companies, up from 143

D. 480 companies, up from 269

ANSWER: A. According to a Wall Street Journal analysis, Vanguard has such a stake in about 94% of index components, compared with less than 1% 12 years ago.

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7. Passive-fund managers can't pick what securities to hold, but can use their voting rights to advocate for changes in their portfolio companies. Recently, passive giant State Street Global Advisors pushed for companies to do what?

A. Lower their carbon footprint

B. Increase the women on their boards

C. Raise wages to at least $15 an hour

D. Provide paid leave for new parents

ANSWER: B. In March, SSGA identified 468 of the U.S. companies in which it owns shares that lack a female director. Of those, 400 didn't address the issue after the company confronted them.

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8. Active managers aren't dead quite yet: So far this year, more active stock managers than is typical have outperformed their benchmark, a trend that has been attributed to a drop in what?

A. Market **volatility**

B. Trading volume

C. Stock correlations

D. Dividend yields

ANSWER: C. There has been a high correlation between stocks in the U.S. market for years, creating a particularly tough environment for active managers as securities moved on broader trends as much as company-specific fundamentals. Correlations have dropped, however, which could give managers a better chance of beating the market. J.P. Morgan says 53% of active equity managers are outperforming in 2017, up from 32% over the same period of 2016.

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9. Fans of active management argue it can deliver better results than passive in every asset class except __________.

A. Small-cap stocks

B. Large-cap stocks

C. Emerging-markets stocks

D. High-yield (junk) bonds

ANSWER: B. Large U.S. stocks are among the most widely followed securities in the world, making pricing inefficiencies harder to come by.

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10. Along with active and passive, what is the third major fund category, often described as midway between the two?

A. Alternative alpha

B. Smart beta

C. Strategic allocation

D. Thematic construction

ANSWER: B. Smart-beta funds, also known as strategic beta, seek to outperform the market by weighting holdings based on something other than traditional market capitalization. But unlike active funds, the holdings of the portfolio aren't individually selected by an individual or team. Instead, they are chosen based on rules designed to deliver strategies such as value, growth or low **volatility**.

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The New York Times

GRAY MATTER
Sunday Review Desk; SECTSR
Is Trump Slowing Growth?

By NEIL GROSS
952 words
6 August 2017
The New York Times
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Late Edition - Final
6
English

At the end of last month, the International Monetary Fund downgraded its forecast for economic growth in the United States. Where the I.M.F. previously predicted the economy would grow at a rate of 2.3 percent in 2017 and 2.5 percent in 2018, it now expects 2.1 percent growth in both years.

The reason? An uncertain and insufficiently expansionary economic environment linked to the chaos in Washington. Yes, the **stock market** has been strong and unemployment is down. But Donald Trump, friend of business, may be costing us growth, a key indicator of economic health.

The I.M.F. forecast is a reminder that ill-advised policy isn't the only way politics can interfere with growth. Instability can also slow things down.

Macroeconomists have long pondered how growth might be affected by features of the political system. Mostly an issue -- until now -- in the developing world, instability is thought to hinder growth by generating uncertainty that scares off investors and makes firms risk-averse. Instability also gives politicians a short-term view of things: If they can't be sure they or their parties will be involved in governance in the future, they won't commit to economic policies with long-term yield.

In a 1992 paper, the economist Alberto Alesina and colleagues tested these suppositions by looking at data on 113 countries from 1950 to 1982. A challenge in estimating the effect of instability on economic growth is that causality may run in the opposite direction: Low growth, and the accompanying sense of economic malaise, can lead to political disruption, rather than vice versa. After addressing this problem statistically, the researchers discovered that growth does tend to be slower when nations are politically unstable -- when governments verge on collapse or pinball from one ideological extreme to another.

More recently, the economists Ari Aisen and Francisco José Veiga examined 169 countries from 1960 to 2004. They gauged political instability by how often a new head of government was installed or more than half of the cabinet was changed out (or both). The greater the frequency of these changes, they found, the less overall investment there tended to be in physical capital like factories, and the lower the rate of growth.

The United States isn't an unstable Third World republic. But with a White House plagued by remarkably high staff turnover, and with constitutional crises lurking around every corner, the country and economy aren't exuding predictability either. If you were a judicious chief executive, you might be more restrained in pushing to expand amid the political turmoil, whatever the administration's interest in cutting regulatory red tape and slashing corporate taxes.

If the United States achieves the growth rate now projected by the I.M.F., it won't be terrible. But it won't be anything like the productivity spurts that policy makers and the public grew accustomed to in the second half of the 20th century. A vigorous, expanding economy meant jobs, reliably filled tax coffers, real recovery from downturns and continual improvement in the quality of life. Today, more modest growth rates have become the new normal.

There are several schools of economic thought on why growth has been in the doldrums -- but unfortunately, few offer solutions that are viable in an atmosphere of political instability.

For example, Lawrence Summers, the Treasury secretary under Bill Clinton, has developed a theory called ''secular stagnation.'' The core idea is that the advanced economies of the world, including the United States, have entered a phase where there is too much saving and not enough new investment, keeping interest rates and inflation lower than they should be.

Mr. Summers points out that it costs a lot less to start a company in the internet age than when the only way to make money was through manufacturing. So there's less investment demand.

With a nod to the New Deal economist Alvin Hansen, who wrote about the relationship between population size and interest rates, Mr. Summers notes as well that population growth in Europe and the United States has steeply declined. Without new workers and consumers coming onto the rolls, there's an upper limit to domestic profit-making opportunities.

Mr. Summers believes there's a way out of the low-growth trap. He argues for a major debt-financed infrastructure spending program, coupled with tax reform, policies to address rising inequality (since when income gains go almost entirely to those at the top, it's hard to get a broad-based rise in consumer demand) and efforts to counter protectionist trade practices.

The thing is, nothing like what he proposes will be possible so long as we have a president whose inflammatory language, egregious actions and administrative incompetence continue to alienate voters and members of Congress. President Trump campaigned for infrastructure spending, but at this point neither Democrats or Republicans are likely to get completely on board. As for the other pro-growth suggestions, the president and his cabinet of billionaires couldn't care less about inequality and seem to be gunning for a trade war with China. And it's anyone's guess whether Mr. Trump has the discipline to negotiate corporate tax reform.

The bottom line is that while Wall Street is happy for the moment, the United States economy isn't reaching its full potential. A tumultuous Trump administration will have a hard time getting us there.

Follow The New York Times Opinion section on Facebook and Twitter (@NYTopinion), and sign up for the Opinion Today newsletter.

Neil Gross is a professor of sociology at Colby College.

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THE WALL STREET JOURNAL.
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Dow 22000: Four Views on the Market -- The Intelligent Investor: The Market Is Different This Time

By Jason Zweig
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5 August 2017
The Wall Street Journal
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B1
English

The market has hit Dow 22000 not because of the individual investors Wall Street calls "the dumb money" but in spite of them.

Over the past month, small investors have pulled $17 billion out of U.S. stock mutual funds and exchange-traded funds and added $29 billion to bond funds. That's the latest leg of a long-term trend: Since the internet-stock bubble burst in 2000, investors have withdrawn half a trillion dollars from U.S. stock mutual funds.

Instead of chasing this rising market upward, individual investors have been backing away from it. That retreat is increasingly automatic and has become an integral part of how the **stock market** works.

As millions of Americans reach the age of retirement and have to replace their salaries, they look less to stocks for growth and more to bonds for income. A massive industry has arisen to make that easy.

Financial advisers, many of whom "rebalance" or periodically adjust portfolios to keep them in line with preset proportions in stocks and bonds, control more than $5.5 trillion in assets, The Wall Street Journal recently found. And target-date funds, those retirement-saving portfolios that automatically scale back stockholdings as investors age, held $998 billion in assets as of June 30, according to Morningstar Inc.

Target-date funds made up 20% of assets in 401(k) retirement plans at year-end 2015, up from 18% in 2014 and 15% the year before, reckons a new report from the nonprofit Employee Benefit Research Institute and the Investment Company Institute, a trade group for the mutual-fund and asset-management industry.

"More and more money is being invested according to asset-allocation strategies," says Brian Reid, the ICI's chief economist. That means trillions of dollars are managed to keep exposure to stocks constant (or even declining) over time.

The math is simple: If you had a target of 50% in stocks and they go up 10%, you are suddenly off-target, with more than half your money there. Your financial adviser or target-date fund will automatically sell stock and buy bonds to get you back to 50%.

That's what happens now, mechanically, millions of times a month as the **stock market** rises. Such continuous, gradual selling may well have helped the market rise so smoothly and keep it (so far) from overheating.

Even investors who aren't automatically rebalancing are thinking as if they need to, says William Koehler, president of FCI Advisors, an investment firm in Overland Park, Kan., that manages $7.6 billion primarily for individual clients.

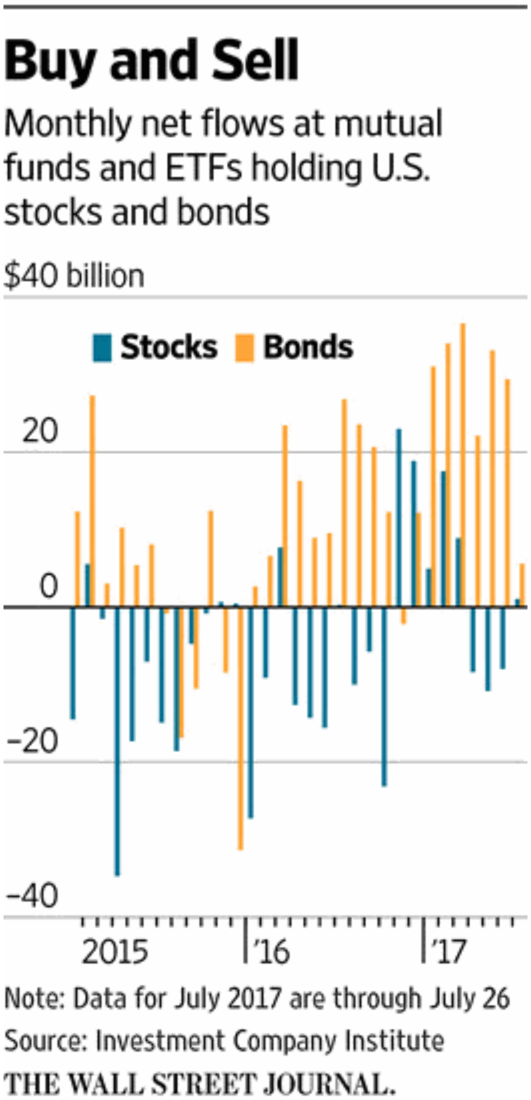
As Mr. Koehler puts it, the most common question his firm heard from clients back in 1999 was, "Should I just buy Cisco?" (Cisco Systems Inc. was then one of the hottest technology stocks.) Now, he says, it is: "Do we have the right mix of stocks and bonds and cash?"

Welcome to the homeostatic market. In biology, homeostasis is the process by which living organisms regulate vital aspects of their internal environment, keeping such factors as body temperature or chemical balances close to their "set points" or target values.

These automatic adjustments don't mean stocks can't crash or soar from here. But such sharp moves are at least somewhat less likely, and less likely to last, in a homeostatic market.

So don't believe anyone who tells you Dow 22000 is driven by euphoric "dumb money." This is a market in which millions of small investors have been selling, not buying.

(See related articles: "Why It's Time To Dump Apple"; "What Goes Up, Must Go . . . --- The factors that have driven market gains won't last; When they will stop is the question"; "This Market Is Done; The Math Proves It" -- WSJ Aug. 5, 2017)



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Dow 22000: Four Views on the Market: This Market Is Done; The Math Proves It

By Spencer Jakab
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5 August 2017
The Wall Street Journal
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B5
English

Here is a market prediction that can be made with a high degree of confidence. Returns over the next decade are going to be lousy. Simple math says so.

Over the medium term, the price investors pay for a dollar of earnings at the outset far outweighs future economic growth or profits. Even if a time traveler from the year 2027 returned with evidence of superior corporate profits, it would reveal little about how much stocks could rise.

Take the 10 years starting in December 1964. Large U.S. company profits grew by 80% over the next decade, yet the **S&P 500** was about a fifth lower by December 1974. On the other hand, a time traveler would have delivered bad news in June 1949 -- profits were going to rise by a modest 44% over a decade. Yet the market rose threefold. The difference is that the starting price-to-earnings ratio was high in late 1964 and very low in mid-1949.

Today, stocks are historically expensive and U.S. government bonds, the risk-free alternative, sport paltry yields. The upshot is that an investor who rebalances his or her portfolio annually to hold 60% in an **S&P 500 index** fund and 40% in 10-year Treasurys shouldn't expect much.

Over the half-century through the end of 2016, the **S&P 500** delivered an annualized total return of 10.1%, while **10**-**year Treasury** notes' return was 6.7%. An investor who thought that the future would mirror the past and invested $10,000 in the index fund and bonds would expect it to more than double to $23,000 by August 2027. But, if P/E ratios return to normal and bond yields merely stay the same, it would turn into just $14,800, or a gain of 48%.

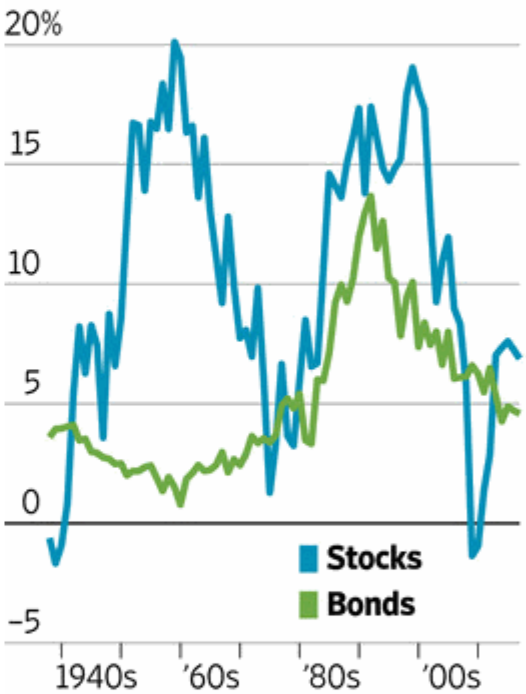
Yes, strange things can happen, and P/E ratios could have reached a sort of permanently elevated nirvana, but the "E" might not oblige. Based on the recent pace of economic growth, inflation and stock buybacks, the market's trailing P/E ratio would have to keep expanding for stock prices to rise 10% a year, reaching a level not seen outside of bubble peaks.

While 48% in a decade isn't great, investors should at least avoid being spooked out of sabotaging even those pedestrian returns when the next **bear market** appears.

(See related articles: "The Intelligent Investor: The Market Is Different This Time"; "Why It's Time To Dump Apple"; "What Goes Up, Must Go . . . --- The factors that have driven market gains won't last; When they will stop is the question" -- WSJ Aug. 5, 2017)

History Lesson

10-year trailing annualized return of the S&P 500 or its predecessor, and the 10-year Treasury note



Source: Prof. Aswath Damodaran

THE WALL STREET JOURNAL.

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Document J000000020170805ed850001i

THE WALL STREET JOURNAL.
U.S. EDITION

Dow 22000: Four Views on the Market: What Goes Up, Must Go... --- The factors that have driven market gains won't last; When they will stop is the question

By Ken Brown
606 words
5 August 2017
The Wall Street Journal
J
B5
English

Investors typically worry about what can go wrong in the **stock market**. A better question now is what needs to go right for the market to keep rising.

The **stock market** has surged 20% since the election, making it expensive by almost any measure. The drivers of the rally are well-known: Strong corporate earnings, solid global growth, central bank stimulus and a relatively stable global geopolitical environment. These positives have made the market one of the calmest of all time, which has given investors more confidence and further boosted stocks.

Can those factors continue? In most cases no, though the timing and size of the next shift are impossible to know. But these trends are interconnected and have reinforced one another on the way up. A crack in one could have an outsize impact on the rest.

Corporate earnings are on track to grow in double digits for the second quarter in a row. With that impressive performance, it is easy to forget that a year ago we were ending a stretch of four straight quarters of shrinking profits. The shift to profit growth will make further strong growth harder to achieve -- it is much harder to grow fast when the last year's quarter was good. Combined with the tight jobs market, which will inevitably raise costs and reduce profit margins, earnings growth will likely slow for the rest of the year.

The strong global economy has been a significant boost to the market. The basic reason is that companies in the **S&P 500** get nearly 30% of their revenues from overseas. A weaker dollar, due in part to the slower growth, has further boosted profits. If higher rates in the U.S. boost the dollar, profits will be under more pressure.

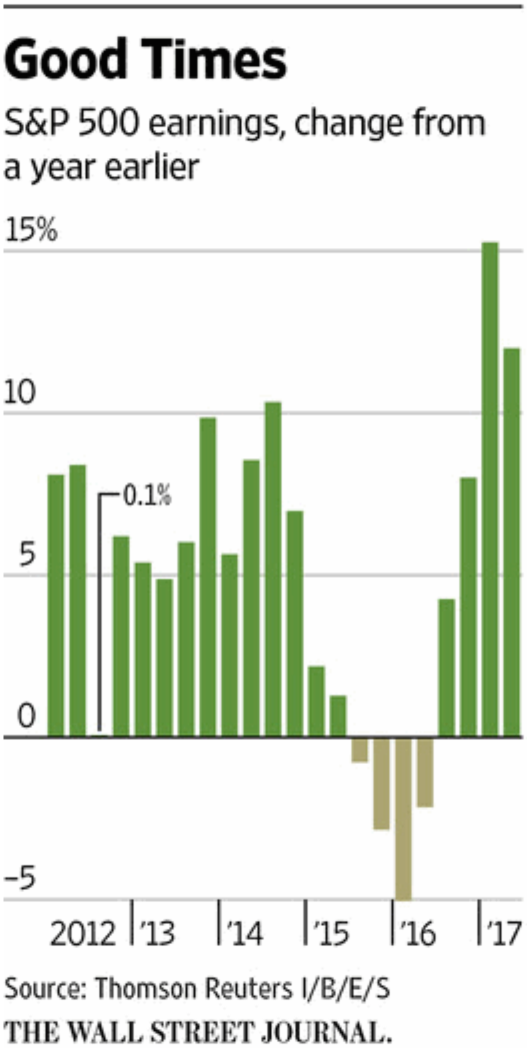
The International Monetary Fund sees global growth staying solid through the end of next year. What can go wrong? The China debt bubble could finally implode or Europe's period of political calm could end, but one of the biggest risks is a slowdown in the U.S., which is long overdue for a recession. Declining Treasury yields are a signal that a slowdown could be coming. That, obviously, would hit the **stock market** and pull down global growth.

Central bank stimulus is declining but slowly. The risks are that rising interest rates in the U.S. and the end of bond buying in Europe slow their respective economies. But neither bank will tighten in a slowing economy, and low inflation gives them cover to keep policy loose.

Geopolitics is impossible to predict. The problem now isn't that there are more risks than usual but that investors are acting as if there are almost no risks. An upheaval involving any combination of Russia, Iran, Syria, North Korea or China might be just the thing to remind investors that the world, and the **stock market**, can be a dangerous place.

U.S. stocks have been the best performing asset class in the world for three years running, returning an average of nearly 16% annually. This year is on track to top 20%. To get here, a lot of things have gone right and almost nothing wrong. That hardly ever lasts.

(See related articles: "The Intelligent Investor: The Market Is Different This Time"; "Why It's Time To Dump Apple"; "This Market Is Done; The Math Proves It" -- WSJ Aug. 5, 2017)



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THE WALL STREET JOURNAL.
U.S. EDITION

Record Jobs Run Fuels Economy --- U.S. employers added 209,000 jobs in July as unemployment rate fell to 4.3%, a 16-year low

By Eric Morath
1,126 words
5 August 2017
The Wall Street Journal
J
A1
English

The U.S. economy is hitting a sweet spot seldom seen in past expansions, posting in July a record 82nd straight month of job creation and an unemployment rate at a 16-year low, despite slow growth in output.

Economic growth has been stuck stubbornly near a 2% annual rate, the weakest expansion in output since World War II. But by a range of measures the economy is pushing into new territory, including record **stock-price** highs, improving consumer confidence and rising corporate profits. Even wages, though rising slowly, are advancing at a healthy pace when adjusted for exceptionally low inflation.

The latest evidence was a Labor Department report Friday that showed U.S. employers added 209,000 jobs to payrolls in July and the unemployment rate fell to 4.3%. With the July increase in hiring, the record stretch of monthly hiring is equivalent to six years and 10 months, almost three years longer than the second-best streak, from 1986 to 1990.

Expansions tend to get tripped up by boiling excesses, like a housing bubble in the 2000s, a tech bubble in the 1990s and inflation in the early 1980s. But this economy appears to have some more room to run as it enters its ninth year.

Other parts of the global economy, including Europe and China, are contributing after stumbles in recent years, adding to global growth that is spilling back to the U.S.

"Compared to six months ago, the global economic outlook has certainly shifted in a positive direction," said John Silvia, chief economist at Wells Fargo. In the U.S., "there are more jobs, and better jobs, and that's a confidence builder."

Hiring accelerated this summer after a spring slowdown, keeping job growth in line with last year's pace despite expectations among some economists that hiring would cool this year.

Other economic markers are flashing green. The **stock market** is at records, with the **Dow Jones Industrial Average** topping 22000 this week. Low unemployment and modest inflation have stoked consumer confidence to the highest levels since 2000, and that could slowly be translating into more consumer spending, which accelerated in the second quarter.

That points to an economy set to outperform the long but sluggish expansion's 2.1% average annual growth rate through June.

"This is not a 2% economy," said Ellen Zentner, chief U.S. economist at Morgan Stanley. "If you look at the domestic economy, it's much stronger."

President Donald Trump touted July's job report on Twitter Friday: "Excellent Jobs Numbers just released - and I have only just begun. Many job stifling regulations continue to fall. Movement back to USA!"

The monthly pace of hiring has averaged 184,000 this year. That is remarkably consistent with the monthly pace of 187,000 during President Barack Obama's last year in office, despite the starkly different views of economic policy espoused by the two men.

Whether the new president's deregulation agenda is lifting job growth so soon into his presidency is an open question.

One area where the administration has sought to pull back oversight is mining. That category, which includes oil-and-gas extraction, has well outpaced overall job growth this year, though it was nearly flat in July. Many analysts attribute the sector's rebound after two years of decline to the resurgence in **oil prices** tied to improved global demand.

"It's not Trump," Ms. Zentner said, noting that regulatory changes often take years to enact and filter through the economy.

She sees different forces at play extending the jobs upturn.

"What we're seeing is the culmination of years of easy monetary policy, improved corporate earnings and stronger global growth," she said.

The latest employment data likely keep the Federal Reserve on track to begin slowly shrinking its portfolio of Treasury and mortgage securities this fall and to raise short-term interest rates after that for the third time this year.

One mixed factor for the economic outlook is wage growth. From a year earlier, average hourly earnings increased 2.5%, thanks to a 9 cents-an-hour increase from the prior month. That is slower than normal in the past quarter-century. Still, the wage picture isn't all bad. When adjusting for low inflation, real wages grew 0.9% in June from a year earlier, a stronger rate than the 30-year average. That means worker paychecks are going further at the gas pump and grocery store.

One factor holding back wages in July was the mix of jobs added. One in four net new jobs last month came in restaurants, among the lowest-paying fields. Labor-force participation is rising among Americans with a high-school diploma or less. The figures are stable for those with college degrees, suggesting low-skill, low-wage workers are getting a slightly bigger piece of the economic pie. That could be good news for the many low-skill, blue-collar workers so far left behind in the expansion.

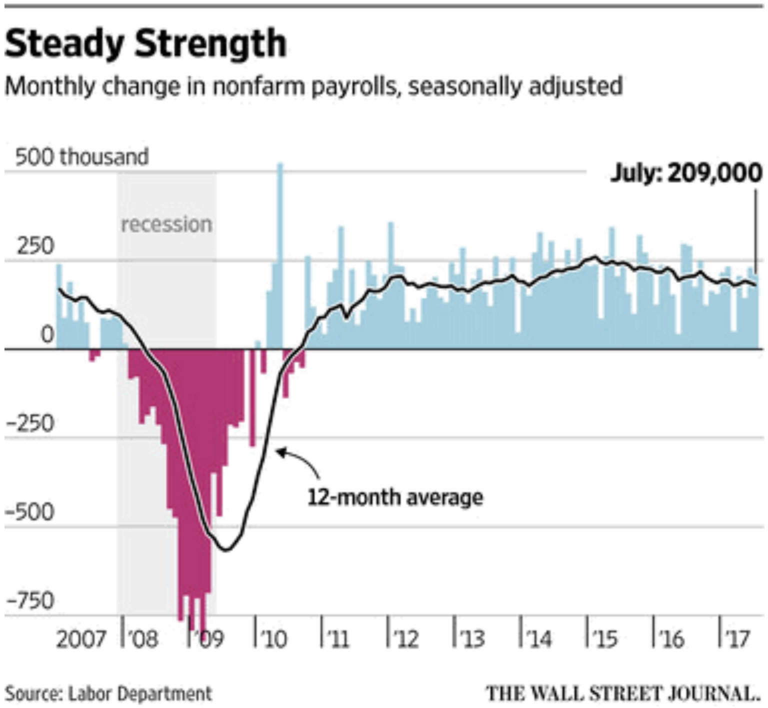
More broadly, an improved job market appears to be drawing discouraged and able-bodied workers from the sidelines. The share of adults between 25 and 54 years old working or looking for work rose in July to the highest level since late 2010, though it remains below the prerecession rate.

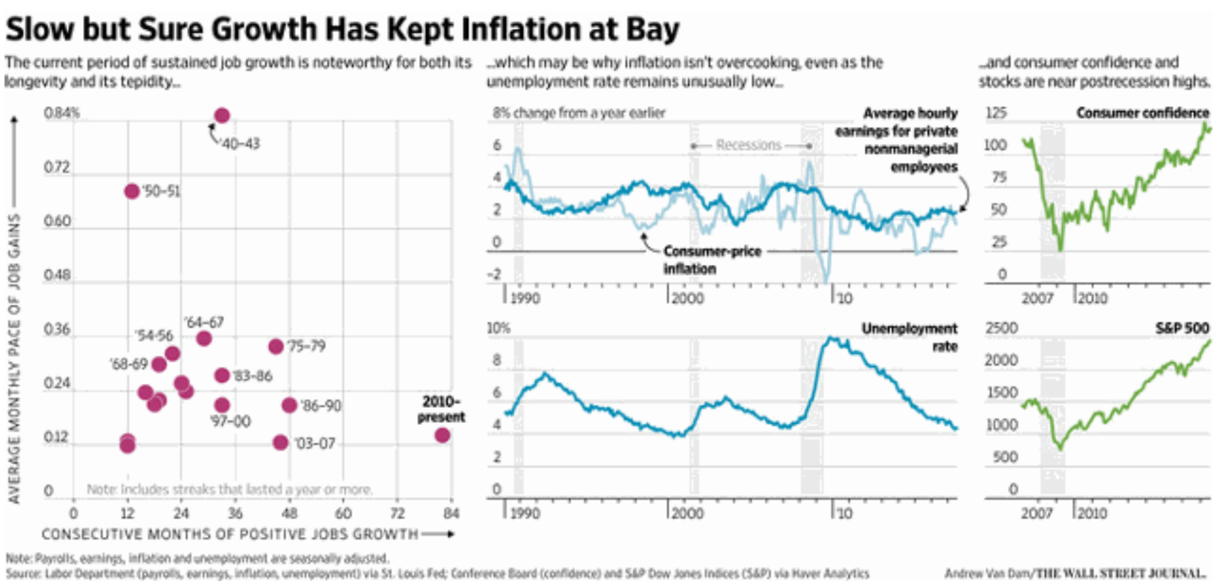
Steve Burrows II rejoined the labor force in July and landed a full-time job as a cook at a Seattle restaurant. The 30-year-old was incarcerated and attended the FareStart transitional program to train for a restaurant job. He now earns $15 an hour, the minimum wage in the city, plus between $2 and $3 an hour in tips.

"It's amazing, especially with how long it's been since I was in the workplace," he said. Mr. Burrows said he has been without regular work since 2011 when he left the Navy. "It's a lot easier to have happiness when you don't have to worry about how you're going to pay rent."

An alternative measure of unemployment and underemployment, which includes those who have stopped looking and those in part-time jobs who want full-time positions, held steady at 8.6% in July and is elevated from a prerecession low of 7.9%.

Hiring in the health care sector accelerated in July and employment in manufacturing rose for the second straight month. Business services, including temporary help positions, also rose solidly last month. Employment in the retail sector held nearly flat, stabilizing after declining for much of the year.





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The New York Times

Contributing Op-Ed Writer
Opinion; Sunday Review
When Will the Tech Bubble Burst?

By RUCHIR SHARMA
1,341 words
5 August 2017
02:30 PM
NYTimes.com Feed
NYTFEED
English

At the height of a market mania in 1967, the author George Goodman captured the mood perfectly, comparing it to a surreal party that ends only when “black horsemen” burst through the doors and cut down all the revelers who remain. “Those who leave early are saved, but the ball is so splendid no one wants to leave while there is still time. So everybody keeps asking — what time is it? But none of the clocks have hands.”

Every decade since, the global markets have relived this party. In the late 1960s the mania was for the “nifty 50” American companies like Disney and McDonald’s, which had been the “go-go” stocks of that decade. In the late 1970s it was for natural resources, from gold to oil. In the late 1980s it was stocks in Japan, and in the late 1990s it was the dot-com boom. Last decade, investors flocked to mortgage-backed securities and big emerging markets from Brazil to Russia. In every case, many partygoers were still in the market when the crash came.

Today, tech mania is resurgent. Investors are again glancing at a clock with no hands — and dismissing the risk. The profitless start-ups that were wiped out in the dot-com crash have consolidated into an oligopoly composed of leading survivors such as Google and Apple. These are giants with real earnings, yet signs of a irrational euphoria are growing.

One is pitchmen bundling investments with very different outlooks into a single package. Last decade they bundled Brazil, Russia, India and China to sell as the BRICs. More recently they packaged Facebook, Amazon, Netflix and Google as FANG, then, as names and prospects shifted, subbed in Alphabet, Apple and Microsoft to make Faama. Others are hyping the hottest tech companies in China as BAT, for Baidu, Alibaba and Tencent. Whatever the mix, acronym mania is usually a sign of bubbly thinking.

Seven of the world’s 10 most valuable companies are in the tech sector, matching the late 1999 peak. As the American **stock market** keeps marching to new highs — the Dow hit 22,000 this week — the gains are increasingly concentrated in the big tech stocks. The bulls say it is inevitable that Apple will become the first trillion-dollar company.

No matter how surreal the endgame, booms tend to begin with real innovation. In the past, manias have been triggered by excitement about canals, the telegraph and the automobile. But not since the advent of railroads incited market booms in the 1830s and 1840s has the world seen back-to-back booms like the dot-com bubble of the 1990s and the one we are in now.

The dot-com era saw the rise of big companies that were building the nuts and bolts of the internet — including Dell, Microsoft, Cisco and Intel — and of start-ups that promised to tap its revolutionary potential. The current boom lacks a popular name because the innovations — from the internet of things to artificial intelligence and machine learning — are sprawling and hard to label. If there is a single thread, it is the expanding capacity to harness data, which the Alibaba founder, Jack Ma, calls the “electricity of the 21st century.”

Market excitement about authentic technology innovations enters the manic phase when stock prices rise faster than justified by underlying economic growth. Since the crisis of 2008, the United States economy has been recovering at the rate of around 2 percent, roughly half the rate seen for much of the past century. The areas of growth are limited in this environment. Oil’s not very euphoric, with prices depressed, while regulators are forcing banks to keep the music down. In the most direct echo of 1999, technology is once again seen as the best party in town.

It is true that prices today are not quite as widely overvalued as in 1999. Large technology stocks are up 350 percent this decade, the low end of the range for the hot stocks from earlier booms, which saw gains of 300 to 1,900 percent. Only a few select technology companies — mainly the internet giants — are trading close to the valuations of the dot-com era, when the average price-to-earnings ratio for tech companies hit 50. The average ratio for that sector today is 18.

However, the scale of today's tech boom is not readily visible because much of the investment action has moved into the hands of big private players. In 1999, nearly 550 start-ups went public, and after many ended in disaster, the government tightened regulation of public companies. In part to avoid that red tape, this year only 11 tech companies have gone public. Many are raising money instead from venture capitalists or private equity funds. Venture capitalists have poured more than $60 billion into the technology sector every year for the past three years — the highest flows since the peak in 2000 — and private equity investors say there has never been a better time to raise money.

These new private funding channels are creating "unicorns," companies that haven't gone public but are valued at $1 billion or more. Unicorns barely existed in 1999. Now there are more than 260 worldwide, with technology companies dominating the list. And if signs emerge that the privately owned unicorns are faltering, the value of publicly owned tech companies is not likely to hold up either.

We can never know when the end will come. Still, there are three critical signals to watch for.

The first is regulation. The tech giants are seen today as monopolizing internet search and commerce, and they are angling to take over industries such as publishing and automobiles, raising alarms at antitrust agencies in Europe and the United States. Fear that new internet technologies are doing more to waste time and brainpower than to increase productivity has already provoked a backlash in China, where officials recently criticized online gaming as "electronic heroin." A regulatory crackdown on tech giants as either monopolies or productivity destroyers could pop the allure of tech stocks.

The other signals are more familiar. Going back to the "nifty 50" stocks of the 1960s, nearly every big market mania ended after central banks tightened monetary policy and many people who had borrowed to get in the game found themselves in trouble. The dot-com bubble peaked in 2000, after the Federal Reserve had increased interest rates multiple times. The current boom will likewise be at risk if an increase in inflation compels the Fed to raise interest rates beyond the modest rise the market currently expects.

Finally, watch for tech earnings to start falling short of analyst forecasts. The dot-com boom was driven in part by increasingly optimistic predictions for technology company earnings, and it imploded when earnings started to miss badly. Investors realized then that their expectations about profits from the internet revolution had become unreal.

Of course, no two booms will unfold exactly the same way. We are now eight years into this **bull market**, making it the second longest in history, behind only the run-up of the late 1990s. No **bull market** lasts forever, and while it is clear that we are entering the late stages of this cycle, it is impossible to say whether this moment is like 1999, or 1998 — or earlier.

The clocks have no hands, and the black horsemen may appear at any time.

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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.

* Wall Street, Climbing Sharply, Skips Washington's 'Soap Opera'

* Tech, Fed, Trump: So Many Reasons to Worry About the Market

* U.S. Growth Accelerates, but Remains Short of Pace Promised by Trump

Matt Chase

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The New York Times

Business/Financial Desk; SECTB
Strong Hiring Sends Markets Higher

By THE ASSOCIATED PRESS
687 words
5 August 2017
The New York Times
NYTF
Late Edition - Final
5
English

Banks and other stocks climbed on Friday after the government reported more gains in hiring last month, the latest signal that the economy is continuing to hum along. The modest gains wrapped up another quiet week for the **stock market**.

The Department of Labor said employers added 209,000 jobs last month. Investors sold government bonds and bet that interest rates were going to rise, which lets banks make more money on loans. Technology companies also rose. Weight Watchers soared after reporting a strong quarter while Viacom, the media company that owns Comedy Central and MTV, sank.

July was the second consecutive month of strong hiring, suggesting that the economy is growing steadily as countries European nations and less-developed countries come out of long slumps.

"The economy is in pretty good shape," said Paul Zemsky, chief investment officer for multi-asset business at Voya Investment Strategies. "We're seeing, for the first time, more of a globally synchronized growth."

He said that would lead to a stronger global economy and help American companies and stocks if growth in the United States falters.

The **Standard & Poor's 500**-**stockindex** added 4.67 points, or 0.2 percent, to reach 2,476.83. The **Dow Jonesindustrial average** rose 66.71 points, or 0.3 percent, to 22,092.81. The **Nasdaq composite** climbed 11.22 points, or 0.2 percent, to 6,351.56.

Bond prices dropped, sending yields higher. The yield on the **10**-**year Treasury** note climbed to 2.26 percent from 2.22 percent as investors concluded it was more likely that the Federal Reserve would raise interest rates again later in the year.

Bank of America climbed 60 cents, or 2.5 percent, to $24.97, and KeyCorp picked up 37 cents, or 2.1 percent, to $18.40.

Despite the gains on Friday and the Dow's long winning streak, most stocks have hardly moved over the last two weeks.

GrubHub and Yelp both jumped after GrubHub moved to expand its business by buying Yelp's Eat 24 unit. Along with the $287.5 million sale, the companies announced a deal that would let people reading Yelp reviews order food from restaurants that use GrubHub. Yelp climbed $8.68, or 27.7 percent, to $40.05, while GrubHub added $4.37, or 9.1 percent, to $52.62.

Weight Watchers International raised its forecasts for the year after it blew past analysts' expectations. The company said it had 20 percent more subscribers at the end of June than it did a year earlier. Its stock gained $8.31, or 25.1 percent, to $41.39.

Viacom tumbled after the company reported trouble with a financing deal with a Chinese company. The company said it did not receive a payment in June from Huahua Media, which agreed to help finance Paramount Pictures films as part of a deal that was struck in January. The stock sank $4.85, or 13.8 percent, to $30.22.

Viacom also said the number of subscribers to its cable networks dipped in the third quarter, and in the current quarter it expects a decline in the fees it receives from cable companies that carry its networks.

Among other cable network companies, 21st Century Fox fell 36 cents, or 1.3 percent, to $28.46. Discovery Communications lost $1.01, or 4.1 percent, to $23.73.

Benchmark United States crude rose 55 cents, or 1.1 percent, to $49.58 a barrel in New York. Brent crude, the international standard, added 41 cents to $52.42 a barrel in London.

The dollar rose to 110.67 yen from 109.93 yen. The euro fell to $1.1779 from $1.1874.

Gold fell $9.50 to $1,258.30 an ounce. Silver dropped 38 cents, or 2.3 percent, to $16.25 an ounce. Copper rose 1 cent to $2.89 a pound.

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

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The New York Times

Business/Financial Desk; SECTB
ADP Says Activist Investor Seeks Half Of Its Board Seats and a New C.E.O.

By MICHAEL J. de la MERCED
530 words
5 August 2017
The New York Times
NYTF
Late Edition - Final
5
English

ADP, the payroll processing giant, said on Friday that the hedge fund mogul William A. Ackman had sought five seats on its 10-member board, in the latest clash between corporate America and activist investors.

In a statement, ADP said that Mr. Ackman's company, Pershing Square Capital Management, had disclosed on Tuesday that it owned an 8 percent stake in the payroll company. Mr. Ackman also said that the payroll specialist's chief executive, Carlos A. Rodriguez, should be replaced, ADP said.

Activist investors have grown in size and power in recent years, taking on ever-bigger corporate targets and demanding changes in strategy to shake up stock prices. Such financiers have grown bolder, putting behemoths like Procter & Gamble, Nestlé and Samsung in their sights.

Mr. Ackman has long been one of the most prominent of these activists, having taken positions in companies including from the mall operator General Growth Partners and Chipotle Mexican Grill. But he has suffered a number of setbacks, notably with investments in the drug maker Valeant Pharmaceuticals and in J.C. Penney.

According to ADP, Pershing Square asked that a deadline for nominating directors be extended so it could put up five candidates -- including Mr. Ackman -- for ADP's board in time for this year's annual shareholder meeting.

The payroll company said it declined to extend the deadline.

''ADP is open to constructive input from our shareholders, and our board respects the right of shareholders to nominate directors,'' the company said in its statement. ''However, ADP has a clearly defined board nomination process, and the 2017 deadline for director nominations has been public for nearly a year.''

The company also took aim at Pershing Square's financial performance, which has been battered by the Valeant investment. The hedge fund reported a double-digit loss last year, its second in a row.

In its statement, ADP said that its total return to shareholders under Mr. Rodriguez amounted to 202 percent, assuming investors held onto their shares of the CDK Global division that was spun off three years ago and reinvested the dividends from both companies. Pershing Square's investor return from 2012 through last year, according to ADP, was about 29 percent.

A spokesman for Pershing Square declined to comment on ADP's announcement.

Mr. Ackman is no stranger to ADP, having invested in it from 2009 to 2011.

Shares in ADP rose nearly 2.8 percent in premarket trading on Friday, to $114.85. The company's market value was about $50 billion as of Thursday's close. From the beginning of the year through July 26, the day before Bloomberg News reported on Pershing Square's stake, the company's stock had risen about 3 percent, compared with about 9 percent for the **Standard & Poor**'**s500 stockindex**.

ADP is relying on advice from Morgan Stanley and the law firm Paul, Weiss, Rifkind, Wharton & Garrison.

William A. Ackman, left, is the leader of the hedge fund Pershing Square Capital Management. (PHOTOGRAPH BY BRENDAN MCDERMID/REUTERS)

Document NYTF000020170805ed850003h

The New York Times

Business Day; Economy
Jobs, Factories and Stocks Provide Economic Lift for Trump

By NELSON D. SCHWARTZ
1,385 words
4 August 2017
05:00 AM
NYTimes.com Feed
NYTFEED
English

Correction Appended

A **stock market** hitting record highs. Foreign corporations announcing big new plants in the United States. And robust hiring that has brought the unemployment rate to a 16-year low.

That convergence added up to a solid economic report card on Friday that President Trump was happy to present to the nation as a sign of good work.

On the hiring front, the Labor Department reported that 209,000 jobs were added in July, somewhat above Wall Street economists' expectations, with the unemployment rate matching May's 4.3 percent, the lowest since early 2001.

Hours earlier, two Japanese automotive giants, Toyota and Mazda, said they would locate a new factory at an undetermined United States location that will employ about 4,000 workers, a trophy in Mr. Trump's campaign to reverse the flight of American manufacturing jobs.

And while the **stock market** had a relatively quiet day, the **Dow Jonesindustrial average** reached another high, two days after it closed above 22,000 for the first time.

As all that positive economic news ricocheted through Wall Street, on social media and around office cubicles, conversation inevitably turned to one question: How much credit does Mr. Trump deserve?

In a series of early-morning tweets, the president claimed quite a bit.

On the hiring news, he declared, "Excellent Jobs Numbers just released — and I have only just begun." Earlier, in addition to saluting the "great investment" by Toyota and Mazda, he noted, "Consumer confidence is at a 16 year high .... and for good reason." Both tweets pointed to a looser regulatory environment as a factor.

Excellent Jobs Numbers just released - and I have only just begun. Many job stifling regulations continue to fall. Movement back to USA! — Donald J. Trump (@realDonaldTrump) August 4, 2017

Consumer confidence is at a 16 year high....and for good reason. Much more regulation "busting" to come. Working hard on tax cuts & reform! — Donald J. Trump (@realDonaldTrump) August 4, 2017

Of course, as economists are fond of saying, correlation is not causation. Many of the trends Mr. Trump is benefiting from — falling unemployment, steady hiring, a rising **stock market** — were firmly in place under his predecessor, Barack Obama.

And in the case of Friday's jobs data, Mr. Trump is citing figures he called phony not long ago on the campaign trail.

In the end, there is no way to quantify exactly how much credit the president is due for attracting foreign investment or encouraging the creation of jobs here instead of overseas.

But even some skeptics of his overall approach concede that Mr. Trump's promises of tax reform and higher infrastructure spending, as well as pressure to increase domestic manufacturing, are resonating in boardrooms in the United States and abroad.

“It’s still 80 percent lip service in the corporate world, but there are some executives who want to support Trump’s initiatives,” said Howard Rubel, an analyst at Jefferies who covers aerospace and defense giants like Boeing and United Technologies.

Ravin Gandhi, founder and chief executive of GMM Nonstick Coatings in Chicago, is a case in point.

The son of immigrants from India, Mr. Gandhi fiercely opposed Mr. Trump before the election, even appearing on CNBC to denounce the candidate’s proposals on trade, immigration and health care.

After Mr. Trump was elected, however, “I bought into the economic growth rhetoric,” Mr. Gandhi said. “I was hearing stories about 4 percent growth, about tax reform and my health care costs going down.”

None of that has come to pass, of course.

But this year Mr. Gandhi has invested $3 million to expand domestically and hired more than 20 employees, even though sales are flat compared with 2016, when they were up by double digits.

“It’s nuanced,” he said, noting that his company was recently purchased by a Japanese conglomerate and that the American houseware firms he supplies make their pots and pans mostly overseas.

“A lot of us who were against Trump are still rooting for him to succeed because as citizens we want the economy to do well,” Mr. Gandhi said. “But so far, it’s been all hat and no cattle.”

Despite generally strong earnings, many manufacturers continue to shed jobs.

In December, Mr. Trump persuaded United Technologies, parent of Carrier, not to proceed with a shutdown of an Indianapolis plant, but the company did go ahead with several hundred previously announced layoffs last month.

“When it matches the market, companies are still establishing production outside the U.S.,” Mr. Rubel said.

“If it’s a tossup, though, companies seem more willing to keep the work here,” he added. “The optics are better, especially if it will help them in their pitch for tax reform, infrastructure or to get defense contracts.”

Perhaps even more than outsourcing, the real threat to job growth for Mr. Trump’s blue-collar base comes from automation and other efforts to improve productivity on the factory floor. In Mr. Obama’s final year in office, Boeing’s work force fell to 148,138 from 159,469, according to Mr. Rubel.

Boeing reported stellar earnings recently, lifting its stock to record levels, but it has cut another 4,500 positions since Mr. Trump moved into the White House.

Boeing and Carrier aside, reviving manufacturing has been one of Mr. Trump’s principal economic goals since taking office, with visits to places like the Snap-on plant in Kenosha, Wis., where he announced his “Buy American, Hire American” initiative in April.

The factory sector has been showing signs of life this year, although experts said that has more to do with improving economies overseas and a weaker dollar that benefits exporters than with any specific White House policies. Still, manufacturers added 16,000 jobs in July, lifting employment in the sector to its highest level since January 2009.

On the other hand, wage growth, the missing ingredient throughout the recovery, has remained tepid. The Labor Department said wages grew by 0.3 percent last month, bringing the 12-month gain to 2.5 percent, down from 2.8 percent a year ago.

It is not such good news for American workers, but moderate salary gains are just fine with Wall Street. The lack of upward pressure on wages gives the Federal Reserve ample room to maneuver before its next rate increase.

“This is a Goldilocks report for the markets,” said Michael Gapen, chief United States economist at Barclays, meaning it was not too hot or too cold, but just right for investors and Fed policy makers. The Dow closed up 66.71 to finish the week at 22,092.81.

Mr. Gapen said the latest jobs figures suggested the central bank would stick with the plan Wall Street has been anticipating: a reduction in its bond holdings in September as the central bank gradually reduces its stimulus efforts, followed by a rate increase in December.

For Mr. Trump and leaders from both parties on Capitol Hill, business owners say the key is to requite their increased optimism and hiring with actual accomplishments.

“We may not agree in corporate America with the president on social issues like global warming or transgender people serving in the military,” said Tom Gimbel, chief executive of LaSalle Network, a Chicago staffing company.

But Mr. Gimbel, who opened a new office in Nashville on Monday and plans to add 100 workers this year, said he remained confident that the president and Congress would deliver on their promise of business-friendly legislation in the next year or two.

“Trump hasn’t done anything tangible yet, but he has injected hope for corporate growth, tax reform and deregulation among business leaders, and that’s driving hiring,” Mr. Gimbel said.

Correction: August 4, 2017, Friday

This article has been revised to reflect the following correction: An earlier version of this article misstated the increase in average hourly earnings in July. It was 0.3 percent, not 0.4 percent.

* Linking Public Works to Local Hiring Faces a Trump Challenge

* Wall Street, Climbing Sharply, Skips Washington’s ‘Soap Opera’

* U.S. Growth Accelerates, but Remains Short of Pace Promised by Trump

* Economy Needs Workers, but Drug Tests Take a Toll

Document NYTFEED020170804ed84002my

The New York Times

Business Day; DealBook
ADP Says Activist Investor William Ackman Seeks a Shake-Up

By MICHAEL J. de la MERCED
543 words
4 August 2017
09:44 AM
NYTimes.com Feed
NYTFEED
English

ADP, the payroll processing giant, said on Friday that the hedge fund mogul William A. Ackman had sought five seats on its 10-member board, in the latest clash between corporate America and activist investors.

In a statement, ADP said that Mr. Ackman's company, Pershing Square Capital Management, had disclosed on Tuesday that it owned an 8 percent stake in the company. Mr. Ackman also said that the payroll specialist's chief executive, Carlos A. Rodriguez, should be replaced, ADP said.

Activist investors have grown in size and power in recent years, taking on ever-bigger corporate targets and demanding changes in strategy to shake up stock prices. Such financiers have grown bolder, putting behemoths like Procter & Gamble, Nestlé and Samsung in their sights.

Mr. Ackman has long been one of the most prominent of these activists, having taken positions in companies including from the mall operator General Growth Partners and Chipotle Mexican Grill. But he has suffered a number of setbacks, notably with investments in the drug maker Valeant Pharmaceuticals and in J.C. Penney.

According to ADP, Pershing Square asked that a deadline for nominating directors be extended so it could put up five candidates — including Mr. Ackman — for ADP's board in time for this year's annual shareholder meeting.

The payroll company said it declined to extend the deadline.

"ADP is open to constructive input from our shareholders, and our board respects the right of shareholders to nominate directors," the company said in its statement. "However, ADP has a clearly defined board nomination process, and the 2017 deadline for director nominations has been public for nearly a year."

The company also took aim at Pershing Square's financial performance, which has been battered by the Valeant investment. The hedge fund reported a double-digit loss last year, its second in a row.

In its statement, ADP said that its total return to shareholders under Mr. Rodriguez amounted to 202 percent, assuming investors held onto their shares of the CDK Global division that was spun off three years ago and reinvested the dividends from both companies. Pershing Square's investor return from 2012 through last year, according to ADP, was about 29 percent.

A spokesman for Pershing Square declined to comment on ADP's announcement.

Mr. Ackman is no stranger to ADP, having invested in it from 2009 to 2011.

Shares in ADP rose nearly 2.8 percent in premarket trading on Friday, to $114.85. The company's market value was about $50 billion as of Thursday's close. From the beginning of the year through July 26, the day before Bloomberg News reported on Pershing Square's stake, the company's stock had risen about 3 percent, compared to about 9 percent for the **Standard & Poor**'**s500 stockindex**.

ADP is relying on advice from Morgan Stanley and the law firm Paul, Weiss, Rifkind, Wharton & Garrison.

* Avon Chief Executive to Resign in Latest Win for Activist Investors

* Struggles at Procter & Gamble Draw Scrutiny of Nelson Peltz

William A. Ackman, left, and his hedge fund, Pershing Square Capital Management, were seeking seats on the board of ADP. | Brendan Mcdermid/Reuters

Document NYTFEED020170804ed84004h5

THE WALL STREET JOURNAL.
U.S. EDITION

ETFs Take Flight From NYSE's Platform

By Asjylyn Loder and Alexander Osipovich
334 words
4 August 2017
The Wall Street Journal
J
B10
English

The New York Stock Exchange, long the dominant listing venue for U.S. exchange-traded funds, is on track to lose ETF listings for a second straight year as competing exchanges vie for a larger slice of the fast-expanding industry.

This week, 50 ETFs from BlackRock Inc.'s iShares lineup left NYSE's Arca trading platform for the competition. **Nasdaq** Inc. picked up 20 of the listings valued at $124 billion, and Bats took the remaining 30, valued at $116 billion. The defections include the $33.1 billion iShares Core MSCI EAFE ETF and the $13.5 billion iShares Edge MSCI Min Vol USA ETF. BlackRock's moves, announced in late June, are part of the firm's efforts to diversify its listings venues.

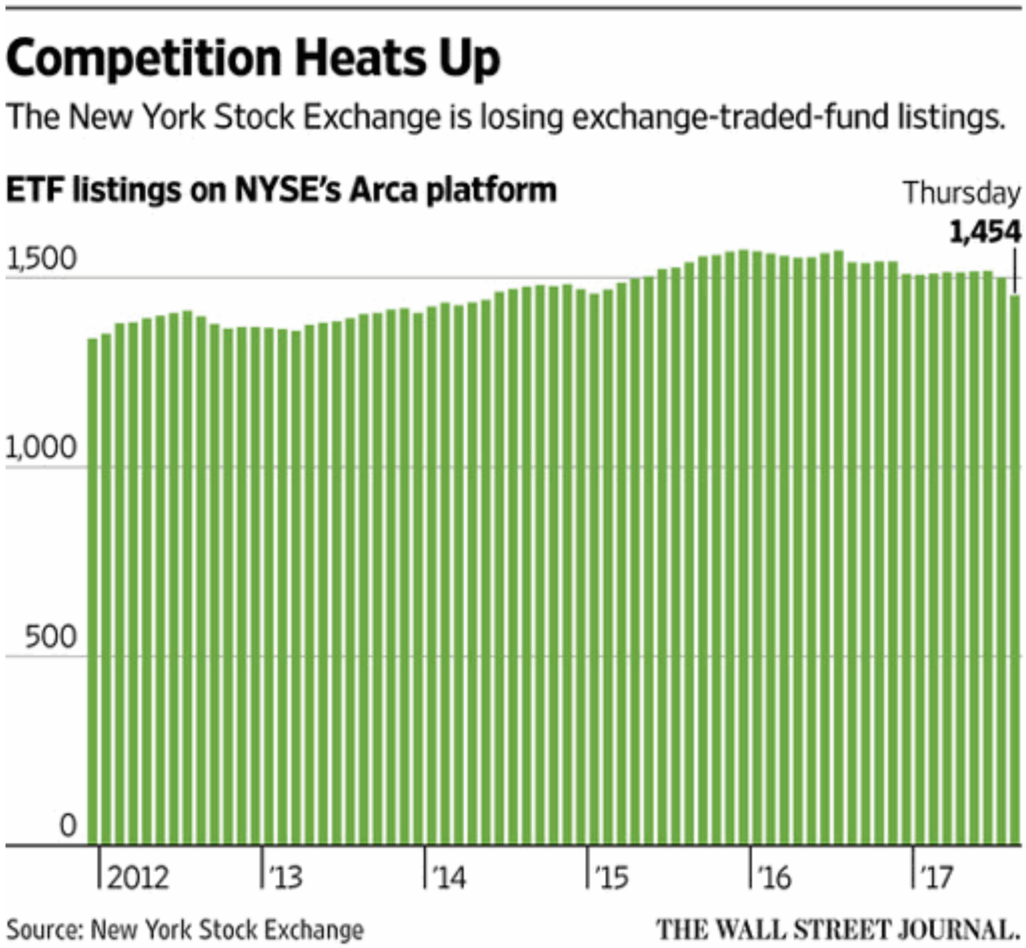
BlackRock and other issuers began to spread their ETFs across multiple platforms following two market failures two years ago, including an hourslong New York Stock Exchange outage in July 2015 and, the next month, a series of trading halts that caused ETFs to veer from the value of their underlying assets.

So far this year, one of BlackRock's nine new listings have gone to NYSE Arca, which remains the home for 209 of 343 of BlackRock's U.S.-listed ETFs.

After this week's switch-overs, Bats, part of CBOE Holdings Inc., has 221 ETF listings, and **Nasdaq** has 373.

NYSE Arca listed 1,518 ETFs as of June, according to company records. NYSE's ETF listings peaked at 1,574 in December 2015 but fell to 1,510 at the end of last year. An NYSE spokeswoman on Thursday said they have 1,454 ETF listings.

The primary value of ETFs is trading revenue, not listings fees. Bats has made substantial inroads in ETF volumes in recent years and is frequently the market leader, with NYSE not far behind and sometimes taking the top spot.



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Document J000000020170804ed840001d

THE WALL STREET JOURNAL.
U.S. EDITION

Bond Upgrades Help Commodities Firms --- Pressures can ease, and debt prices rise, letting companies borrow more cheaply

By Tatyana Shumsky
677 words
4 August 2017
The Wall Street Journal
J
B12
English

Commodity-related firms and their investors are reaping the rewards of a record stretch for corporate-bond upgrades.

Natural-gas exporter Cheniere Energy Partners LP and oil refiner Andeavor Corp. are among the companies whose ratings have climbed, pushing a combined $91.7 billion onto Bank of America Merrill Lynch's investment-grade corporate-bond index from its high-yield index over the 12 months ended June 30. Energy and basic-materials businesses accounted for 85% of the bonds moving between the indexes.

The upgrades have boosted **bond prices**, opened some companies to lower-cost borrowing and helped bolster balance sheets. It is a reversal of recent years in which slumping commodities shut many of the largest producers out of the high-quality bond market.

Finance chiefs across the industry responded to that slump by slashing costs, selling assets and buckling down on operational improvements to revive profit margins and reduce debt.

At the same time, a rebound in resource prices and a stronger global economy improved company balance sheets and helped propel the broader wave of upgrades.

Cheniere Energy's first upgrade, from S&P Global Ratings last September, attracted attention from Todd Schomberg, senior portfolio manager at Invesco Ltd., which manages around $858 billion. Mr. Schomberg invests in companies likely to transition to investment grade because of prudent financial management or improving economic conditions, known as "rising stars" in the bond world.

He purchased outstanding bonds from Cheniere earlier this year, betting that the company's debt would rally to reflect its improved credit rating. Cheniere bonds due in 2022 traded recently for 113.53 cents on the dollar, up from 109.50 at the start of 2017, just before a second upgrade in January, according to FactSet.

An upgrade "shows discipline and it shows a commitment to a conservative balance sheet," Mr. Schomberg said.

Receiving an investment-grade rating was "like flipping a light switch" for natural-gas exporter Cheniere Energy Partners, said Michael Wortley, finance chief of parent company Cheniere Energy Inc. Most natural-gas suppliers immediately stopped requiring upfront payments, freeing up hundreds of millions in capital for the largest buyer of natural gas in the U.S., Mr. Wortley said.

Along with the potential for lower rates on bonds or credit lines, investment-grade status allows companies like Cheniere to issue bonds due in decades rather than years.

They also have an easier time accessing funding because investment-grade bond markets are relatively liquid, and their low credit risk means they aren't required to post a deposit or pay upfront for certain business transactions.

"It just takes a lot of pressure off our business," Mr. Wortley said.

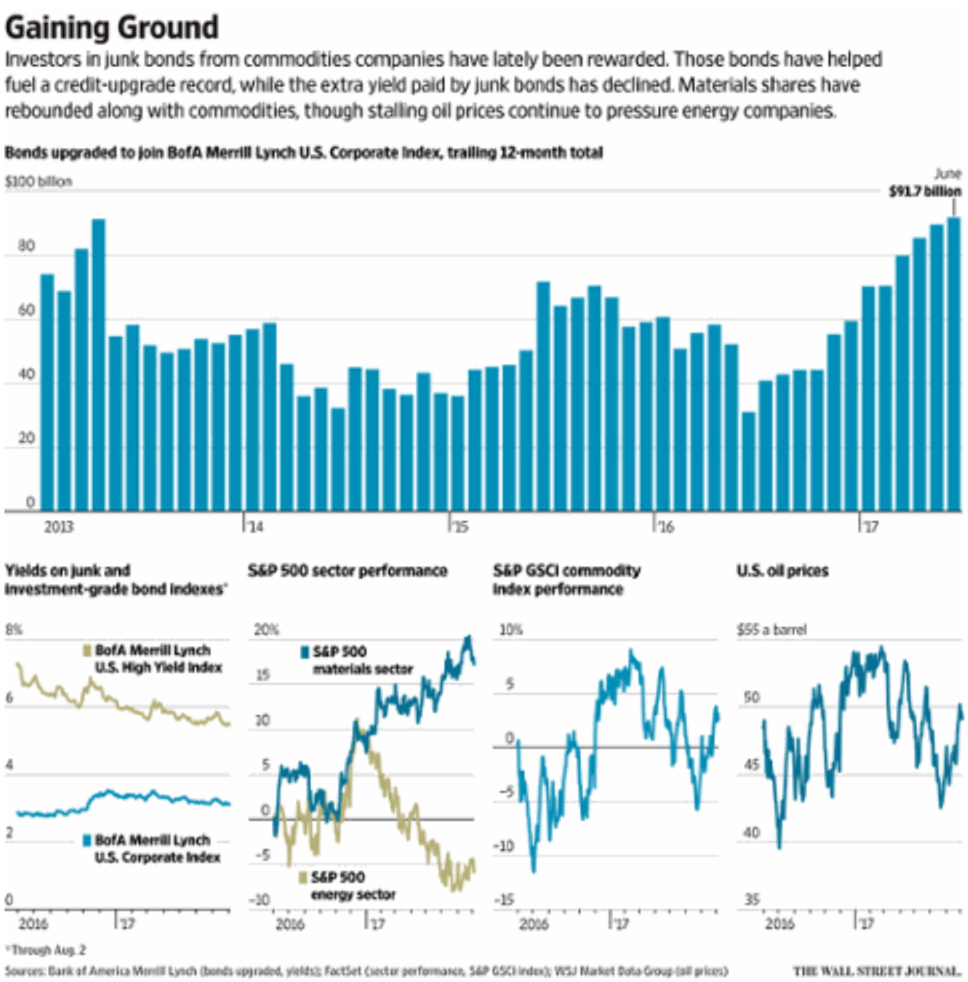
Cheniere tapped the investment-grade debt market for the first time in February. The company issued its longest and lowest-cost bonds -- $800 million of senior secured notes paying a 5.0% coupon due in 2037 and $1.35 billion in senior secured notes paying a 4.2% coupon and due in 2028.

A company's average score among the three major credit-rating firms must reach investment grade for its debt to shift to Bank of America's high-grade index. That means that the bonds are typically being upgraded by at least two ratings firms.

For oil refiner Andeavor, previously known as Tesoro, the upgrades meant its $3 billion revolving credit facility is now entirely unsecured, meaning it isn't guaranteed by assets or other collateral, finance chief Steven Sterin said in an email.

Andeavor has roughly $7.6 billion in debt that it plans to refinance over time, saving the company $75 million to $115 million in annual interest costs, he said. In addition to lower borrowing costs and less restrictive lending terms, Andeavor can now issue bonds maturing in 30 years, a big change from eight to 10 years previously.

"This meaningfully reduces refinance risk for the company," Mr. Sterin said.



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The New York Times

Business/Financial Desk; SECTB

Weak Dollar Hurts Smaller Firms, and Tech and Energy Shares Fall

By THE ASSOCIATED PRESS
695 words
4 August 2017
The New York Times
NYTF
Late Edition - Final
5
English

Losses for energy and technology companies left most stocks lower on Thursday. Smaller companies fared worse as the dollar remained at 15-month lows.

Energy companies weakened as the price of oil turned lower, and technology companies declined as Apple gave up a piece of its big gain from the day before. Investors bought government bonds after some shaky economic news in the United States and Britain. That sent bond yields down, which hurt financial companies. Small companies, which surged in November and December, have slumped this week.

Julian Emanuel, an equity strategist for UBS, said that as the dollar continued to lose strength, investors were selling smaller and domestically focused companies and buying more international businesses, as the weaker dollar will help their profits and sales outside the United States.

"Most people didn't expect the degree of dollar weakness that we're seeing," he said. The ICE U.S. Dollar Index is down 9 percent this year and has not been this low in about 15 months.

The **Standard & Poor's 500**-**stockindex** shed 5.41 points, or 0.2 percent, to 2,472.16. The **Dow Jonesindustrial average** notched its eighth gain in a row and added 9.86 points, or less than 0.1 percent, to 22,026.10. The **Nasdaq composite** lost 22.30 points, or 0.4 percent, to 6,340.34.

Near the close of trading, stocks turned a bit lower after The Wall Street Journal reported that Robert S. Mueller III has impaneled a grand jury in his investigation of Russia's interference in the 2016 presidential election.

Companies that did not live up to investors' expectations took losses. Symantec, the security software maker, announced disappointing first-quarter sales, and its forecasts for the rest of the year were not as good as analysts had hoped. The company also agreed to sell its website security business to DigiCert for $950 million in cash and a 30 percent stake in DigiCert. Symantec slid 64 cents, or 2.1 percent, to $30.27.

3D Systems plunged $3.62, or 21.3 percent, to $13.39 after it fell short of Wall Street estimates in the second quarter and cut its projections for the full year. Apple lost $1.57, or 1 percent, to $155.57 after a big jump the day before.

Oil prices turned lower. Benchmark United States crude dipped 56 cents, or 1.1 percent, to $49.03 a barrel in New York. Brent crude, the international standard, fell 35 cents to $52.01 a barrel in London.

The yield on the **10**-**year Treasury** note fell to 2.22 percent from 2.27 percent. That sent interest rates lower, which cuts into the profits banks can make on mortgages and other loans.

The electric carmaker Tesla said it was confident it could meet its production goals for its new, lower-priced Model 3 sedan. The company also took a smaller net loss than investors expected. Its shares gained $21.20, or 6.5 percent, to $347.09.

Kellogg reported another decline in sales as revenue from breakfast foods slipped. But the results were not as bad as experts had expected. Its stock jumped $2.92, or 4.3 percent, to $70.36.

Avon Products lost money in its latest quarter and said sales were not as good as expected. The cosmetics retailer has been struggling for years to revive its business, and it said on Thursday that its chief executive, Sheri

McCoy, would leave the company. The stock lost 36 cents, or 10.7 percent, to $3. It is down 40.5 percent this year.

Gold dipped $4 to $1,267.80 an ounce. Silver fell 10 cents to $16.63 an ounce. Copper lost less than 1 cent to $2.88 a pound.

The dollar fell to 109.93 yen from 110.67 yen. The euro rose to $1.1874 from $1.1851.

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

Document NYTF000020170804ed840006a

The New York Times

National Desk; SECTA
That Market the President Is Raving About? Last Year, He Said It Was a 'Bubble'

By ALAN RAPPEPORT
604 words
4 August 2017
The New York Times
NYTF
Late Edition - Final
14
English

WASHINGTON -- As America's stock markets have reached record highs, they have had few louder cheerleaders than President Trump.

"Highest **Stock Market** EVER," he said on Twitter on Monday.

Before the stock exchanges' opening bell on Tuesday, Mr. Trump pointed out in a tweet that the Dow Jones industrial index's recent surge started just after he was elected. (He also lamented, incorrectly, that the press was downplaying that fact: "Mainstream media seldom mentions!")

And on Thursday, Mr. Trump made clear that he thinks he deserves credit for the latest record high, tweeting, "That doesn't just happen!"

Business is looking better than ever with business enthusiasm at record levels. **Stock Market** at an all-time high. That doesn't just happen! -- Donald J. Trump (@realDonaldTrump) August 3, 2017

The Dow Jones average closed at another record high Thursday. But it was not long ago that Mr. Trump, as a presidential candidate bent on casting the economy as a disaster, said that the **stock market** was a bubble that should make investors wary.

'They'll get wiped out'

In the early days of his candidacy, Mr. Trump assailed the economic recovery as a mirage and mused about a potential conspiracy that was being plotted between Janet L. Yellen, the Federal Reserve chairwoman, and President Barack Obama. The theory was that she was keeping interest rates low so that the president would not leave office as another recession began.

"They worked all their lives to save and now what happens is they're being forced into an inflated **stock market** and at some point they'll get wiped out," Mr. Trump told The Hill in October 2015 regarding American workers.

'You heard it here first'

Before the Iowa caucuses, Mr. Trump decided to dispense some financial advice. The recent dip in stocks was a harbinger of worse things to come, he warned, and he hoped that the coming crash did not happen after Mr. Obama left office.

"Remember the word bubble? You heard it here first. I don't want to sound rude, but I hope if it explodes, it's going to be now, rather than two months into another administration," Mr. Trump said in December 2015.

'A financial bubble'

Although he was feeling confident about locking up the Republican nomination in April 2016, Mr. Trump was feeling increasingly **bearish** about stocks. He told The Washington Post that they were overvalued and that the strong data that showed a healthy economy were essentially phony.

"I think we're sitting on an economic bubble. A financial bubble," Mr. Trump said.

'The artificial **stock market**'

By September, he was arguing that the Federal Reserve was propping up a "false economy" that is actually weak.

"The only thing that is strong is the artificial **stock market**," Mr. Trump told Reuters.

'A big, fat, ugly bubble'

Mr. Trump saved his most brutal assessment of the **stock market**, and the economy, for his first presidential debate with Hillary Clinton. In response to her criticism of his economic proposals, he said that the recovery was the worst since the Great Depression and that it would come crashing down the moment that interest rates rise.

"The only thing that looks good is the **stock market**, but if you raise interest rates even a little bit, that's going to come crashing down," Mr. Trump said. "We are in a big, fat, ugly bubble."

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020170804ed840004w

THE WALL STREET JOURNAL.
U.S. EDITION

Oil's $100 Million Man Pays Price for Bad Bets

By Alison Sider and Rob Copeland
899 words
4 August 2017
The Wall Street Journal
J
A1
English

Andrew Hall, a legendary trader who made billions betting on oil's rise, is shutting down his hedge fund after he misjudged the impact of a boom in U.S. production that upended the market.

Mr. Hall, who gained wide notice for fighting over a $100 million payout from his former employer Citigroup Inc. during the depths of the financial crisis, confirmed Thursday that he is closing the main fund at the firm he founded, Astenbeck Capital Management LLC.

The decision to close the fund follows years of investor defections and marks the latest reckoning for a Wall Street trader who struck out on his own.

Mr. Hall, 66 years old, is known for making big, long-term bets on rising **oil prices**, a strategy that worked well when commodities were soaring but has fared poorly as prices deteriorated in the past three years. His **bullish** stance on oil ran headlong into the shale revolution, which in the past decade defied predictions that the world would soon run out of easily accessible crude.

Mr. Hall, who left Citigroup in 2009, declined to comment on the timing or reason for his fund's shutdown. Bloomberg reported the news earlier.

One point of pressure recently: Blackstone Group LP, one of Astenbeck's first and largest investors, arranged to pull its clients' money from the main fund, people familiar with the matter said.

Mr. Hall will continue to manage some Blackstone money outside of the fund now closing, one of the people said.

Astenbeck's unwinding is the latest in what has been an escalating series of stumbles for Wall Street traders who created multibillion-dollar hedge funds off their reputations as big bettors at major investment banks.

Ex-Goldman Sachs Group trader Richard Perry, who made more than $1 billion for clients betting against subprime mortgages during the financial crisis, closed his eponymous hedge fund last year after a stretch of muted returns. Eric Mindich, the youngest partner in Goldman Sachs history, this spring closed his Eton Park Capital Management.

Mr. Hall was one of the biggest names of the era who remained in the game, but even he was overseeing a diminished empire at the end. Astenbeck was down to $1.8 billion firmwide as of May, an investor document indicates, less than half of what the firm managed in 2013.

Most of that was in the main fund, which is now being unwound.

The main fund lost 17% through April this year, after returning 26% in 2016 and losing 36% in 2015, according to the investor document. Since its inception in January 2008 through April 30, Astenbeck returned 1.65% after fees, the document shows.

The oil and commodities sectors once lured hedge-fund managers, who profited from soaring prices in the years before the global financial crisis.

Now few such specialists remain. Pierre Andurand's Andurand Capital Management LLP made 38% in its Andurand Commodities fund in 2014. But this year it is down 15% through July, said a person who had seen the numbers.

"Ten years of a commodity **bull market** are over, and that has been lost on a lot of people," said Ernest Scalamandre, managing member of AC Investment Management, which manages about $750 million in assets, primarily investments in commodities and commodity hedge funds. "Technology is decreasing the cost of production."

Banks have also scaled back in the markets amid regulatory scrutiny. Deutsche Bank AG, Credit Suisse Group AG, Morgan Stanley and J.P. Morgan Chase & Co. all have closed or curtailed operations in the sector, while Goldman Sachs reported last month its worst-ever quarter for commodities trading.

Mr. Hall was among those who bet heavily this year that efforts by the Organization of the Petroleum Exporting Countries and its allies would help rebalance the oil market and lift prices.

But **oil prices** tumbled in the first half of this year. Many began to doubt that OPEC's strategy was working, and fled bets on rising **oil prices**. Still, Mr. Hall assured investors that the oil glut that weighed on the market would be eliminated, according to people familiar with the matter.

Since the oil downturn began in 2014, Mr. Hall has remained steadfast in his belief that the glut wouldn't last. In February 2016, he predicted "rapid reductions in inventories" and "a sustained rise in prices" to a range of $60 to $80 a barrel.

Mr. Hall has been trading oil for decades. He began his career at BP PLC during the oil crisis in the 1970s and eventually became known for his aggressive tactics, according to the 2010 book "Oil: Money, Politics, and Power in the 21st Century." Phibro, a commodity -trading firm, recruited and hired him in the 1980s.

Around 2003, Mr. Hall became convinced that **oil prices** were poised to break out of their longtime range of $10 to $30 a barrel as supply growth lagged behind rising demand. He bought contracts to deliver oil years in the future, which resulted in a big payday when **oil prices** rose.

As for the compensation controversy a few years later, the public outcry spurred Citigroup, a recipient of a federal bailout, to sell Phibro to Occidental Petroleum Corp. in 2009.

Laurence Fletcher contributed to this article.

Document J000000020170804ed840002d

THE WALL STREET JOURNAL.
U.S. EDITION

Luxury Homes Hit Summer Slowdown

By Josh Barbanel
430 words
4 August 2017
The Wall Street Journal
J
A9A
English

Manhattan luxury-apartment sales have been stuck in the doldrums this summer, particularly units in flashy new developments.

Deals on apartments listed for $4 million or more are tracking last year's low levels and represent the slowest activity in five years, based on data from Olshan Realty Inc.

The number of contracts signed on new-development listings for at least $4 million fell below last year's level, to the slowest summer pace since luxury sales gained steam in 2013.

Last summer, as contract signings began to flag, some brokers attributed the slowdown to uncertainty about the presidential election. Sales picked up earlier this year, only to slow again since the start of summer, brokers said.

It is too early to say whether the drop represents a blip or a more significant slowing in the market, said Donna Olshan, president of Olshan Realty, adding that it might be just be a temporary "summer bummer."

Leonard Steinberg, the president of Compass, a New York brokerage, said high-end sales are moving slowly in part because prices have had a sharp run-up in recent years, leading many investors looking for profits to turn to other markets.

Some buyers, he said, believe a bottom hasn't yet been reached and are waiting to see prices drop further. On the plus side, the strong **stock market** could spur more sales, he noted.

At the same time, there have been distinct pockets of activity in some new developments, brokers said, including a contract signed last week on a five-bedroom penthouse listed at $65 million at 70 Vestry, a new riverfront condominium in Tribeca. The deal is expected to set a record price for downtown Manhattan when it closes.

In the past five weeks, there were 86 contracts signed on listings for $4 million or more, the same number signed during a comparable five-week period last year, according to Olshan. This was 32% below the 127 signed during a similar period in 2015.

But the performance of listings in new developments during this period deteriorated in 2017, with 32 contracts for $4 million or more listed as signed, compared with 39 last year. These were offset by higher sales of older apartments, and one additional townhouse sale.

Overall this year, Ms. Olshan said, the 764 contracts for $4 million or more signed in 2017 to date was up 13% from last year, but still 11% down from the contracts signed during the same period in 2015.

Document J000000020170804ed840001s

THE WALL STREET JOURNAL.
U.S. EDITION

MANSION --- Jumbo Jungle: Borrowers, What's Your Type? --- To decide what kind of mortgage lender works best for you, look beyond the basic info on down payments and interest rates

By Robyn A. Friedman
800 words
4 August 2017
The Wall Street Journal
J
M3
English

Before home buyers can decide what type of mortgage they want, they have to decide what kind of lender they want.

Borrowers today face a dizzying array of mortgage lenders: A bank like Wells Fargo or a non-bank lender like Quicken Loans? A mortgage broker or a direct lender? An online application or a face-to-face experience?

With a recent J.D. Power survey finding that 21% of home buyers express remorse over their choice of lender -- and 27% of first-time buyers regret their choice -- how can borrowers find the lender that's just right for them?

Many jumbo borrowers seek mortgages from banks with which they already have a relationship, either as private-wealth clients or through their business. That could be a sensible choice given that banks often offer interest-rate discounts or flexibility in other terms to their best customers. But with the internet making it so easy to compare lenders, it's tempting to shop rates online and submit an application to the lender with the lowest posted rate. Basing the decision solely on a posted rate may not be wise, experts say.

"All lenders offer something similar, which is for most people a 30-year, fixed-rate mortgage," says Erin Lantz, vice president of mortgages for Seattle-based real-estate site Zillow. "Yet there are differences that impact consumers, and it comes down to what kind of service level you experience from those lenders."

Some lenders are more responsive to their customers or can close a loan more quickly. That can make a vital difference in tight real-estate markets, where jumbo-mortgage applicants often compete against cash buyers. In that case, "don't just go for the price," says Sanjiv Das, chief executive officer of Caliber Home Loans, a Dallas-based direct lender. "Speed, certainty and rate are all important -- not just the rate." Mr. Das suggests that borrowers ask their lender about the estimated closing time for their loan.

Jumbo borrowers might benefit by working with a portfolio lender, in which mortgages are held on the lender's books rather than sold on the secondary market. "We have the latitude to look at exceptions on things like debt-to-income or loan-to-value ratios, and we could identify compensating factors as to why we might be willing to do what appears to be a riskier loan," says Scott Witherspoon, chief credit officer of Affinity Federal Credit Union, a portfolio lender in Basking Ridge, N.J. For example, an applicant's low credit score might be offset by a substantial amount of cash in the bank or equity in the **stock market**, he says. A lender that sells its loans, however, might not have that flexibility.

Rather than work directly with a lender, some borrowers opt to work with a mortgage broker, who acts as a matchmaker to find the best deal from a lender. This could save borrowers time and money, since their application is submitted just once to the broker, who then compares rates and terms from multiple lenders. But brokers are compensated for their services, and that compensation comes in the form of an origination fee paid by the borrower -- often 1% of the mortgage amount -- or a higher interest rate on the loan. "As with real-estate brokers, they want to see the deal close, so you need to understand that their incentives are different than yours," says David Reiss, a Brooklyn Law School professor who specializes in real estate. Here are a few things to consider:

-- Check licensing. The Nationwide Multistate Licensing System offers a free website (www.nmlsconsumeraccess.org) that allows consumers to verify the license of financial-services providers. The Consumer Financial Protection Bureau also has a website that allows you to search for complaints, as does the Better Business Bureau.

-- Seek a specialized lender. Are you looking for a jumbo VA loan? Some lenders have more expertise with government loans than others. First-time home buyers, jumbo borrowers or those with bad credit may want to seek out lenders who have specific expertise with their situation.

-- Consider your comfort zone. Would you prefer to sit down with a loan officer at your local bank branch or submit an application online? "It all ties back to a lender you can trust," says Zillow's Ms. Lantz. "Shop around, talk to a few and get a sense of how responsive they are. Will they be there for you when you need them at the 11th hour when you're ready to close?"

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The New York Times

Future Tense
Style
Grandpa Had a Pension. This Generation Has Cryptocurrency.

By TEDDY WAYNE
2,325 words
3 August 2017
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English

Correction Appended

Most readers have probably heard of Bitcoin, the digital coin that dominates the cryptocurrency market. It has gained notice both because of its skyrocketing value (from less than a cent in early 2010 to around $2,600 currently) and because it is frequently a key player in hacking- and black-market-related stories, from the looting of nearly half a billion dollars in coins from the Mt. Gox exchange in 2014 to the recent demand for payment in Bitcoin in the WannaCry ransomware attack. (For the uninitiated, here is a useful primer on Bitcoin .)

But do you know Ethereum , with a total value of coins in circulation of close to $20 billion? Bitcoin Cash , which split off from the original Bitcoin on Aug. 1, lost about half its value within hours, then nearly quadrupled by the next day? Or, rounding out the Big Four, Ripple — whose currency is known as XRP — which shot up to about 40 cents by mid-May from less than a cent at the end of March? (Full disclosure: I owned but unloaded three of these currencies before writing this article.) Then there are over 800 lower-value and often creatively named coins among those listed on Coinmarketcap.com . One can buy FedoraCoin (its jaunty symbol being the Justin Timberlake-approved hat), CannabisCoin (one guess what it looks like) or, to choose one of many bringing up the rear, Quartz , currently priced around three-thousandths of a cent. (Bad news for those who bought it at just under $2 at the end of May.)

After years as a niche market for technologically sophisticated anarchists and libertarians excited about a decentralized financial network not under government control, digital coins may be on the verge of going mainstream. “It’s the wild, wild West,” said Ron Ginn, 35, founder of a private photo-sharing service called Text Event Pics in St. Augustine, Fla., who has taken all his money out of the **stock market** and put it into Ripple and real estate. “This is like getting to invest in the internet in the ’90s. I’m obviously very **bullish**, but I expect to make a couple million dollars off very little money. This is the opportunity of a lifetime. Finance is getting its internet.”

Cryptocurrency has understandable appeal to millennials who came of age during the 2008 financial crisis and are now watching the rise of antiglobalist populism threaten the stability of the international economy.

“There’s a low cost for entry, you don’t pay a lot of fees and millennials are the most tech-savvy,” said John Guarco, 22, a recent Duke graduate living on Staten Island who, like most of the people interviewed for this article, asked that names of the coins in which he has invested not be published for fear of being targeted by hackers.

Unlike previous generations, many of these greenhorn investors don’t have pensions or 401(k)’s, are mistrustful of socking money away in mutual funds and are fully accustomed to owning digital assets that have no concrete properties. As traditional paths to upper-middle-class stability are being blocked by debt, exorbitant housing costs and a shaky job market, these investors view cryptocurrency not only as a hedge against another Dow Jones crash, but also as the most rational — and even utopian — means of investing their money.

Sebastian Dinges, 33, the director of operations for Cheeky, a company that makes mealtime products, started his first job after college in 2007. Once he had enough money to invest in the **stock market**, he said, he “wanted to be risky and get a big return.” Within six months, the market crashed.

“So there’s definitely disillusionment,” he said.

The majority of Mr. Dinges's holdings are now in cryptocurrency. His skepticism of traditional markets is shared by a number of cryptocurrency enthusiasts in his age bracket who have observed the recent political and economic upheavals.

"I do feel we've reached a new level where nobody knows what's going to happen," said Gabe Wax, 24, who runs the Rare Book Room recording studio in Brooklyn. "The things we've been able to rely on aren't as reliable and we have a president who knows absolutely nothing about how the economy works, and he's appointed people who have twisted views about how it works. That, more than anything, is what scares me."

Mr. Wax was still in high school when the 2008 crisis unfolded, but he was paying attention to the headlines. So was Mr. Guarco, who said cryptocurrency was a "safeguard against the **volatility** in the rest of the world."

"Investing in cryptocurrencies is a hedge," he continued. "We're entering a period of long-term deregulation and tax cuts to the wealthiest. It's not the best recipe for stability."

Mr. Wax also invests in cryptocurrency to shore up his finances as a freelancer in the precarious music industry.

"I constantly feel like I'm looking over the edge of a cliff," he said. "I don't like the idea of money just sitting in a savings account — with the way inflation works and how low interest rates are, you're losing money. There's less money than there's ever been in the history of recorded music, so that gives me anxiety. It's weird to say that owning cryptocurrency soothes that anxiety, because it's counterintuitive, but it does."

He is far from the only one hoping cryptocurrency will assuage his financial worries. Internet forums and Twitter accounts devoted to the subject abound with speculators who view digital coins as a lottery ticket, forecasting "moonshots" with, perhaps, irrational exuberance . For office drudges, the underemployed or those crushed by college loans, the slim chance that a $100 investment may someday reap close to $100 million — as would have happened with an investment of that amount in Bitcoin in 2010 — is too enticing to pass up.

But there are plenty of dissenters who are less sanguine about the future of cryptocurrency, arguing that we are in the midst of the biggest bubble yet, fueled by speculative trading in Japan and South Korea, and pointing to previous Bitcoin crashes as justification for their skepticism.

Nevertheless, it's not just twentysomethings in the gig economy who are losing faith in traditional investment tools. Mr. Ginn quit working at Fidelity Investments the day before the market crash in 2008.

"It's not investing," he said of his old job. "It's just sticking money somewhere. The investment advisory industry has to give out watered-down, averaged-out advice. When you get into mutual funds, you lose a lot of the ability to beat the markets."

Tom Berg, 44, a founder of BloKtek Capital in Northbrook, Ill., which invests in digital currencies and assets, said: "I got out of the **stock market** years ago. "My personal opinion was I'm not going to fight for 2 or 3 percent. It's a conservative place." By contrast, digital currencies — his preferred term to cryptocurrency, which he says carries the stigma of black-market money laundering — have disrupted the internet and created a major opportunity for those willing to jump in early, Mr. Berg believes. "At first it was an internet of information," he said. "Then it evolved to an internet of things — social media, I can buy this, I can sell stuff. Now it's the internet of value."

In his view, cryptocurrency left the "dark ages" six months ago, when it was still the domain of "a lot of people who believed in anarchy." He thinks that cryptocurrency is a good five years from going mainstream and that the bubble will burst some time after that, at which point he will sell his assets.

"If my landscaper ever asks me about crypto, that's the day I get out," he said.

There are some barriers to mass popularity. Investors must have enough familiarity with and trust of the internet to send money through a cryptocurrency exchange, such as Coinbase or Poloniex . Some of the exchanges also have elaborate and slow identity-verification processes, and certain states do not permit users to invest on them yet. But it's continually getting easier, and various exchanges allow credit cards for speedy purchases.

Once one has bought digital coins, the threat of hacking remains a serious concern. Even users savvy enough to use two-factor authentication on their phones may not have the know-how to set up "cold storage," or a system of storing coins offline (such as on a computer or dedicated piece of hardware not connected to the internet). There is no Federal Deposit Insurance Corporation insuring lost money; once it's gone, it's gone.

Assuming one's money is protected, there are, of course, the standard risks of investing, amplified by the **volatility** of cryptocurrency. It's common for a coin to fluctuate double-digit percentages within a day, often because of “pump-and-dump” techniques from coordinated users trying to manipulate prices in completely unregulated free markets.

For this reason, none of the investors I spoke with engage in short-term trading but instead choose, in the online parlance of cryptocurrency enthusiasts, to “hodl” (a misppelling of “hold” on a 2013 Bitcoin forum that came to mean “hold on for dear life” rather than sell off for temporary gains). Mr. Dinges and his wife recently bought a house in Los Angeles, but he didn’t use his Bitcoins to help with the renovations.

“This is a great opportunity to pull it out and put it toward fixing the house,” he said, “but the future potential is not worth it.”

Mr. Berg would agree, advising BloKtek Capital clients to “set it and forget it” and not fall prey to the temptation to make short-term transactions.

“My wife and I use it as our bank account,” he said. “Every paycheck, we put a percentage into long-term holdings. We do not expect to become rich overnight. That’s a way to become very poor in one hour.” (Though his wife works at his company, it bears mentioning here that the vast majority of cryptocurrency investors seem to be male, and their Twitter discourse tends to be less than refined, with insults often lodged at devotees of rival currencies.)

Even those in it for the long haul, however, admit to monitoring the prices compulsively, scratching the gambler’s itch.

“If I have a moment where the price has left my mind, I’ll want to reinsert it,” Mr. Wax, the record producer, said. “I check it as much as any social media. It’s become as distracting as anything else on my phone.”

As he works in the cryptocurrency world, Mr. Berg maintains an even more observant — and most likely exhausting — regimen.

“I’m always watching the markets,” he said. “The saying is, ‘Crypto never sleeps.’ It’s 24/7, it’s global, it doesn’t have a **stock market**, it doesn’t have a bell.

“I sleep about four hours a day.”

Beyond its potential long-term financial rewards, many holders of cryptocurrency view it as a vehicle for social change. While many coins have no value beyond serving as a potential alternative currency, or began as larks that have since been popularized by speculators (such as Dogecoin, whose logo is an internet-meme dog and which now has a market capitalization of about $200 million), others — namely Ripple and Ethereum — have meaningful real-world utility and are being adopted by banks and financial institutions.

“The financial gain is fun, but it’s really about improving the world, improving the financial system, transparency, cost, increased speed,” Mr. Ginn said. “It’s the double-sided tape for society. When **financial markets** collapse, the tape rips people apart and you have a system collapse. Finance got away with it in ’08; it almost took the world down, and nothing changed.” In lieu of more stringent government oversight, he believes that Ripple can help “reduce systemic risk.”

That safety-net altruism drives Yoni Saltzman, 24, who designs robotic mechanisms for aerospace and medical applications. Mr. Saltzman has holdings in four different cryptocurrencies and is working with a small team in New York to develop a digital coin it hopes to introduce within a year. “It’s not just about making money,” he said. “We like the idea of not only changing the world, but saving the world.”

This is, of course, the same vaguely idealistic rationale Silicon Valley executives routinely trot out to justify their ventures, not all of which seem especially concerned with the greater good. In the meantime, those who have boarded the crypto-train frequently proselytize to friends and family. Unsurprisingly, they have more luck with their younger peers. Mr. Guarco, the Duke graduate, has persuaded a few friends to take the plunge.

His older relatives, however, unaccustomed to coins that one can’t pluck out of a lint-filled pocket, are a harder sell.

“They usually respond, ‘Crypto-what?’” he said.

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Teddy Wayne's most recent novel, "Loner," is just out in paperback.

Correction: August 7, 2017, Monday

This article has been revised to reflect the following correction: An earlier version of this article omitted an explanation of the online term "hodl," which has come to mean "hold on for dear life." It was originally a misspelling of "hold," not an acronym.

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* Thanks to Venmo, We Now All Know How Cheap Our Friends Are

James Heimer

Document NYTFEED020170803ed83007hh

THE WALL STREET JOURNAL.
U.S. EDITION

Dow Hits 22000, Powered by Apple --- Underpinned by global growth and company earnings, blue-chip index notches record

By Akane Otani and Ben Eisen
979 words
3 August 2017
The Wall Street Journal
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English

The **Dow Jones Industrial Average** topped 22000 on Wednesday, reaching another milestone in the long **bull market** as investors bet that a resurgent global economy can offset lukewarm U.S. growth.

The blue-chip index claimed its 32nd record of the year. Stocks continue to chug higher without a pullback of greater than 3% in more than a year, and **volatility** levels by some measures are hovering near all-time lows. The rally has been powered in large part by a revival in U.S. corporate earnings, which are on pace for another quarter of strong growth.

The Dow Industrials rose 52.32 points, or 0.2%, to 22016.24, led by gains in shares of Apple Inc. after the company reported strong iPad and Mac sales in its most recent quarter late Tuesday.

Overall, big companies with a sizable presence overseas, such as McDonald's Corp. and Boeing Co., have helped fuel the rally, and many investors are counting on a weak dollar to boost U.S. exports. Apple's gain -- its biggest in six months -- added roughly 49 points to the Dow Wednesday.

Stocks must navigate a number of new challenges if the 8-year-old rally is to continue. The U.S. economic expansion is showing signs of stalling. President Donald Trump's proposed mix of tax cuts, infrastructure spending and deregulation was intended to revive the economy, but some of his agenda has been stalled. Optimism about a pro-growth fiscal policy has waned.

"Economically things have been picking up nicely around the world, while the U.S. has turned out to be relatively disappointing," said Jimmy Chang, a senior portfolio manager and chief investment strategist at Rockefeller & Co.

With domestic data looking lackluster, shares of multinational companies -- which stand to benefit more than U.S.-focused companies from global growth -- should fare well, he said.

Paul Quinsee, global head of equities at J.P. Morgan Asset Management, said the strong earnings season reflects "more evidence of an upswing in the fortunes of the world economy."

"Investors were expecting good earnings, and overall have not been disappointed," he said.

A combination of low inflation and rising global growth could keep U.S. stocks climbing, despite a sluggish expansion in the U.S. and investors' dimming hopes for policy changes from the Trump administration to kick-start the economy.

Investors and analysts in particular point to China as a sign that the global economy is on the mend, with a recovery in investment, manufacturing and trade. Europe also is perking up, with second-quarter data this week showing that the eurozone economy had gathered pace, a recovery that could encourage the European Central Bank to decide in the fall to scale back its bond-buying program.

The International Monetary Fund most recently projected global gross domestic product growth at 3.5% for 2017, up from 3.4% last July. The IMF raised growth estimates for China, citing strong credit growth and fiscal support, and the euro area, highlighting diminishing political risks there.

Meanwhile, the IMF lowered its forecast for U.S. economic growth in 2017 to 2.1% in July, compared with its projection of 2.5% a year ago. It cited skepticism the Trump administration would be able to push through business-friendly policies such as tax cuts.

Even with global growth improving, inflation has remained persistently sluggish. That has contributed to weakness in the U.S. dollar, a boon for U.S. corporate earnings because it makes U.S. exports cheaper to foreign buyers. It also takes some pressure off the Federal Reserve to raise interest rates.

The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, has fallen 7.5% since the start of the year, leading some firms to raise their year-end forecasts for U.S. stocks.

At the end of July, investment bank Jefferies raised its estimate for where the **S&P 500** would end the year to 2500 from 2325, citing weakness in the dollar, "robust growth in overseas markets as global trade resynchronizes and the lack of policy tightening by China." The **S&P 500** rose 1.22 points, or less than 0.1%, to 2477.57 Wednesday.

There are signs that U.S. companies whose businesses rely more on sales to customers overseas are already starting to benefit from these conditions.

The **S&P 500** industry groupings that get a higher share of their sales internationally than the benchmark are collectively up 13% in 2017 through Tuesday, topping the **S&P 500**'s 11% rise over that period, according to Goldman Sachs Group Inc. The groups with a higher share of domestic revenues than the **S&P 500** were up 10% over that time.

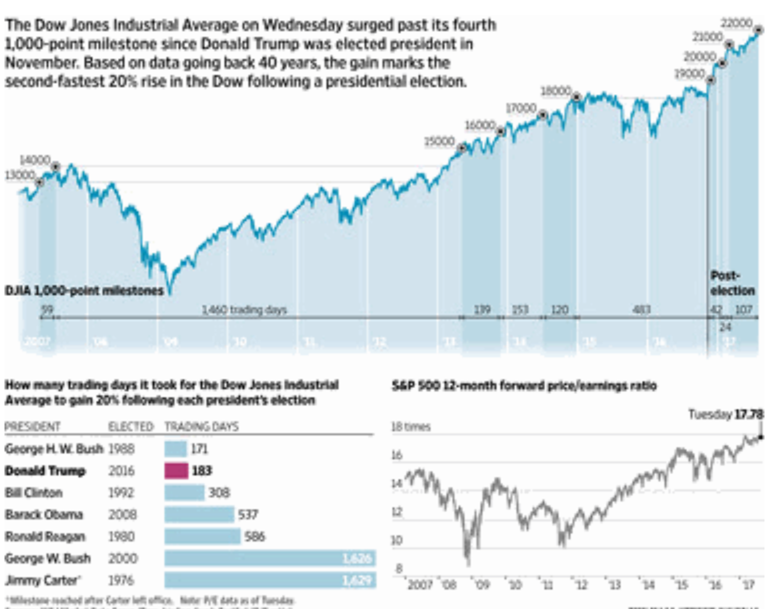
Among companies in the blue-chip Dow, shares of airline manufacturer Boeing Co., which recently got nearly three-fifths of its sales from outside the U.S., according to S&P Dow Jones Indices, are up 53% this year. That makes it the best-performing stock in the Dow industrials in 2017.

Other companies that serve as economic bellwethers have benefited from the global rebound. Caterpillar Inc., whose shares have risen 22% this year, reported last Tuesday that it may see its first year-over-year revenue increase since 2012, thanks to growing demand in China's construction sector and a stabilization in commodity prices.

Jack Ablin, chief investment officer at BMO Private Bank in Chicago, says that recently he has been focusing more on large-cap U.S. stocks with multinational revenue source.

"We're just trying to follow the growth directly with our asset allocation," he said.

Amrith Ramkumar contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

Venezuela Stokes Fears of Default

By Julie Wernau and Carolyn Cui
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3 August 2017
The Wall Street Journal
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English

Investors have been bracing for a Venezuela debt default for more than a year, but fallout from the country's widely criticized election last weekend could prove to be the tipping point.

The government and state-owned oil company Petroleos de Venezuela SA, also known as PdVSA, together owe $5 billion in principal and interest payments due between now and the end of the year, according to Caracas Capital Markets. The country has $725 million due this month alone, the Venezuelan investment bank said.

The problem: Venezuela only has about $3 billion of its foreign reserves in cash, according to S&P Global Ratings. That means the country is dependent on oil exports to make up the difference.

The U.S. government has been threatening tough sanctions to punish President Nicolas Maduro for what Washington and other governments have called an illegal vote on Sunday, designed to advance the president's power. Mr. Maduro has said that the vote was necessary to give the government the ability to fix Venezuela's political and economic crises, and put an end to antigovernment protests.

While the Trump administration on Monday imposed sanctions against Mr. Maduro personally, it hasn't ruled out restrictions on the Venezuelan crude-oil trade that could deprive the government of its only real source of cash. Last week, the U.S. had leveled sanctions on 13 high-ranking Venezuelan officials.

The Venezuelan government didn't respond to requests for comment Tuesday.

"There's a huge dependency on exports to the United States at a time of profound economic turbulence. It would be basically cutting off the single most important source of revenue. It would significantly raise the risks of default," said Roberto Simon, lead analyst for Latin America in the geopolitical intelligence team at FTI Consulting.

Venezuela exports 780,000 barrels of oil a day to the U.S., accounting for 49% of its oil exports, according to Torino Capital LLC. The U.S. is also weighing restrictions on Venezuela's imports of U.S. oil, which would impede Venezuela's ability to produce oil for export.

A default would likely cause **oil prices** to rise, though it is unlikely to spill over to other bond markets because Venezuela's economy isn't closely linked with others and many investors have already gotten out of Venezuelan bonds in preparation for a default, some analysts say.

A default could also free up cash for the government to spend on desperately needed food and medical imports. Yet it could soon exacerbate the country's economic crisis, as creditors seek to seize oil assets and cut off the country's remaining supplies of financing, according to risk consulting firm Eurasia Group.

Venezuelan bonds have been widely held, in part, because they are in the major emerging-market bond indexes, with $342 billion tracking the J.P. Morgan EMBI bond indexes that contain Venezuelan bonds.

Venezuela's bonds have outperformed the benchmark index by a wide margin through much of the country's economic crisis. Venezuela's portion of that benchmark returned 121% from a trough in February 2016 through early March of this year, according to UBS Wealth Management. They were the largest contributors to emerging-market bond returns last year.

Part of the reason is Mr. Maduro has been determined to pay Venezuela's debts, fearing that any default could enable creditors to seize the country's oil shipments and energy assets. Short on cash, Venezuela has been ravaged by food shortages, high inflation and clashes with protesters.

The country's international reserves briefly dipped below $10 billion in recent days, its lowest in 15 years, according to Venezuela's central bank. S&P estimated about $7 billion of those reserves are in gold, which wouldn't be easy to sell in bulk to meet debt interest payments.

A white paper from sovereign-debt attorney Lee Buchheit and Mitu Gulati, a professor at Duke University School of Law, warned off bondholders who have been buying PdVSA debt in Venezuela with the expectation that they will be able to hold out for a big payday after any default.

The bonds don't have collective-action clauses that force the minority of bondholders to go along with a supermajority of holders, which has led some legal observers to say that a default could lead bondholders to seize assets and hold up restructuring efforts. Messrs. Buchheit and Gulati say Venezuela has several legal maneuvers available to it that could make collecting on those debts difficult.

Still, some investors are betting that the worst-case scenarios won't come to pass.

Ryan Dube contributed to this article.

Signs Flash Red

In Debt Market

The market for Venezuelan debt is showing signs of investor nervousness.

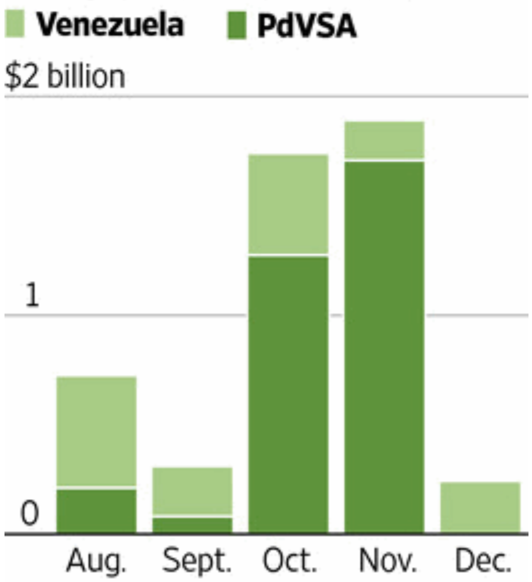
The probability of a default within a year in Venezuela -- as calculated through credit-default swaps, a form of insurance on the possibility of a default -- has been rising, approaching 70% on Wednesday. That is the highest level since February 2016, said Victor Fu, an emerging-market strategist at Stifel Nicolaus & Co. Venezuela's bonds that mature in 2038 have dropped 4.5% since before the election and are down 11% since the beginning of July.

Not everyone is convinced a default is coming. "If only sanctions to exports of oil from U.S. to Venezuela are enacted, we think the downside will be limited as we think that would not be enough by itself to trigger a default this year," Bank of America Merrill Lynch said in a note Monday.

Paying Up

Any sanctions that affect oil, Venezuela's main revenue source, are expected to crimp the country's ability to pay its debts.

Bond payments, by month due



Source: Caracas Capital Markets

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THE WALL STREET JOURNAL.
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Banking & Finance: CBOE Deal Eases Path to Listing Bitcoin Derivatives

By Gunjan Banerji
502 words
3 August 2017
The Wall Street Journal
J
B10
English

U.S. exchanges are racing to secure a piece of the cryptocurrency market.

CBOE Holdings Inc., which oversees the largest U.S. options exchange, has entered an agreement with brothers Cameron and Tyler Winklevoss to use bitcoin market data. The move paves the way for Chicago-based CBOE to list bitcoin derivatives.

CBOE is joining forces with Gemini Trust Co., a virtual-currency exchange founded by the Winklevosses, who are also behind an effort to bring the first bitcoin exchange-traded fund to market. The Securities and Exchange Commission denied the ETF in March, a decision that was appealed and is under review. The ETF would have been listed on one of CBOE's stock exchanges.

Pending regulatory approval, CBOE plans to launch futures on bitcoin by the end of 2017. The agreement also gives the company rights to use Gemini's data to create and disseminate new indexes.

"It will bring more participants into the market who will now be able to express a viewpoint on bitcoin," said Cameron Winklevoss, president of Gemini.

CBOE's relationship with Gemini marks a deeper foray into the world of digital currencies, which hit a market capitalization of $100 billion this year.

U.S. stock-options exchanges have been plagued by flatlining volumes in recent years. CBOE's marquee product -- the CBOE**Volatility** Index, or VIX -- slumped to historic lows this year. Unlike global stock markets that have experienced extraordinary calm, digital currencies have moved wildly, likely making them alluring assets for derivatives traders.

Bitcoin Cash, a new version of the digital currency created to speed up trading in bitcoin, rebounded during a **volatile** second session. In afternoon trading hours in New York, Bitcoin Cash was trading at $395 after peaking above $700, according to virtual currency site Coinmarketcap.com. In its debut Tuesday, the new cryptocurrency dropped from a high of about $400 to $247. The original bitcoin was down about 1% Wednesday.

Should the plan win regulatory approval, investors would be able to make directional bets or hedge holdings. CBOE plans to first launch futures on virtual currencies with monthly expirations, said John Deters, chief strategy officer at CBOE. He also said that CBOE could consider options on virtual currencies.

CBOE isn't the only exchange jockeying for position in the virtual currency sphere.

Miami International Holdings Inc., which oversees two options exchanges and plans to launch a stock venue, has a stake in LedgerX, which won approval from the Commodity Futures Trading Commission for a bitcoin options exchange last week.

Miami International and LedgerX said they also envision launching a host of derivatives based on virtual currencies, such as futures, exchange-traded products and options.

CME Group Inc., a futures exchange operator, launched a bitcoin index in 2016 and filed a patent application for derivatives on virtual currencies this year.

"Cryptocurrencies of all forms are here to stay," said Mr. Deters.

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The New York Times

Business Day; Economy
Wall Street, Climbing Sharply, Skips Washington's 'Soap Opera'

By NELSON D. SCHWARTZ
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2 August 2017
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NYTFEED
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Despite the disorder in Washington — with a revolving door at the White House and roadblocks on Capitol Hill — Wall Street and corporate America are booming.

The disconnect was evident Wednesday, as the **Dow Jonesindustrial average** passed the 22,000 mark, a new high. At the same time, blue chips like Apple, Caterpillar and U.S. Steel have all reported strong earnings in recent weeks that surpassed analysts' forecasts.

"None of the soap opera in Washington matters," said Frank Sullivan, chief executive of RPM International, a Cleveland-based maker of specialty coatings and sealants like Rust-Oleum. "Nobody in business cares about who talked to who in Russia."

What does matter, Mr. Sullivan said, is stronger global demand in heavy industries like mining and oil and gas, a weaker dollar that helps exporters, and a lighter regulatory touch by the new administration.

The initial **stock market** rally that followed Mr. Trump's victory in November — the so-called Trump bump — was fueled by optimism among investors that long-sought action on tax reform and infrastructure spending might finally be at hand.

Few analysts are so sanguine now, especially after Republicans could not agree last month on how to repeal the Affordable Care Act, after years of promising to do so. If anything, simplifying the tax code or investing in new roads and bridges seems farther out of reach than ever.

But a market surge based on political hopes has been replaced by one more firmly grounded in the financial realm.

Besides steady economic growth or less regulation, investors also have been encouraged by the loose reins of central banks like the Federal Reserve, which have helped keep interest rates not far above their historic lows. Inflation, too, remains tame, with price increases in recent months actually falling short of the Fed's targets.

At the same time, with yields on safe assets like government bonds so minuscule, there are few appealing alternatives to stocks for investors, according to Torsten Slok, chief international economist at Deutsche Bank.

"No matter how you look at valuations, they are high," he said. "But as money flows into pension funds every month and needs to be invested, why would I put it in bonds?

"Corporations in America and Europe are still inventing new products and finding ways of doing things more efficiently," Mr. Slok said. "This is separate from the political theater around the world."

Moreover, corporate earnings — the fundamental driver of individual stock performance — have been robust.

The strength has spanned sectors ranging from technology to restaurants, as seen in the rise of almost 5 percent in Apple's shares on Wednesday, or McDonald's jump to a record high last month. Both are Dow components.

"The first six months of the year have been the best period for earnings growth since 2011," said Phil Orlando, chief equity strategist at Federated Investors.

Still, many Wall Street investors who are **bullish** over the longer-term, including Mr. Orlando, concede that the risk of a **stock market** correction was rising.

“We’ve had this fabulous run since the election,” he said. “But could we see an air pocket in the next few months? Absolutely. Our best guess is that the next 5 percent move is more likely to be down than up.”

Investors have also voiced concerns that trading has been unusually placid — **volatility** recently sank to a two-decade low, and Wall Street has not had a correction, usually defined as a drop of 10 percent or more, since early 2016. With the current recovery entering its ninth year this summer, a recession seems inevitable.

But for now, whichever way the **stock market** goes, most economic metrics like hiring, consumer sentiment and home prices continue to point in the right direction.

Those trends predated Mr. Trump’s taking office, although he took to Twitter several times this week to claimcredit for the **stock market**’s run and soaring earnings. Still, Mr. Sullivan of RPM said that while he did not vote for Mr. Trump, he gave the president credit for setting a new political tone toward corporate America in Washington.

“I’m in the middle of it in Cleveland, and small businesses are looking forward instead of over their shoulder,” said Mr. Sullivan, who is the older brother of Senator Dan Sullivan, an Alaska Republican.

“When Washington practices the Hippocratic oath toward business — first, do no harm — it’s amazing what the American economy can do,” he said. “Under the prior administration, you had a very, very aggressive regulatory environment in which businesses felt under attack.”

Easing regulation is also something Mr. Trump can do with the stroke of a pen or with appointments to agencies like the Securities and Exchange Commission or the Federal Reserve, which require confirmation but not legislation.

Bank stocks, for example, have been among strongest performers on Wall Street since the election, and the trade might be paying off: Regulators could soon weaken the Dodd-Frank Act’s Volcker Rule, which restricted the ability of banks to make financial bets with their own capital.

To be sure, the glow from Wall Street extends only so far. According to the Federal Reserve’s most recent Survey of Consumer Finances, less than 15 percent of American households owned individual stocks and only half had any exposure to the broader market, including through mutual funds or retirement plans.

“Only people with assets like stocks and houses are benefiting, and that’s why this recovery has been weak,” Mr. Slok said.

The contradictory signals between the markets and the political world are hardly unique to the United States. “Most investors in Europe are rolling their eyes at the U.S., but what’s ironic is that it’s similar to the European situation,” Mr. Slok said.

As in Washington, Mr. Slok said, there has been little consensus in Brussels or other capitals on how to address major issues, including Britain’s impending exit from the European Union, the continent’s restrictive labor laws and Greece’s fiscal problems.

If the **stock market**’s prospects are unclear, then the outlook in Washington six months into the Trump administration is downright gloomy.

The year began with Mr. Trump promising to repeal and replace the Affordable Care Act; pass the most significant overhaul to the tax code since 1986; and get Congress to pass legislation to rebuild the nation’s crumbling infrastructure. None of that has been accomplished, as Republicans have struggled to shift from being an opposition party to one that governs.

Beyond those disappointments, fiscal land mines lie ahead that could rattle the economy if Republicans and Democrats cannot cooperate.

By the end of September, Congress must reach a deal to lift the debt ceiling and fund the government for the coming fiscal year. Republicans remain divided over whether conditions such as spending cuts should be attached to raising the statutory borrowing limit. A standoff with Democrats over Mr. Trump’s request to finance a border wall could lead to a partial government shutdown.

The lack of progress has only led to more sniping among Republicans. This week Sarah Huckabee Sanders, the White House press secretary, said, “I think what’s hurting the legislative agenda is Congress’s inability to get things passed.”

Further inaction could prove costly. The debt-limit brinkmanship and government shutdown during the Obama administration rattled markets and slowed economic growth. A Standard & Poor’s analysis after the 2013 shutdown found that the 16-day standoff sucked $24 billion out of the economy.

Mr. Trump has pointed to the growing economy and strong employment figures as evidence that his agenda is thriving. The data is indeed encouraging, but not very different from the figures he used as a candidate to paint a picture of economic despair.

Still, the **stock market**’s gains were likely to hold up as long as earnings remained buoyant, said Laszlo Birinyi, a longtime **stock market** analyst.

“While people may have strong feelings in other areas, the **stock market** is predicated on dollars and cents,” he said.

Alan Rappeport contributed reporting.

* Market’s Surge Meets Dollar’s Swoon

* U.S. Growth Accelerates, but Remains Short of Pace Promised by Trump

* Partisan Conflict Is High, but the Market Doesn’t Care

* What the Decline of the Dollar Means

Caterpillar and other companies including Apple and U.S. Steel have reported earnings that surpassed analysts’ estimates. | Jessica Rinaldi/Reuters | An Apple developer conference in June. Shares in the company rose almost 5 percent on Wednesday. | Justin Sullivan/Getty Images

Document NYTFEED020170803ed830012x

THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Bitcoin Rival Falls In First Trade Day

By Paul Vigna
558 words
2 August 2017
The Wall Street Journal
J
B12
English

Bitcoin Cash, a new version of the digital currency created by one side in an industry rift, fell sharply in its first trading day Tuesday. If it wants to be bitcoin's equal, it is about 10% of the way there.

Most digital-currency exchanges and services at this point aren't supporting Bitcoin Cash. One exchange, China-based ViaBTC, has been allowing trading in the coin even before it went live. On that basis, Bitcoin Cash was trading Tuesday afternoon at about 9.8% of a bitcoin's value, roughly in line with traders' projections in the days leading up to the launch. At its intraday peak, it traded as high as 14% of bitcoin.

With the original bitcoin trading at around $2,750, Bitcoin Cash was worth around $270. One virtual-currency tracker, Coinmarket.com, showed Bitcoin Cash falling about 38% to $247 from a high of more than $400 in **volatile** trading.

Depending on where Bitcoin Cash stabilizes, it could have a total market value of several billion dollars, instantly making it one of the most valuable virtual currencies.

Bitcoin's new offspring promises users a currency optimized for fast and cheap transactions, as opposed to bitcoin, which has grown in popularity despite limits on how rapidly it can trade. After rallying sharply in recent weeks, bitcoin declined about 4%Tuesday, according to Coindesk.

It is unclear how successful the new cryptocurrency will be, or how much activity it will generate.

There was some confusion about what symbol the new currency should carry. Many were using BCC, but that code was already employed for a digital currency called BitConnect. Others were using BCH for Bitcoin Cash.

Bitcoin Cash was announced as a project on July 22, a response to a controversial industry compromise settled on a week earlier. That compromise was aimed at resolving a two-year-old impasse over a technical issue: how to best expand network capacity.

The pact remained controversial enough that a splinter group took the extreme step of "forking" bitcoin's software, essentially creating an updated version of the program and running it live.

Launching a new version of bitcoin is technically complicated, and many exchanges were choosing to sit this one out, at least until it is clear whether or not the new currency is stable.

Gemini, the U.S. exchange owned by the Winklevoss twins, suspended bitcoin deposits and withdrawals Monday night, and said the suspension would remain in effect until "after we believe the Bitcoin Network has stabilized, which is anticipated to be sometime Wednesday." Transactions using U.S. dollars or ether, another popular virtual currency, wouldn't be affected, they said.

San Francisco-based Coinbase said it wouldn't support Bitcoin Cash, though should the upstart survive its first days and prove itself stable and secure, Coinbase may revisit the issue.

The future of Bitcoin Cash will be dependent upon how many users it pulls from bitcoin proper. Just like the original, Bitcoin Cash is dependent upon "miners," the groups that run the software and confirm transactions in exchange for newly created bitcoins. It is impossible to say how many miners Bitcoin Cash will attract, but it wasn't expected to be a large amount initially.

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THE WALL STREET JOURNAL.
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World News: Eurozone Posts Another Period of Growth --- Resilience of currency area raises prospect central bank will begin to pull back stimulus

By Paul Hannon, Tom Fairless and Giovanni Legorano
668 words
2 August 2017
The Wall Street Journal
J
A6
English

The eurozone's economy quickened in the second quarter, raising expectations the European Central Bank will begin to phase out its stimulus measures next year as the region emerges from the shadow of the past decade's financial crises.

Gross domestic product in the 19-country euro currency zone grew by 0.6% in the three months to June, an annualized pace of 2.3% and a slight improvement from the 0.5% expansion in the first quarter.

The acceleration in the eurozone's recovery means it is playing a more equal role with the U.S. in driving global growth. Over the past 18 months, the region has grown a little faster than the U.S., having been well behind in 2015 and prior years. If that pattern continues, global economic growth should be stronger this year.

But more balanced growth wasn't the expectation of most economists entering 2017. They expected the contribution of Europe's economic heartland to decline in response to political uncertainty and rising **oil prices**. U.S. growth was expected to pick up in anticipation of the tax cuts and increases in infrastructure spending promised by the new president.

"All in all, the eurozone economy has rounded out the first half of the year in a very healthy state and seems to be set up nicely for continued firm growth for the rest of 2017," said Bert Colijn, an economist at ING Bank.

Some crisis-era effects linger in the region, however, including high unemployment in Southern Europe, lack of growth in laggards such as Italy and Greece, and widespread popular discontent with political elites. But improving growth is dispelling fears of the euro's demise, reviving the confidence of the EU's political class that it can fend off challenges from nationalist or antiestablishment parties and boosting optimism that the continent is mostly returning to normality after a lost decade.

Antonio Vallejo, finance director at Spanish restaurants and bars company Grupo Mercado de la Reina, said business has been improving steadily since the end of 2015. "People started to go out for dinner again," he said. "You can see clearly that people spend more."

The return of growth rates above 2% annualized is likely to further encourage ECB officials who want to decide this fall, probably in September, to reduce monetary stimulus starting in early 2018.

The ECB has launched a series of stimulus measures since mid-2014 that are intended to raise inflation to its target of just below 2%. At 1.3% in July, inflation remained well short of that goal. But central-bank officials expect that if growth continues to be robust, inflation eventually will pick up, and the need for their stimulus measures -- especially bond purchases -- will diminish.

Financial markets are watching closely for signals about when and how quickly the ECB will reduce the bond-buying program, known as quantitative easing. The timing of the decision to phase it out is the ECB's most important decision in years.

The next hint could come when ECB President Mario Draghi addresses the U.S. Federal Reserve's economics conference Aug. 24-26 in Jackson Hole, Wyo.

The ECB could signal as soon as its next policy meeting on Sept. 7 that QE will be gradually wound down next year, according to officials with the bank.

But the decision could be delayed until October, depending on the latest economic data, these officials say.

In July, Mr. Draghi described the recovery as "robust" and said policy makers would decide in the fall on the future of their bond-buying program, which is tentatively scheduled to end in December. ECB watchers expect the program to be extended into 2018, but at a reduced scale. Most doubt the purchases will continue into 2019.

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The New York Times

Business/Financial Desk; SECT
Morning Agenda: Post-Scaramucci, White House Turns to Taxes

By AMIE TSANG and MICHAEL J. de la MERCED
1,320 words
2 August 2017
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NYTF
The New York Times on the Web
English

Anthony Scaramucci, the voluble financier turned colorful communications director, is out of the White House.

John F. Kelly, the new chief of staff, asserted military discipline, according to reports, and the tough-talking Mr. Scaramucci was escorted out.

But in a bid to stick to the agenda of ''American Dream Week'' -- after the apparent demise of the effort to repeal the Affordable Care Act and after the 10-day drama of the Scaramucci era -- the Trump administration tried to show some unity with the Republican Party's biggest financial backers. Senior officials promised to successfully rewrite the tax code.

''This is a pass/fail exercise, and we will pass tax reform,'' said Steven T. Mnuchin, the Treasury secretary.

The administration is under pressure to deliver. It wants to have a bill on President Trump's desk by Thanksgiving.

So what happens between now and then?

Administration officials said that Mr. Trump would travel the country holding campaign-style rallies to promote a tax overhaul.

House and Senate tax-writing committees will begin marking up legislation shortly after Labor Day, according to Mark Short, the Trump administration's legislative affairs director. Then, if the bills are passed in October and November, the tax legislation can get to Mr. Trump's desk before December.

But there are still divisions on how the tax code would be revised:

The White House wants to cut the top corporate tax rate to 15 percent, from 35 percent.

House Republicans favor a cut to 20 percent, which several tax experts said was an ambitious goal. Even Orrin G. Hatch, the chairman of the Senate Finance Committee, thinks that getting to 25 percent would be a challenge.

And members of both parties are already objecting to the administration's proposal to eliminate the deduction that Americans can take on their state and local taxes.

China Deals Tracker

Speaking of Mr. Scaramucci, the HNA Group says that its deal to buy his stake in his SkyBridge Capital fund of funds is still on. (No word yet on whether he will return to the firm.)

Anbang denied Monday's report in Bloomberg News that it was told to dispose of assets and repatriate the proceeds.

India has decided to block Shanghai Fosun Pharmaceutical Group's proposed takeover of an Indian drugmaker, Reuters reported, citing people familiar with the matter. The $1.3 billion deal to take an 86 percent stake in Gland Pharma would have been the biggest ever Chinese acquisition in the country.

Formally called the China Integrated Circuit Industry Investment Fund -- and known locally as "the Big Fund" -- a government-backed fund has been providing financing for deals seen as crucial to helping Chinese companies produce more powerful semiconductors. To its critics, it is a slush fund that will flood the sector with overcapacity.

China may be clamping down on its homegrown deal-makers. But DealBook's Andrew Ross Sorkin notes that one American company is making a big move in that country: Starbucks.

Last week, the coffee giant bought out its local partner. It's part of an eye-opening expansion campaign there, where it's opening 500 stores a year. Starbucks is even planning a 30,000-square-foot emporium that the company's chairman, Howard Schultz, thinks could have more significance for Chinese consumers than Shanghai Disney.

"When people ask me how much can you really grow in China, I don't really know what the answer is, but I do believe it's going to be larger than the U.S.," Mr. Schultz told Mr. Sorkin.

Discovery and Scripps: Betting on Cable

Animal Planet meets home improvement. That's the $11.9 billion deal that Discovery Communications has struck to buy Scripps Networks Interactive.

They've faced ratings declines, advertising weakness and cord cutting. But the companies are hoping that together they can take advantage of their control of about a fifth of the ad-supported pay television audience in the United States.

"People are consuming more content than they ever had on more platforms," said David M. Zaslav, Discovery's chief executive. "The question is, what content is going to travel?"

Mr. Zaslav thinks Discovery can help expand Scripps's content to more than 220 countries and territories, and create new services for mobile and streaming. The deal also brings an expected $350 million in cost savings.

Wall Street, however, was not convinced -- Discovery's **stock price** plunged on Monday.

Getting distributors to pay for more content will be a hard sell, Breakingviews' Jennifer Saba argues, since some carriers are instead looking to slim down their offerings. "The Scripps family wisely chose to take the money and run," she writes.

Snapdeal Calls Off Sale to Flipkart

And it's a setback for SoftBank, which has been on a run of deal-making recently.

Snapdeal said it was calling off talks to combine with Flipkart, ending efforts by SoftBank to engineer the merger of India's two biggest homegrown e-commerce companies, The Wall Street Journal and Reuters reported.

SoftBank is the biggest investor in Snapdeal, but said it respected Snapdeal's decision.

Both Snapdeal and Flipkart have been losing ground to Amazon, which arrived in India in 2014.

Related SoftBank Reading

Charter shot down the possibility of buying Sprint, but its shares still soared after reports that SoftBank was weighing making a takeover bid. But CNBC's David Faber reported that its founder, Masayoshi Son would not make a hostile bid for the cable operator.

And SoftBank's talks to potentially invest in Uber -- which some at the ride-hailing titan feared could have served as a way for its co-founder Travis Kalanick to return to power -- have ended, according to Mr. Faber.

Tough Times in Tech

Kleiner Perkins Caufield & Byers, the veteran venture capital firm, confirmed to Bloomberg News on Monday that it had shut down its $4 million seed-stage investment fund, KPCB Edge. The three partners who ran the fund, Anjney Midha, Roneil Rumburg and Ruby Lee, left the firm in recent weeks.

And Mike Abbott, a prominent Kleiner Perkins partner, wrote in a personal blog post that he is leaving the firm. Mr. Abbott, a former Twitter engineer, said that he wants to "build the next new thing."

Speaking of seed funding: Despite a surge of interest from wealthy individuals looking to invest in technology start-ups, such financing appears to be drying up.

The number of seed-stage investments is down 40 percent from its peak two years ago, according to Reuters. About 900 such deals were struck in the second quarter this year, compared to 1,500 during the comparable quarter in 2015.

Some in Silicon Valley worry that investors are becoming concerned about overinflated valuations of start-ups. Others think that existing technology giants like Facebook and Google are so powerful that they can quickly squelch newborn competitors.

Snap Inc. could have had a worse Monday. Shares in the Snapchat parent closed down just 1 percent that day, the first time that some insiders could sell stock after the company's springtime initial public offering.

The expiration of the first so-called ''lockup period'' meant that roughly 400 million shares held by early investors and company executives could be sold.

But analysts said that the event had been priced into the stock. Snap's shares went down as much as 5 percent before whipsawing throughout the day, and closed at $13.67.

The next moment of potential drama is likely to be at the end of August, after Snap reports its latest quarterly earnings -- and the second phase of the lockup expires.

Snap's **stock price** is now down nearly 20 percent from its initial offer price.

Follow Amie Tsang @amietsang, and follow Michael J. de la Merced @m_delamerced.

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The New York Times

Business/Financial Desk; SECTB
Dow Jones Ascends As Dollar Retreats

By LANDON THOMAS Jr.
1,372 words
2 August 2017
The New York Times
NYTF
Late Edition - Final
1
English

Six months into the Trump presidency, two symbols of American financial might -- the Dow and the dollar -- have taken divergent paths, highlighting the complexities that investors face as the global economy hums, while Washington is enmeshed in political turmoil.

Barring a sharp reversal in the market, the Dow Jonesindustrial average will soon pass the 22,000 milestone for the first time, an 11 percent surge for the year that is being driven of late by increasingly bullish retail investors piling into stocks.

Over this same period, the United States dollar has lost about 10 percent of its value against a basket of six major currencies.

The near-mirror image fall in the dollar has been especially pronounced in recent weeks, stemming in part from concerns that President Trump's political problems will hamper his ability to pass a major tax reduction or an infrastructure bill.

Yet those concerns have yet to halt the stock market's seemingly unstoppable advance. Mr. Trump has repeatedly pointed to record highs in the Dow as a validation of his administration, posting on Twitter on Tuesday morning:

''Stock Market could hit all-time high (again) 22,000 today. Was 18,000 only 6 months ago on Election Day. Mainstream media seldom mentions!''

And while it is true that there has been little in terms of legislative action to back up his boast, investment experts say that the president's promise to slash regulations and cut taxes -- even if unfulfilled -- has stoked long-dormant animal spirits among investors. That corporate earnings are excelling and the global economy is growing faster than many expected has only added to the bullish vibe.

''Whether you like the administration, the people, the rhetoric or not, there is no overstating just how powerful the animal spirits have been,'' said Atul Lele, chief investment officer for Deltec International Group, an investment firm based in Nassau, Bahamas. ''You are seeing it in the data and it is evident in the financial markets as well.''

On Tuesday, the Dow ended the day closer to 22,000, rising 72.80 points, or 0.33 percent, to 21,963.92. It was the sixth consecutive gain for the Dow.

The broader Standard & Poor's500 index closed up 0.24 percent, but shy of the record it set last week. Through the end of July, the S.&P. 500 was up nearly 9 percent from the day Mr. Trump took office -- a performance topped in recent decades only by the first six months of President George Bush's administration (up 20.7 percent) and that of President Barack Obama (up 22.6 percent), according to S.&P. Global Market Intelligence.

While there is no doubt that the animal spirits have done their work, just as important to the market's recent rally has been the significant fall in the dollar -- not just against the euro and the yen, but against more volatile currencies like the Mexican peso and the Brazilian real.

Even the Chinese renminbi, once criticized by Mr. Trump as artificially low, has gained value against the dollar, climbing more than 3 percent for the year.

A dollar in retreat means that trillions more dollars are sloshing around the global economy, ending up in 100-year Argentine bonds, Turkish airline stocks, junk bonds with stripped down investor protections and, of course, Dow stalwarts like Amazon, Microsoft and Boeing.

''Dollar weakness means that there is increased liquidity all around the world,'' said Mr. Lele, the investment officer. ''And all that is flowing into carry trades.''

The carry trade is financial jargon that describes the flow of money from low return assets to those with a higher return -- not least when investors use a cheaper asset (dollars) to pay for riskier assets that promise better performance.

When central banks, especially the Federal Reserve, intervened aggressively in global markets after the financial crisis, the immediate effect was rock bottom interest rates, a weak dollar and a search for ''carry'' by global investors.

Yet this trade lost some of its urgency in recent years as investors bet that the Fed would raise rates and that Mr. Trump's expansive fiscal policies would give a boost to the United States economy and the dollar.

The dollar's rapid ascent in the weeks immediately after the 2016 election spurred fears that an abrupt dollar run-up would damage global markets, leading to a rout in global currencies -- especially those in developing nations.

Instead, Trump administration officials have veered from the standard practice of talking up the dollar by pretty much doing the opposite. This approach was spurred largely by the administration's tough talk on trade and support for American manufacturers whose exports benefit from a less robust dollar.

But it is also true that Mr. Trump, both from within his cabinet and his outside panel of economic advisers, has heard the view from Wall Street that an overly strong dollar would not help American **financial markets**.

Edward Yardeni, an independent investment strategist, refers to the recent run-up in stocks, after what has already been one of the longest bull markets in financial history, as a ''market melt-up.''

Think of it as a rush of perhaps less discerning money into stocks, propelling **stock market** indexes past one historical milestone after another.

For example, as of Monday, the Dow had reached 30 record highs this year, according to research by Charlie Bilello, an analyst with Pension Partners, a financial advisory firm.

In a recent strategy note, Mr. Yardeni highlighted the effect of investor money pouring into exchange traded funds, which are easily traded, low-cost funds that track all varieties of indexes and investment themes.

Over the last year, $232 billion has flowed into E.T.F.s that invest in domestic equities. In recent months, as the dollar has softened, global E.T.F.s that invest in Europe and emerging markets have been deluged with money and have taken in $121 billion for the year.

Leading the way have been E.T.F.s that invest in higher-yielding, harder-to-trade securities like emerging market bonds, leveraged loans and bonds issued by low-rated corporations.

Institutional and retail investors use the funds to make quick and longer term investment bets. But much of the flows, of late, seem to be coming from retail investors, many of whom were sitting on the sidelines in the last few years, analysts say.

The investment firm Schwab, which oversees $3 trillion in assets from individuals and independent investment firms, reported in its second-quarter earnings last month that cash held by clients had dropped to 11.5 percent in June from 13 percent in December -- a fairly precipitous reduction for such a short period.

''Right now, the market thinks the future looks good,'' said Peter Mallouk, the founder of Creative Planning, an independent investment adviser managing more than $26 billion out of Leawood, Kan. ''Corporate earnings are up, corporate taxes are expected to drop and most importantly, unemployment continues to trend lower.''

Beyond the stimulative effect that a struggling dollar has on global investment flows, some analysts point to another, more specific reason that might explain the near perfect correlation between the dollar's fall and the Dow's rise.

The Dow, much more so than the **S**.**&P**. **500** and the **Nasdaq composite** index, has a weightier concentration in multinationals that rely on exporting their goods overseas, like Caterpillar, Boeing and Coca-Cola, to name a few.

The weak dollar and strong growth in Asia, Europe and many emerging markets will be a boon for these companies, a number of which suffered in past years when the dollar was ascendant and worries about Europe and developing nations abounded.

''There is no doubt that the big news -- a drop in the dollar -- is benefiting the Dow more than other indices,'' said Jim Paulsen, chief investment strategist for the Leuthold Group, an investment firm based in Minneapolis.

''It has multinationals, and it benefits from improved trade flows. So dollar weakness may propel the Dow to 22,000 and beyond.''

CHARTS: Dow industrials; Value of the dollar (Sources: Reuters; Federal Reserve) (B4)

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THE WALL STREET JOURNAL.
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ETFs: ETFs Are On a Roll Yet Again, Pulling In More Cash

By Sarah Krouse
463 words
2 August 2017
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J
B13
English

The fortunes of Wall Street's cheapest and priciest funds are diverging fast.

Exchange-traded funds held $1 trillion more in investors' money than hedge funds globally for the first time ever at the end of June, according to research from London consulting firm ETFGI LLP. Assets in ETFs, which trade on exchanges like stocks, first surpassed the amount of money in hedge funds two years ago and have continued to swell.

Funds such as ETFs, which aim to match the returns of indexes or asset classes and are known as passive investments, have been helped by fresh market highs. The **Dow Jones Industrial Average** closed at a fresh record Tuesday. The **S&P 500** as well as major German and U.K. stock indexes are also near records.

Those gains have prodded investors already losing faith in star stock and bond pickers to plow even more money into these ultralow-cost funds.

This year through Monday, research firm HFR Inc.'s index of hedge-fund performance returned 3.7%, compared with a 10% return for the **S&P 500**. ETFs had $4.17 trillion in assets at the end of June, while hedge funds had $3.1 trillion, according to ETFGI and HFR.

The divergence in assets shows how investors are changing the way they put money to work. Advisers are shifting clients' assets into portfolios filled with cheap funds for which they charge a fee. Cost-conscious institutional investors have taken money out of hedge funds and allocated more to funds that match the performance of broad swaths of the market.

Price is an attraction. The asset-weighted average annual cost for exchange-traded funds globally is 0.27%, according to ETFGI. Hedge funds traditionally charged investors 2% of assets and another 20% of profits over a certain threshold. ETFs also come with some tax and trading advantages.

The movement of money has caused a shift in power on Wall Street from money managers that pick investments and promise outsize returns to less flashy passive funds.

In the first half of this year, ETFs around the world attracted a $347.7 billion in net new assets, according to ETFGI. Hedge funds attracted a net $1.2 billion, according to HFR. Hedge funds still outnumber ETFs by more than 1,000 globally.

BlackRock Inc. and Vanguard Group, the two largest ETF providers and the world's No. 1 and No. 2 money managers by assets, respectively, have been the main beneficiaries of the shift in assets. Other money managers are now trying to package their passive as well as stock- and bond-picking strategies into ETFs to nab assets.

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THE WALL STREET JOURNAL.
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U.S. News: Inflation Complicates Fed's Rate Decision

By Sarah Chaney
308 words
2 August 2017
The Wall Street Journal
J
A2
English

Consumer prices were flat in June from the prior month and annual inflation remained well below the Federal Reserve's 2% target, a potential yellow flag for the central bank as it considers interest-rate increases later in the year.

Inflation is turning into a conundrum for the Fed. Officials have been expecting a pickup as the economy improves, but it isn't appearing.

The Fed's preferred measure of inflation, the price index for personal-consumption expenditures, was unchanged in June from the prior month, the second straight flat reading. It was up 1.4% in June from a year earlier and has dropped for four consecutive months on an annual basis, from 2.2% in February.

Consumer spending didn't offer much spark either, rising a tepid 0.1% for the month. Adjusted for inflation, consumer spending was unchanged in June. Personal income was flat, the Commerce Department reported Tuesday, held back in part by a drop in the income households earn on dividends from investments.

Soft energy prices are part of the low-inflation story, but not the whole story. Excluding the often-**volatile** categories of food and energy, so-called core prices were up 0.1% in June for the second straight month. Core prices have stabilized at 1.5% from a year earlier, which is down from 1.9% reached in February and notches below the Fed's 1.7% end-of-year projection.

"Core inflation hasn't been quite as weak as previously believed, although the continued shortfall relative to the Fed's 2% target will leave officials with little appetite for a rate hike at the mid-September FOMC meeting," said Andrew Hunter of Capital Economics in a note to clients.

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S&P 500 Blocks Multiple Classes

By Chris Dieterich, Maureen Farrell and Sarah Krouse
847 words
2 August 2017
The Wall Street Journal
J
B1
English

The keepers of the **S&P 500** took a stand against public companies with multiple classes of shares, saying they would bar newcomers with such setups from their flagship index.

The policy change, announced by S&P Dow Jones Indices, rejects potential eligibility for Snap Inc. as well as Blue Apron Holdings Inc., both of which went public this year.

The move comes as other major index companies, including FTSE Russell and MSCI Inc., are evaluating similar index changes to assuage concerns about investors getting limited or no voting rights. The issue is that increasingly popular index funds are otherwise forced to buy stakes in companies that leave investors with little say in corporate decisions.

Critics of S&P's move say that by barring such companies, the index -- and the funds that track it -- might not provide an accurate gauge of the overall market. Others say the change also might discourage companies from going public altogether by pushing them to choose between maintaining corporate control and tapping into the large shareholder base that indexing generates.

In a memo to clients, law firm Davis Polk & Wardwell LLP said such moves "seem likely to reduce opportunities for retail investors to access mutual funds that reflect the broader U.S. market."

The ruling effectively pits two trends against each other -- the move toward multiple-class voting in corporate governance and the increased popularity of index investing.

Technology companies have been increasingly using multiple classes of shares to give founders and early investors voting control when they go public.

About 15% of the tech companies that went public in the U.S. between 2012 and 2016, including Facebook Inc., Fitbit Inc. and Twilio Inc., did so with at least two classes of stock, up from 8% between 2007 and 2011, according to data compiled by University of Florida finance professor Jay Ritter.

Snap took the trend to an extreme in March, when the disappearing-photo app company sold Class A shares in its initial public offering that carry no voting rights, while early investors hold Class B shares that get a small portion of the voting rights. The company's co-founders, Evan Spiegel and Robert Murphy, are the only owners of Class C shares, which control about 90% of the voting rights.

Barring index entrance means that Snap's **stock price** won't get the benefit of forced buying from popular S&P index funds. Some $8.7 trillion in assets is benchmarked or indexed to the **S&P 500**, according to S&P Dow Jones.

The growing popularity of multiple share classes has met resistance from some of the largest providers of passive investments, which own an increasingly large slice of America's biggest companies and don't want their influence minimized.

BlackRock Inc., Vanguard Group and State Street Global Advisors, the world's largest managers of index-tracking funds, are signers of a governance initiative called the Investor Stewardship Group that sets principles for U.S.-listed companies including the adoption of a "one-share, one-vote standard" and avoiding unequal voting rights.

U.S.-based mutual funds and exchange-traded funds that track indexes owned 13.9% of the **S&P 500** at the end of March, up from 4.6% in 2005, according to a Wall Street Journal analysis of data from Morningstar Inc. and S&P Global Market Intelligence.

It remains to be seen whether the new index rules sway decisions by technology entrepreneurs determined to retain control of their companies.

Many founder-led private technology companies have already structured their shares in a way that gives more control to founders and early investors, and they are unlikely to seek to upend those structures for entrance to an index, multiple bankers and lawyers who work with private technology companies said Tuesday.

The most highly sought-after tech companies will likely still expect to generate significant buyer interest in an IPO regardless of whether they are ultimately included in indexes, several bankers and lawyers said.

Others in agreement with S&P's philosophy nevertheless questioned whether index inclusion was the right venue for deciding the matter. They say shareholder voting rights could be addressed by regulators or exchanges, not index providers.

"As a fundamental governance matter, one-share, one-vote remains a really important tenet of our principles," said Glenn Booraem, a principal at Vanguard who works on its governance efforts. "The question is whether index construction is the right place to solve the problem."

Companies with multiple share classes that are already in the main S&P indexes, such as Warren Buffett's Berkshire Hathaway Inc. and Google's parent company, Alphabet Inc., aren't affected by Monday's ruling.

Dow Jones, publisher of The Wall Street Journal, is a unit of News Corp, an **S&P 500** company with a dual-share structure. Dow Jones sold a majority stake in its index business in 2010 and the remaining stake in 2013.

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The New York Times

Fact Check
U.S.; Politics

Trump's Claims on Unemployment and Business Spirit

By LINDA QIU
820 words
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NYTFEED
English

After a stinging defeat on health care and a staff shake-up at the White House, President Trump turned to the economy for good news, depicting a rosy portrait of jobs added and businesses booming during his first six months in office.

His claims of "the best economic numbers in years" are mixed when it comes to accuracy. Here is an assessment.

He falsely characterized a 2.6 percent growth in GDP as "a number that nobody thought they'd see for a long period of time."

Mr. Trump's presidency has not yet surpassed the one-year mark, so it's impossible to look at annual growth rates, and measuring economic growth from quarter to quarter is also subject to substantial **volatility**.

With that caveat in mind, Mr. Trump is wrong that a 2.6 percent increase — the growth rate from the first quarter to the second quarter of this year — is without precedent.

Data from the Bureau of Economic Analysis shows 13 quarters with higher increases during President Barack Obama's time in office. Most recently, the economy grew by 2.8 percent from the second quarter to the third quarter of 2016. Since the beginning of the recovery in 2010, growth has averaged 2.1 percent.

He was broadly accurate in claiming that the unemployment rate is "the lowest it's been in 17 years."

The national unemployment rate was 4.4 percent in June, and 4.3 percent in May, according the latest estimates from the Bureau of Labor Statistics.

Mr. Trump, who has repeatedly called unemployment figures fake, is off by one year. The unemployment rate was lower in every month from June 2000 to March 2001. And in four months in 2005 and 2006, the unemployment rate was also 4.4 percent.

It's important to note, however, that unemployment has been steadily declining since the end of the recession in 2009. So neither Mr. Trump nor any other president takes all the credit.

He exaggerated when he said "business spirit is the highest it's ever been according to polls."

PolitiFact, the independent fact-checking website, found four polls that somewhat fit Mr. Trump's description. All showed that economic confidence or expectations are currently high but not the highest ever.

The latest confidence index from Business Roundtable, an association of chief executives, stands at 93.9. That's above the average but lower than 16 earlier quarters dating to 2002, including six quarters during Mr. Obama's presidency.

Similarly, the National Federation of Independent Business's small business optimism index fell to 103.6 in June from 105.9 in January, "no doubt in part due to the mess in Washington," according to the group. The index was higher in several months in 2004, 2002 and 1997.

Recent surveys from the Institute of Supply Management, a supply management association, and YPO, a group of young executives, fit the same pattern.

He claimed “corporations have NEVER made as much money as they are making now.”

Mr. Trump accurately quoted the Fox Business Network host Stuart Varney, whose assertion requires context. After-tax corporate profits peaked at $1.81 trillion, a record, according the Federal Reserve Bank of St. Louis. This figure, however, does not take the size of the economy into account; profits in dollar amounts are, of course, higher in 2017 than in 1917.

Corporate profits as a share of GDP — a more meaningful measurement — stood at 9.5 percent in the first quarter of 2017, a lower share than in 18 quarters under Mr. Obama.

He accurately claimed “the highest **Stock Market** EVER” and “wages raising.”

The **Dow Jonesindustrial average** closed at a record high of nearly 22,000 on Monday. Mr. Trump repeated this claim on Tuesday morning, adding falsely that the news media does not cover the **stock market** highs.

Weekly wages increased to $354 from $350 from the first quarter to the second quarter of this year. That amounts to a 1.1 percent rise, growth characterized by Nelson Schwartz, a New York Times economics reporter, as “frustratingly slow.”

Alan Blinder, an economist at Princeton University, noted that both of these trends predate the Trump presidency and warned that it’s a stretch for Mr. Trump to take all the credit.

“As seemingly everyone but Trump recognizes, his economic policy achievements to date have been approximately zero,” Mr. Blinder said.

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* Trump’s Health Reform Pitch Includes Several Falsehoods

* Trump Falsely Blames Loretta Lynch in Son’s Meeting With Russian Lawyer

* Trump Made Several Misleading Claims in Times Interview

President Trump and his daughter Ivanka during an event with small-business leaders on Tuesday. | Doug Mills/The New York Times

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THE WALL STREET JOURNAL.
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Boeing Helps Blue-Chip Index Soar to New Highs

By Amrith Ramkumar
543 words
1 August 2017
The Wall Street Journal
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B1
English

Shares of Boeing Co. rose for a seventh straight trading session Monday, hitting an all-time high and lifting the Dow Industrials to their 30th record close this year.

The shares climbed $1.19, or 0.5%, to $242.46 after executives said the Chicago company expects Indian airlines to order up to 2,100 planes worth about $290 billion over 20 years, according to Reuters.

Boeing has risen 15% in the past seven sessions around the release of its quarterly earnings last Wednesday, accounting for more than half of the Dow's advance in July.

For the year, the stock is up 56%, making it by far the best performer in the Dow and the fifth-best performer in the **S&P 500**.

Behind the surge are signs of strength both at Boeing and in the global economy that makes up the market for the company's products.

Investors are showing growing confidence that an increase in global airline passengers means that airlines will follow through on recent jet orders.

Solid results have helped as well.

For the second quarter, Boeing swung to a profit of $1.76 billion, or $2.89 a share, from a year-earlier loss of $234 million, or 37 cents a share, even as revenue declined to $22.74 billion from $24.76 billion. Year-earlier results were hit by charges on commercial and military programs.

Investors focused on the fact that Boeing's cost-cutting efforts helped it generate more than twice as much free cash as analysts were expecting for the latest quarter.

Boeing also raised its financial outlook and the firm has been buying back shares, helping to support its share price. Boeing's market value has climbed by almost 50% in 2017, recently reaching $143 billion.

Yet the intensity of Boeing's rise is raising concerns among some investors over the health of the broader market. Boeing has accounted for more than three-quarters of the Dow's rally over the past seven trading sessions.

While large share-price increases in a concentrated segment of the market are nothing new -- much of 2017 has been spent chronicling the rise of popular technology shares such as Amazon.com Inc. and Apple Inc. -- it has been unusual for a manufacturing company to be the subject of such fervor.

"The narrowness of this market in some ways is certainly something to be wary of," said Nathan Thooft, senior managing director of global asset allocation at Manulife Asset Management.

Meanwhile, some analysts caution that the shares' rapid run up and relatively high valuation could lead to a selloff if the Chicago company doesn't meet production targets.

The shares are trading at about 24 times Wall Street's projected earnings for the next 12 months, according to FactSet, compared with about 18 for the **S&P 500** and 17 for the Dow.

But lately that hasn't mattered.

Since the Dow is price-weighted, meaning that companies with higher share prices exert more influence on the index's direction, an even longer Boeing rally could carry the Dow to 22000, from Monday's close of 21891.12.

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THE WALL STREET JOURNAL.
U.S. EDITION

Dollar's Fall Threatens Foreign Stocks --- Drop causes analysts to lower earnings forecasts for many overseas companies

By Riva Gold and Mike Bird
925 words
1 August 2017
The Wall Street Journal
J
B12
English

A surprise fall in the U.S. dollar is taking the fizz out of international stock markets and prompting investors to damp overseas expectations for the months ahead.

European and Japanese benchmarks -- which were among the world's best performers in the spring -- have lagged behind the **S&P 500** since the dollar fully erased its postelection rally two months ago. Analysts are cutting their earnings forecasts for companies in these regions as the dollar's unexpected drop has upended more optimistic projections.

The ICE Dollar Index, which measures the U.S. currency against a basket of six others, is down 9.2% so far this year, with the greenback shedding 11.2% against the euro, 6.6% against the British pound and 5.8% against the yen.

Overseas stock markets are already reflecting the trend. Despite a buoyant global economy, the Stoxx Europe 600 has fallen 3.4% in local-currency terms and the U.K.'s FTSE 100 has dropped 1.7% since the dollar fell back to its pre-election value on May 22. The **S&P 500**, meanwhile, has notched a 3.2% gain over that period.

"The biggest risks on European earnings are the currency," said Martin Moeller, head of global equities at Union Bancaire Privee. "The U.S. could benefit and Europe could suffer if the euro keeps being strong."

Export-oriented companies with high sales exposure abroad, which make up a large chunk of overseas **stock-market** benchmarks, are particularly affected by foreign-exchange movements.

If a European or Japanese company earns much of its revenue in dollars, a weaker greenback is bad news for its euro- or yen-denominated earnings.

Bank analysts project a fall of roughly 4% to 5% in eurozone profits for every 10% rise in the euro.

Although the dollar's latest drop won't have fully filtered through, earnings are already stuttering after the euro's strongest quarter against the dollar since 2010.

Analysts since the middle of May have downgraded European earnings forecasts for the second quarter and the year ahead, in a move many attribute to the stronger euro.

Unlike the strong start for second-quarter results in the U.S., Europe's reporting season has proven more muted so far, said analysts at Morgan Stanley.

Swings in the euro have historically been a key driver of earnings beats, with a weaker euro prompting better results.

Some companies hedge their overseas revenues, meaning the effects of the weaker dollar could take several quarters to fully materialize in earnings, according to Ankit Gheedia, strategist at BNP Paribas. He expects the impact of a stronger currency to be worst on Europe's large-cap automotive, technology, food and beverage, and personal and household goods companies, which generate more than half of their revenues overseas.

For now, the effect on non-U.S. companies has primarily come from translating earnings into stronger local currencies. The euro was at $1.1843 in late New York trading Monday.

But "if the euro's strength continues and you spend time around the mid one-twenties against the dollar, those are levels where you'd see a more meaningful impact on earnings," said Ronan Carr, European equity strategist at Bank of America Merrill Lynch. "Export sectors in some parts of Europe would start to become less competitive."

That is because a stronger local currency makes a company's products more expensive for foreign buyers, which tends to hurt demand.

The dollar has weakened against the yen in the past few months too, raising a perennial risk for the Japanese **equity market**, which is even more tightly linked to foreign-exchange markets than Europe's are.

Over the past five years, the dollar-yen exchange rate and the Nikkei 225 equity index have displayed a correlation coefficient of over 0.9, according to FactSet data. A coefficient of zero means two series are unrelated, while a coefficient of one means they are perfectly correlated, moving in tandem.

"Japan is a market without a strong domestic narrative, very much being driven off the currency," said Zahra Ward-Murphy, equity strategist at Absolute Strategy Research. While earnings have been revised lower for most regions in recent weeks, Japan has fared worse.

The country's Nikkei Stock Average snapped a three-month winning streak in July.

To be sure, international stocks could do well despite currency headwinds as stronger local economies help push up profits just as valuations grow more compelling compared with the U.S. According to Bank of America Merrill Lynch's July fund manager survey, investors still remain positioned heavily in international stock markets.

Outside of advanced economies, some international stocks may also benefit from a weaker dollar, particularly in emerging markets.

"Commodity-sensitive regions -- Russia, Brazil, South Africa -- they tend to suffer most when the dollar starts rising, because of their external position with regards to dollar debt," said Gautam Batra, head of investments for Mediolanum Asset Management. "They breathe a sigh of relief when the dollar is weaker."

Meanwhile, it has certainly been a boon for U.S. multinational companies, many of which have stocks trading at record highs.

"For three years, strong dollar complaints were in every single earnings report," said Omar Aguilar, chief investment officer for equities at Charles Schwab Investment Management. "Now they seem to be benefiting a lot from the reverse effect."

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The New York Times

Business Day; DealBook
Morning Agenda: Post-Scaramucci, White House Turns to Taxes

By AMIE TSANG and MICHAEL J. de la MERCED
1,390 words
1 August 2017
06:07 AM
NYTimes.com Feed
NYTFEED
English

Anthony Scaramucci, the voluble financier turned colorful communications director, is out of the White House.

John F. Kelly, the new chief of staff, asserted military discipline, according to reports, and the tough-talking Mr. Scaramucci was escorted out.

But in a bid to stick to the agenda of "American Dream Week" — after the apparent demise of the effort to repeal the Affordable Care Act and after the 10-day drama of the Scaramucci era — the Trump administration tried to show some unity with the Republican Party's biggest financial backers. Senior officials promised to successfully rewrite the tax code.

"This is a pass/fail exercise, and we will pass tax reform," said Steven T. Mnuchin, the Treasury secretary.

The administration is under pressure to deliver. It wants to have a bill on President Trump's desk by Thanksgiving.

So what happens between now and then?

Administration officials said that Mr. Trump would travel the country holding campaign-style rallies to promote a tax overhaul.

House and Senate tax-writing committees will begin marking up legislation shortly after Labor Day, according to Mark Short, the Trump administration's legislative affairs director. Then, if the bills are passed in October and November, the tax legislation can get to Mr. Trump's desk before December.

But there are still divisions on how the tax code would be revised:

The White House wants to cut the top corporate tax rate to 15 percent, from 35 percent.

House Republicans favor a cut to 20 percent, which several tax experts said was an ambitious goal. Even Orrin G. Hatch, the chairman of the Senate Finance Committee, thinks that getting to 25 percent would be a challenge.

And members of both parties are already objecting to the administration's proposal to eliminate the deduction that Americans can take on their state and local taxes.

China Deals Tracker

• Speaking of Mr. Scaramucci, the HNA Group says that its deal to buy his stake in his SkyBridge Capital fund of funds is still on. (No word yet on whether he will return to the firm.)

• Anbang denied Monday's report in Bloomberg News that it was told to dispose of assets and repatriate the proceeds.

• India has decided to block Shanghai Fosun Pharmaceutical Group's proposed takeover of an Indian drugmaker, Reuters reported, citing people familiar with the matter. The $1.3 billion deal to take an 86 percent stake in Gland Pharma would have been the biggest ever Chinese acquisition in the country.

• Formally called the China Integrated Circuit Industry Investment Fund — and known locally as "the Big Fund" — a government-backed fund has been providing financing for deals seen as crucial to helping Chinese companies produce more powerful semiconductors. To its critics, it is a slush fund that will flood the sector with overcapacity.

• China may be clamping down on its homegrown deal-makers. But DealBook's Andrew Ross Sorkin notes that one American company is making a big move in that country: Starbucks.

Last week, the coffee giant bought out its local partner. It's part of an eye-opening expansion campaign there, where it's opening 500 stores a year. Starbucks is even planning a 30,000-square-foot emporium that the company's chairman, Howard Schultz, thinks could have more significance for Chinese consumers than Shanghai Disney.

"When people ask me how much can you really grow in China, I don't really know what the answer is, but I do believe it's going to be larger than the U.S.," Mr. Schultz told Mr. Sorkin.

Discovery and Scripps: Betting on Cable

Animal Planet meets home improvement. That's the $11.9 billion deal that Discovery Communications has struck to buy Scripps Networks Interactive.

They've faced ratings declines, advertising weakness and cord cutting. But the companies are hoping that together they can take advantage of their control of about a fifth of the ad-supported pay television audience in the United States.

"People are consuming more content than they ever had on more platforms," said David M. Zaslav, Discovery's chief executive. "The question is, what content is going to travel?"

Mr. Zaslav thinks Discovery can help expand Scripps's content to more than 220 countries and territories, and create new services for mobile and streaming. The deal also brings an expected $350 million in cost savings.

Wall Street, however, was not convinced — Discovery's **stock price** plunged on Monday.

Getting distributors to pay for more content will be a hard sell, Breakingviews' Jennifer Saba argues, since some carriers are instead looking to slim down their offerings. "The Scripps family wisely chose to take the money and run," she writes.

Snapdeal Calls Off Sale to Flipkart

And it's a setback for SoftBank, which has been on a run of deal-making recently.

Snapdeal said it was calling off talks to combine with Flipkart, ending efforts by SoftBank to engineer the merger of India's two biggest homegrown e-commerce companies, The Wall Street Journal and Reuters reported.

SoftBank is the biggest investor in Snapdeal, but said it respected Snapdeal's decision.

Both Snapdeal and Flipkart have been losing ground to Amazon, which arrived in India in 2014.

Related SoftBank Reading

• Charter shot down the possibility of buying Sprint, but its shares still soared after reports that SoftBank was weighing making a takeover bid. But CNBC's David Faber reported that its founder, Masayoshi Son would not make a hostile bid for the cable operator.

• And SoftBank's talks to potentially invest in Uber — which some at the ride-hailing titan feared could have served as a way for its co-founder Travis Kalanick to return to power — have ended, according to Mr. Faber.

Tough Times in Tech

• Kleiner Perkins Caufield & Byers, the veteran venture capital firm, confirmed to Bloomberg News on Monday that it had shut down its $4 million seed-stage investment fund, KPCB Edge. The three partners who ran the fund, Anjney Midha, Roneil Rumburg and Ruby Lee, left the firm in recent weeks.

And Mike Abbott, a prominent Kleiner Perkins partner, wrote in a personal blog post that he is leaving the firm. Mr. Abbott, a former Twitter engineer, said that he wants to "build the next new thing."

• Speaking of seed funding: Despite a surge of interest from wealthy individuals looking to invest in technology start-ups, such financing appears to be drying up.

The number of seed-stage investments is down 40 percent from its peak two years ago, according to Reuters. About 900 such deals were struck in the second quarter this year, compared to 1,500 during the comparable quarter in 2015.

Some in Silicon Valley worry that investors are becoming concerned about overinflated valuations of start-ups. Others think that existing technology giants like Facebook and Google are so powerful that they can quickly squelch newborn competitors.

• Snap Inc. could have had a worse Monday. Shares in the Snapchat parent closed down just 1 percent that day, the first time that some insiders could sell stock after the company's springtime initial public offering.

The expiration of the first so-called "lockup period" meant that roughly 400 million shares held by early investors and company executives could be sold.

But analysts said that the event had been priced into the stock. Snap's shares went down as much as 5 percent before whipsawing throughout the day, and closed at $13.67.

The next moment of potential drama is likely to be at the end of August, after Snap reports its latest quarterly earnings — and the second phase of the lockup expires.

Snap's **stock price** is now down nearly 20 percent from its initial offer price.

Follow Amie Tsang @amietsang, and follow Michael J. de la Merced @m_delamerced.

* Discovery to Buy Scripps, Owner of Food Network, in $11.9 Billion Deal

* Discovery Deal Hinged on the Scripps Family

* While Other U.S. Companies Flee China, Starbucks Marches In

Steven Mnuchin, the Treasury secretary, at a press briefing in June. He spoke about tax reform at an event Monday that was hosted by Americans for Prosperity, a political network funded by the Koch brothers. | Doug Mills/The New York Times

Document NYTFEED020170801ed81002jp

THE WALL STREET JOURNAL.
U.S. EDITION

Debt Ceiling Isn't Scaring Options Traders

By Chris Dieterich
287 words
1 August 2017
The Wall Street Journal
J
B10
English

The bond market recently appeared jittery about a fight on Capitol Hill over raising the debt ceiling, but options traders don't seem all that worried.

A reading of the options market shows investors expect little uptick in **S&P 500 volatility** in October, after extraordinary steps taken to pay the U.S. government's bills are expected to run out.

Options prices can be seen as gauges of demand for portfolio insurance. For example, the widely quoted CBOE**Volatility** Index, or VIX, essentially measures demand for **S&P 500** options insurance over the next 30 days.

U.S. stocks have been historically calm and, currently, demand to hedge is low. Tracking the expected **volatility** of the **S&P 500** over different time frames -- called the "term structure" -- can shed light on when investors expect the market to get choppy.

Right now, the curve of the **S&P 500**'s implied **volatility** is relatively flat through the rest of the year.

"Term structure is showing no anxiety over [the] debt ceiling," wrote Mandy Xu, an equity derivatives strategist at Credit Suisse. "There is currently no event risk priced in October for the debt-ceiling catalyst."

That stands in contrast with the short-term Treasury market, which last week signaled worries that a protracted congressional debate might spill into **financial markets**.

Traders in VIX futures show little fear of turmoil in October. Futures on the VIX, the market's fear gauge, indicate little worry about the debt ceiling. VIX futures that expire in October and November are trading below where they did one and two months ago, according to FactSet.

Document J000000020170801ed8100010

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Date	08/01/2017 to 08/31/2017
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