THE WALL STREET JOURNAL.

Markets
Oil Notches Fresh Three-Year High; Reverses earlier losses as traders weigh geopolitical risks in Middle East with higher production in other areas

By Sarah McFarlane and Stephanie Yang
456 words
12 April 2018
04:18 PM
The Wall Street Journal Online
WSJO
English

Oil prices closed at a three-year high on Thursday, reversing losses as traders gauged rising geopolitical risks in the Middle East against higher production in other parts of the world.

Light, sweet crude for May delivery advanced 25 cents, or 0.4%, to $67.07 a barrel on the New York Mercantile Exchange, closing at the highest level since December 2014. Brent, the global benchmark, fell 4 cents, or 0.1%, to $72.02 a barrel.

Geopolitical risk has lifted prices to multiyear highs this week, as investors focused on news reports of potential action by western countries in Syria, along with reports that Saudi Arabia intercepted a missile over Riyadh on Wednesday, causing concern of instability in the region. Around two-thirds of the world's oil reserves are in the Middle East.

"It's not like Syria is a huge oil exporter or consumer in itself, but the fear is if something should escalate in the region, it could spread to areas where there's a lot more oil production at stake," said Michael Poulsen, senior oil analyst at consultancy Global Risk Management. "It seems the market has allocated a certain amount of risk to that happening."

Concerns over falling supply from other countries such as Venezuela and Iran have helped support **oil prices** as well, with the potential for the U.S. to reinstate sanctions on Iran when it reviews its stance in May.

While the Organization of the Petroleum Exporting Countries has continued to cut its crude-oil output, the cartel said in its monthly market report that non-OPEC producers such as the U.S. are contributing to rising global supply.

"We still think that the cartel is underestimating non-OPEC supply growth," said Capital Economics analysts, noting that higher prices will encourage U.S. producers to ramp up activity and OPEC members to exceed quotas.

Another damping factor was the U.S. Energy Information Administration's upward revision to its 2019 production forecast to 11.44 million barrels a day, from its previous figure of 11.27 million barrels. U.S. oil production averaged 9.3 million barrels a day in 2017.

"The merciless growth will continue as long as **oil prices** remain steady, supported by political tensions in the Middle East," said Tamas Varga, analyst at brokerage PVM.

Gasoline futures fell 0.6% to $2.0546 a gallon, and diesel futures fell 0.4% to $2.0838 a gallon.

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Document WSJO000020180412ee4c000xd

THE WALL STREET JOURNAL.

Economy

U.S. Weekly Jobless Claims Hold Below 300,000 for Longest Streak on Record; Continuing claims by those out of work longer than a week rose 53,000 in the week ended March 31

By Sarah Chaney
497 words
12 April 2018
11:15 AM
The Wall Street Journal Online
WSJO
English

WASHINGTON—The number of Americans claiming new unemployment benefits has never been so low for so long.

Initial jobless claims, a proxy for layoffs across the U.S., decreased by 9,000 to a seasonally adjusted 233,000 in the week ended April 7, the Labor Department said Thursday. This means claims have now held below 300,000 for 162 consecutive weeks, cementing the longest streak for weekly records dating back to 1967.

The current streak eclipsed the previous longest stretch that ended in April 1970. Taking into account the size of the labor force, claims today compared to the late 1960s and early 1970s are much lower. In March, about 14 initial jobless claims were filed for every 10,000 people in the labor force, Labor Department data show. This compares with 23 claims filed per 10,000 in spring of 1969.

This year, about twice as many people are in the labor force as in 1969.

The consistently low claims levels point to labor market health because they mean relatively few Americans are losing their jobs and applying for benefits to tide them over until they can find new employment.

After several years of consistent job growth, firms are reluctant to let employees go in a tightening labor market in which many available workers are quickly snapped up.

"Even if you aren't aggressively hiring, if you know the labor market is tight and it's going to be difficult to hire someone…you're only going to lay someone off if you had to," said Stephen Stanley, chief economist at Amherst Pierpont Securities.

Data on jobless claims can be **volatile** from week to week, especially around holidays when seasonal adjustments can be tricky.

"The changing date of the Easter holiday from year to year makes the seasonal adjustment process tricky from late March through late April, so further **volatility** in headline claims over the next few weeks can't be ruled out," wrote Ian Shepherdson, chief economist at Pantheon Macroeconomics, in a note to clients.

The four-week moving average of initial claims, a more-stable measure, increased last week to 230,000.

The low level of claims is among multiple signs of health in the U.S. labor market. The unemployment rate has held at 4.1% since October, its lowest level since late 2000. Employers have added to nonfarm payrolls for 90 straight months in the longest continuous jobs expansion on record.

Thursday's report showed the number of claims workers made for longer than a week increased by 53,000 to 1,871,000 in the week ended March 31. That figure, known as continuing claims, is reported with a one-week lag.

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Document WSJO000020180412ee4c0028l

THE WALL STREET JOURNAL.

Markets

Five Things to Watch for in Citigroup's Earnings; Bank's spending will be closely scrutinized, with investors focusing on how any new spending will translate into faster growth

By Telis Demos
388 words
12 April 2018
01:00 PM
The Wall Street Journal Online
WSJO
English

Citigroup Inc. is expected to report first-quarter results before the market opens Friday. Here's what you should keep an eye on.

1. Revenue Expected to Outpace Profit

Analysts are predicting revenue growth of 2.7% from the same quarter last year, to $18.9 billion. But profit is expected to grow just 1.4%, to $4.1 billion.

2. Billion-Dollar Club

Following a surge in **stock-market volatility** this winter, finance chief John Gerspach floated the idea that the bank's equities trading "had a shot at" $1 billion in quarterly revenue. That would be a big milestone for the bank's quest to boost its market share in that lagging business, representing a 30% jump versus a year ago. It has only had one billion-dollar quarter in equities since 2011. That could help offset an expected industrywide slowdown in investment-banking growth.

3. Expenses in Focus

Changes to how companies recognize revenue will add a bit more pressure on Citigroup to cut costs to achieve its targeted efficiency ratio, according to Bernstein analysts. That likely means the bank's spending will be closely scrutinized, with analysts asking for more detail on how any new spending—like in digital banking technology—will eventually translate into faster growth.

4. Card Wars

The bank has pushed back targets for a turnaround in credit-card revenue and profit growth thanks to what it says has been a tough competitive environment requiring it to keep offering teaser deals to add more customers. The bank says the growth will come, as its data shows customers are sticking with the bank after their promotional deals expire.

5. New Gun Policy

Citigroup made a splash this past quarter by announcing it would aim to push clients who sold or manufactured firearms to follow new practices, such as not selling to people under 21. Analysts may probe whether this has led to any revenue loss, from customers who don't like the policy, or whether it has had any impact on the bank's clout in Washington with Republican lawmakers.

Write to Telis Demos at telis.demos@wsj.com

Document WSJO000020180412ee4c004s9

THE WALL STREET JOURNAL.
U.S. EDITION

World News: China Says Xi Didn't Back Off On Trade

248 words
12 April 2018
The Wall Street Journal
J
A7
English

BEIJING -- A Chinese government spokesman denied that recently announced policy changes constitute concessions to the Trump administration in the countries' trade fight.

A Commerce Ministry spokesman said Thursday that the new measures announced by President Xi Jinping "have nothing to do with the trade disputes with the U.S." The spokesman, Gao Feng, told reporters that the Chinese government is opening the economy "at its own pace, in its own direction, which is already fixed."

At a forum of political and business leaders Tuesday, Mr. Xi offered to further open China's markets to foreign business, increase imports, accelerate access to China's insurance and other financial sectors, raise protections for intellectual property and lower tariffs and reduce ownership restrictions for foreign car makers.

Global **financial markets**, which have been rocky in recent weeks as the U.S. and China threatened tariffs on each other's goods, were cheered by Mr. Xi's remarks, seeing them as a sign both governments would negotiate their way out of the dispute. President Donald Trump liked them, too, thanking Mr. Xi on Twitter and saying, "We will make great progress together."

Still, the Commerce Ministry's Mr. Gao reiterated Beijing's position that no talks are taking place and that China won't engage in them under U.S. threats. "The U.S. lacks the sincerity for negotiations," he said.

-- Liyan Qi

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THE WALL STREET JOURNAL.

Economy

Powerful Forces Seen Restraining U.S. Pay Growth; Economists surveyed by WSJ point to low productivity growth and other factors holding down pace of wage gains

By Ben Leubsdorf
839 words
12 April 2018
10:08 AM
The Wall Street Journal Online
WSJO
English

U.S. wage growth is set to pick up modestly in the coming years, but economists think pay raises are being depressed by powerful forces—sluggish productivity gains, an aging population and overseas competition—that could persist despite low unemployment.

It is one of the lingering mysteries of the economic expansion that began nearly nine years ago: Why has growth in Americans' paychecks remained anemic despite the unemployment rate plunging to its lowest level in 17 years?

Larger raises may be coming after average hourly earnings for private-sector workers rose 2.7% in each of the past two years. Private-sector forecasters surveyed in recent days by The Wall Street Journal on average predicted 3% earnings growth in 2018, followed by gains of 3.2% in 2019 and 3.1% in 2020.

"The shift in the anecdotal reports I am hearing on wages has hit a critical mass," said Diane Swonk, chief economist at Grant Thornton. "Employers are taking the trifecta of tight labor markets for workers: signing bonuses, wage gains and poaching."

While those forecasts exceed the pace of recent years, they would still be historically modest gains given economists also on average expect U.S. unemployment will fall below 4% by the end of this year and stay there through 2020. When the unemployment rate was last below 4% in December 2000, wages for production and nonsupervisory workers rose 4.3% on the year, according to Labor Department data.

In theory, low unemployment forces employers to raise pay as they compete to retain employees and hire from a shrinking pool of available workers. The Federal Reserve is gradually raising short-term interest rates to keep inflation in check because many officials think low and falling unemployment puts upward pressure on wages and prices.

But at the same time, other forces may be holding down wage gains.

A majority of the 60 economists surveyed this month by the Journal said three factors are meaningfully holding down readings on wage growth: low productivity growth, demographic changes, and foreign competition and globalization. Other possible explanations, such as hidden slack in the labor market or government regulation, were cited by fewer than half of forecasters.

Gains in labor productivity can allow employers to boost workers' take-home pay, but the recent trend has been historically weak. The aging of the U.S. population may be depressing wage data as highly paid baby boomers retire and are replaced by younger, lower-paid workers. Globalization might put pressure on some U.S. companies to remain competitive with rivals located overseas in low-wage regions.

Those factors represent long-running trends and wouldn't necessarily fade if the economy continued to expand. Still, the tightening labor market should put more upward pressure on wages over time, pushing up against those barriers and perhaps overcoming them to an extent.

"Further job market tightening is likely to begin dominating structural constraints," said Lynn Reaser of Point Loma Nazarene University.

More broadly, the economists surveyed by the Journal expect healthy economic growth this year bolstered by fiscal stimulus including tax cuts, but increasingly worry the economy's performance might disappoint.

Gross domestic product on average was seen rising 2.8% in the fourth quarter of 2018 from a year earlier, which would exceed the 2.6% growth in 2017. Growth was projected easing to 2.5% in 2019 and 2% in 2020, a trend similar to recent Congressional Budget Office and Fed forecasts.

Most economists, however, saw better-than-even risk that growth will come in weaker than expected. Some 62% said risks were tilted to the downside—the highest share since October 2016, just before the presidential election.

One downside risk mentioned by many economists in recent months: international trade. The potential for escalating disputes between the U.S. and major trading partners such as China has rattled **financial markets**. Negotiations continue among Canada, Mexico and the U.S. on possible revisions to the North American Free Trade Agreement, which President Donald Trump has criticized; forecasters had previously warned pulling out of Nafta would slow U.S. growth.

Economists this month on average saw a 26% chance of the U.S. pulling out of Nafta under the Trump administration, from 29% in March and 26% last November.

In general, economists remain optimistic about the health of the current expansion. The average probability of a recession in the next 12 months was 15% in April's survey, ticking up from the prior month but remaining low.

"Despite all the noise, fundamentals are strong," said Russell Price, senior economist at Ameriprise Financial.

The Journal's survey of 60 business, financial and academic economists was conducted April 6-10. Not every economist answered every question.

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Related

* Some Economists See Fiscal Policy Leading to More Aggressive Fed Rate Rises

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THE WALL STREET JOURNAL.
U.S. EDITION

Name Change Isn't Its Cup of Tea

By Amrith Ramkumar
242 words
12 April 2018
The Wall Street Journal
J
B11
English

Long Blockchain Corp., whose bitcoin-inspired transformation from a struggling beverage maker exemplified the euphoria over cryptocurrencies, said the **Nasdaq Stock Market** would delist it, upholding a February decision.

Long Blockchain, which changed its name from Long Island Iced Tea Corp. in December, hasn't been able to keep its market value above the exchange's $35 million minimum requirement, and trading of its shares on the **Nasdaq** will be halted Thursday.

Wednesday's announcement is the latest hit to a company swept up in the cryptocurrency frenzy. Blockchain is the technology that underpins bitcoin.

Long Blockchain's shares dropped 37%, to $1.10, on Wednesday, putting the firm's market capitalization at $12.6 million. The firm was valued at nearly $70 million in December after it said it was pivoting to focus on blockchain while a subsidiary continued to sell tea.

Bitcoin had its second-worst quarter ever in the first three months of 2018 and has dropped 50% this year, according to CoinDesk.

Another firm that emphasized its ties to cryptocurrencies and blockchain technology, Overstock.com Inc., has lost nearly one-third of its market value in 2018 and pulled its secondary stock offering. Riot Blockchain Inc.'s market cap is down 68%.

Long Blockchain said it would continue to trade publicly and transition to the over-the-counter market.

Rough Ride

Long Blockchain's market value peaked shortly after its name change but has tumbled below Nasdaq's minimum requirement since.

Source: FactSet

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Document J000000020180412ee4c00017

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Why Investors Have Soured on Russia

By Richard Barley
376 words
12 April 2018
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

Sanctions and surging tensions over Syria have hit Russian markets hard. For now, that is obscuring the relatively solid economic fundamentals that have made Russia an emerging-market favorite in recent months. Those fundamentals should count in the end, but for now, risk aversion is driving the market.

The ruble has fallen 10% against the dollar this week, and President Donald Trump's tweet Wednesday warning Russia that U.S. missiles "will be coming" to Syria pushed the currency to 65 against the dollar, its lowest since late 2016. Russia's dollar-denominated RTS **stock index** is down 13% since Friday.

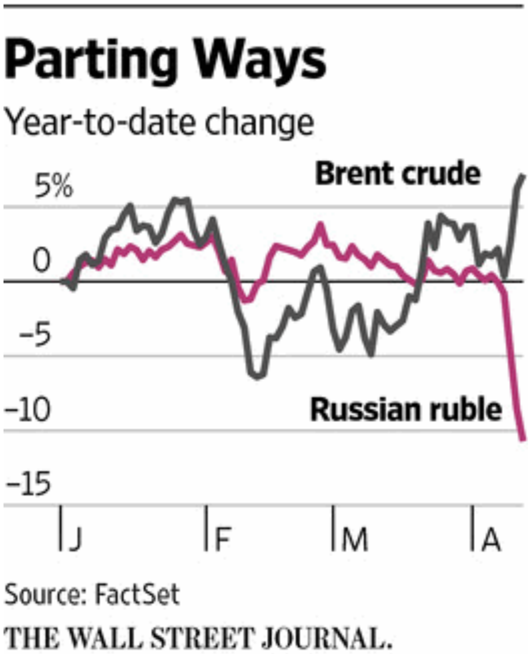
On sanctions, Russia has been here before. But the latest round cuts deeper and has raised fresh uncertainty about what further measures the U.S. might impose. The risk is that Russian companies become further cut off from international financing. That would limit growth, but with just $13 billion of corporate foreign-currency debt maturing in 2018, according to TD Securities, it wouldn't cause a crisis. In the longer term, Russia's total central-bank reserves cover 85% of the country's external debt, both public and private, emerging-market fund manager Ashmore notes.

Still, there is the risk of market disruptions related to the flow of Russian payments through international banks A potential clash over Syria is just adding to the list of worries investors face.

The Russian economy is healthier than in the past, when sanctions coincided with low **oil prices**. Since then, Russia has built credibility by running tight monetary policy, bringing inflation down, and adopting conservative macroeconomic policies. Government debt is low at 13.7% of gross domestic product, according to Moody's.

Russia's attractive yields and solid monetary policy made the country a hot destination for foreign investors, who held more than one-third of domestic Russian government bonds in March. The trade was rewarding in a yield-challenged world.

But now, cheaper valuations for Russian stocks, bonds and the ruble face a big offset in geopolitical risks. It may take time for investors to feel confident that returning to Russia is the right bet.



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THE WALL STREET JOURNAL.
U.S. EDITION

A Hedge-Fund Star's $1 Billion Tax Bill --- John Paulson's bet before the financial crisis paid out royally; now, the IRS wants its cut

By Gregory Zuckerman
1,970 words
12 April 2018
The Wall Street Journal
J
A1
English

John Paulson won fame after he made one of the greatest financial bets of all time. What comes next? One of the largest-ever personal tax bills.

By April 17, the hedge-fund manager must make federal and state tax payments of about $1 billion, on top of roughly $500 million in taxes he paid late last year, said people close to the firm. That sum is so big it dwarfs the maximum amount the Internal Revenue Service will allow any single taxpayer to pay with a single check. (That's $99,999,999, in case you're wondering.)

Mr. Paulson bet big against subprime mortgages ahead of last decade's financial crisis, earning about $15 billion of profits for his funds and approximately $4 billion for himself. He deferred the bulk of the taxes on these profits, using a tax provision available at the time to hedge-fund managers, said the people close to the firm. Now the bill is due.

Mr. Paulson, 62, isn't exactly struggling to pay the $1.5 billion bill. But he's also not as flush as the heady days of 2008. In fact, after a string of poor results, a bad bet on pharmaceutical stocks and client defections, Mr. Paulson has been selling various investments to cover the bill. He's also in the process of cutting costs and shrinking his firm, including laying off senior traders.

Seven years ago, Mr. Paulson was managing $38 billion and was firmly among Wall Street's elite. Today, Paulson & Co. is managing under $9 billion -- most of it Mr. Paulson's own assets, said the people close to the firm. That's one reason this particular IRS deadline stings.

"It is safe to say it is one of the largest tax bills on earned income in history," said Henry Bregstein, co-global head of the financial services group at the law firm Katten Muchin Rosenman LLP. Billionaires in the technology and private-equity worlds usually achieved the bulk of their wealth through the appreciation of shares, he said, not from earned income. Mr. Paulson declined to be interviewed for this article.

As with most hedge funds, Paulson & Co. enjoys profits from fees amounting to 20% of gains generated for investors. For decades, tax authorities allowed managers of hedge funds to defer receipt of this income. The IRS generally permits businesses to let executives defer compensation because that tends to lower the firms' compensation costs, forcing them to pay higher taxes on profits. That offsets income taxes not immediately paid by the employees.

But in the case of offshore hedge funds that don't pay offsetting U.S. taxes, including some operated by Mr. Paulson, the Treasury lost out. A 2008 tax change mandated by Congress gave Mr. Paulson and other hedge-fund managers until tax day of this year to pay taxes on money accumulated before the law changed. Other hedge-fund managers facing enormous tax bills include Steven Cohen, David Einhorn and Daniel Loeb, the Journal previously reported, citing people familiar with the matter. Mr. Loeb didn't respond to a request for comment. Representatives for Mr. Cohen and Mr. Einhorn declined to comment.

Mr. Paulson has been turning to his Credit Opportunities fund -- one of several funds he operates -- for the money, the people close to the firm said. This fund held about $3.5 billion in assets late last year, the bulk represented by Mr. Paulson's own interests. He pulled about $500 million from the fund late last year to make an initial tax payment and will pay another $1 billion from the fund by April 17, the people said. Mr. Paulson is the largest investor in the fund, which gained 10% last year, one of these people said.

To generate enough cash to let Mr. Paulson withdraw his money, Paulson has been selling investments including shares of Caesars Entertainment Corp., people close to the firm said. Paulson held nearly 28 million shares late last year, making it one of Caesars' largest holders. Paulson sold almost nine million shares in the fourth quarter, according to filings, and sold millions more earlier this year, the people said. The stock has fallen to about $11 from about $13 since November, weakness that some investors attribute at least in part to Paulson's selling.

Paying the tax bill may itself be something of a chore for Mr. Paulson. He could wire the money but may wish to pay by check if he'll earn interest on the money until tax authorities cash the check. If so, the IRS accepts only checks or money orders of less than $100 million. He could submit multiple payments, though tax attorneys note that clients can have problems fitting such huge numbers onto the line on a check.

It has been a remarkable reversal of fortune for Mr. Paulson. Before that trade of a lifetime, he hadn't made much of a mark. A native of the New York borough of Queens, Mr. Paulson grew up in a middle-class family and attended New York University and Harvard Business School. He later worked at Bear Stearns before launching his own firm in 1994, where he produced steady gains as an arbitrager investing in merger deals.

In 2006, he became concerned about rising housing prices and a shift to subprime mortgages. "This is crazy," he told Paolo Pellegrini, one of his analysts, as they pored over housing data at the time, The Wall Street Journal reported.

The pair bought up derivative investments that served as insurance on the riskiest types of mortgages. Most on Wall Street thought the Paulson team was out of its depth, but when the financial crisis hit the derivatives soared in value. Paulson added another $5 billion of profits in 2008 betting directly against financial firms.

By anticipating a financial crisis that caught most bankers, investors and regulators flat-footed, Mr. Paulson became one of Wall Street's hallowed names. Today, he lives in a Manhattan mansion and has given $20 million to New York University, $100 million to the Central Park Conservancy and $400 million to Harvard University's school of engineering.

After Mr. Paulson's 2008 success, new investors, including Donald Trump, flocked. Rather than return to merger investing or turn investors away, Mr. Paulson continued to make unorthodox and big moves, hoping to sustain his winning streak. He turned **bullish** on U.S. banks and the overall economy -- prematurely.

On the plus side, he shifted to gold well ahead of a surge in prices, leading to another $5 billion of personal gains in 2010. As with his winnings during the financial crisis, Mr. Paulson kept the bulk of his personal profits in his funds, said some of the people close to the firm. By 2011, his firm had become one of the largest hedge funds.

Then he went cold.

Gold-mining stocks were crushed when gold prices weakened, other holdings slumped and some investors exited. At one point that year, Paulson owned more than 14% of Sino-Forest Corp., before fraud accusations against the Chinese forestry company sent shares tumbling, costing Paulson more than $100 million, according to a person familiar with the loss. Canadian regulators later ruled that executives at Sino-Forest, which filed for bankruptcy 2012, had engaged in fraud.

By 2014, Mr. Paulson told clients he had found a new hit: Consolidation in the drug industry would accelerate and boost a number of pharmaceutical companies, some investors said he told them. Late that year, he told one of these investors one of his largest holdings, Valeant Pharmaceuticals International Inc., then trading at around $140 a share, would hit $250, the investor said.

By July 2015, Valeant had soared past his target. But it soon fell, along with other drugholdings, hurt in part by a tweet by Hillary Clinton, then the presumptive Democratic presidential candidate, about "price gouging" in the specialty-drug sector.

In October 2015, with Valeant under $100, Mr. Paulson held a special meeting with more than 40 investors in a conference room in his Midtown Manhattan office, many of whom were unhappy, according to some investors at the event. Speaking in a calm, confident monotone, Mr. Paulson reiterated his support for Valeant and other drug stocks. Many investors gave Mr. Paulson the benefit of the doubt, given his remarkable gains during the financial crisis.

By April 2016, Valeant's stock was under $36. That month, Mr. Paulson sent a letter to investors in his merger fund, Paulson Partners, reviewed by the Journal, promising to change its risk management and not put more than 35% of the fund's assets in a single industry group, among other changes.

Soon, he was adding still more Valeant shares. A person close to his firm said it complied with the new risk guidelines. In the second quarter of 2016, Paulson bought nearly 5.8 million shares of Valeant, taking the firm's ownership to 5.6% of all shares from 3.9% in the previous quarter. Other drug positions also grew. As drug stocks fell further, Mr. Paulson expressed confidence the slump wouldn't last.

Paulson Partners, Mr. Paulson's oldest fund, lost over 10% through the first two months this year after dropping 20% last year and 27% in 2016, according to documents shared with investors. Paulson Partners Enhanced fund, which uses borrowed money to invest in merger deals, is down over 20% this year, fell 35% last year and lost about 49% in 2016.

Compounding the losses, Mr. Paulson tried to protect his pharmaceutical positions by selling short, or betting against, about $1 billion of investments linked to the **S&P 500**, said some investors. As the market soared, that wager turned into a big loser in 2017 before rebounding a bit this year. Some of the people close to the firm said Mr. Paulson made final decisions on all investments and few colleagues felt comfortable challenging his strategy.

Recently, the firm wasn't particularly active in some areas, such as debt investing, including bond buying, and traders had little to do, said a person close to the firm.

Last month, some traders were called, one by one, into a lush conference room to speak with Mr. Paulson, people close to the firm said. Returning to the trading room after brief conversations, some employees were ashen-faced, these people said. After years of service, they had been fired and given three months' severance. Among those let go: His head of equity trading Keith Hannan, and top credit trader Brad Rosenberg.

Mr. Paulson is pinning hopes for a turnaround on a return to his original, more conservative style of investing, some of the people close to the firm said. A fund focused on traditional merger bets called Pure Spread launched in 2016 and is one of the few Paulson funds that has been up last year and this year. Mr. Paulson also hopes, these investors said, to draw more interest in a European-focused fund and his credit fund, both of which rose last year.

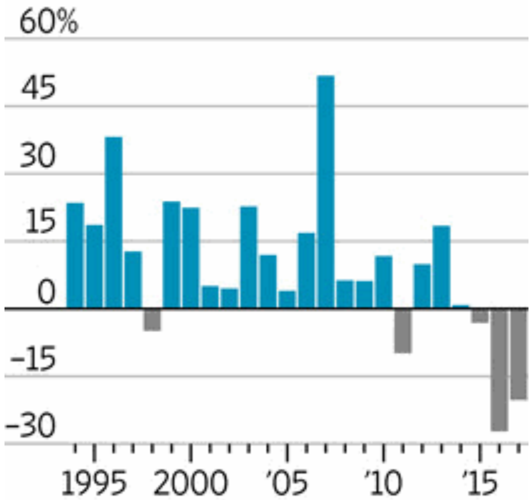
Mr. Paulson has acknowledged making mistakes, said some of the people close to the firm. He has also reiterated that his drug-company shares remain undervalued, saying a rebound is in the offing. At last year's end, four of the firm's five largest holdings were drug providers, including Mylan NV, Shire PLC, Valeant and Allergan PLC.

Last month, after shares of Shire spiked amid rumors of a possible takeover, Mr. Paulson said the move reaffirmed his strategy, according to a person close to him.

Laura Saunders contributed to this article.

Change of Fortunes

Annual return on Paulson Partners fund



Source: documents shared with Paulson investors

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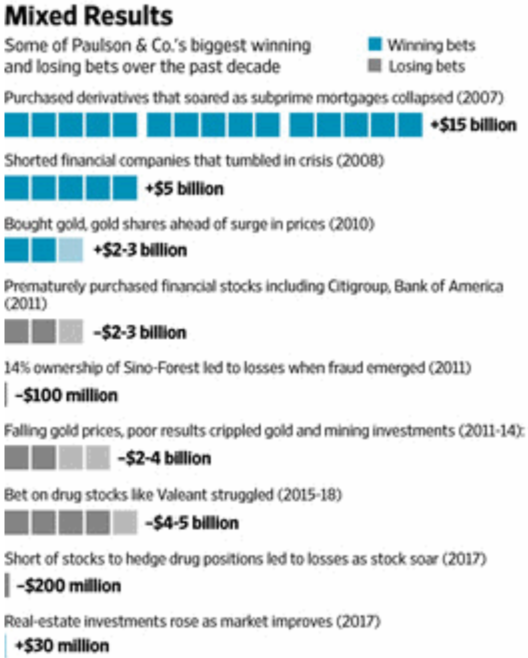
Mixed Results

Some of Paulson & Co.'s biggest winning and losing bets over the past decade



Sources: Securities filings; Paulson investors; staff reports

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Document J000000020180412ee4c0001r

WSJ PRO FINANCIAL REGULATION

Markets
U.S. Proposes Loosening Big-Bank Capital Rule | Mulvaney Backs Turning CFPB Into Commission | Tracy's Take: Fed Makes Decisions Behind Closed Doors; The Wall Street Journal's financial regulation newsletter for Thursday, April 12, 2018.

2,167 words
12 April 2018
06:35 AM
WSJ Pro Financial Regulation
RSTPROFR
English

Tracy's Take: The Fed Makes Two Big Decisions Behind Closed Doors

U.S. Proposes Loosening Big-Bank Capital Rule

Mulvaney Backs Turning CFPB Into Bipartisan Commission

China Takes New Step Toward Opening Its **Financial Markets** to the World

The Market's Wild Ride Is Chilling Brokerages' Revenue Engine

The Fed Makes Two Big Decisions Behind Closed Doors

The Federal Reserve issued two major rule proposals this week, and didn't hold public meetings discussing either one. That's a departure from previous practice that deprives the public of information about the rules' potential impact.

Most regulatory agencies that are governed by boards hold open meetings when they make major decisions. The Fed doesn't do so for its monetary-policy deliberations, but it had done so in the past for regulatory matters—most recently in September 2017.

Former Fed Chairwoman Janet Yellen has called open meetings "very worthwhile."

The Fed proposed changes to its stress-testing regime on Tuesday and the supplementary leverage ratio on Wednesday, both significant changes affecting big banks.

The regulator didn't explain why votes on the proposals were held behind closed doors. Asked about the issue on a conference call with reporters Tuesday, a Fed official said the agency was committed to transparency.

Even though Fed board meetings have been dull, scripted affairs, they still provide more information than the sanitized documents the Fed publishes when it makes regulatory decisions.

A meeting on the Fed's second proposal would have been particularly interesting to watch, given that it was a rare case in which the Fed's decision wasn't unanimous. Fed governor Lael Brainard, an Obama appointee, voted against it, but she didn't explain why. A Fed spokesman referred inquiries about her vote to an eight-day-old speech that obliquely referenced the issue at hand.

If Ms. Brainard had outlined her views at an open meeting, perhaps Fed Chairman Jerome Powell or Vice Chairman Randal Quarles would have responded, giving Fed watchers some insight into these officials' debate about a significant issue of public interest.

The trio would have probably stuck to the script. But one can dream.

Key Developments in Washington, on Wall Street, and Beyond

U.S. Proposes Loosening Big-Bank Capital Rule

U.S. bank regulators proposed retooling a major capital rule, their second move in as many days that could benefit some of the country's largest banks.

The Federal Reserve and the Office of the Comptroller of the Currency on Wednesday proposed loosening the "supplementary leverage ratio," a rule applying to eight huge U.S. banks considered crucial to the functioning of the global financial system. The group includes JPMorgan Chase & Co., Wells Fargo & Co., Goldman Sachs Group Inc. and others.

As with the prior day's Fed proposal to revamp annual "stress tests," officials characterized Wednesday's move as a way of simplifying the rule book for Wall Street without endangering the financial system.

Mulvaney Backs Turning CFPB Into Bipartisan Commission

The acting director of the Consumer Financial Protection Bureau expressed his support for turning the agency into a commission, an idea that is firmly backed by the financial industry but has lost traction in Congress.

Mick Mulvaney, a longtime CFPB critic who has taken steps to overhaul the bureau since assuming his post in November, said moving to a bipartisan commission from a single director would prevent "wild swings" in rules and policies that accompany changes in administrations.

China Takes New Step Toward Opening Its **Financial Markets** to the World

China has pledged to launch a stock trading link between Shanghai and London by the end of this year, taking a fresh step toward opening up its **financial markets** and providing the U.K. with a vote of confidence ahead of Brexit.

The plan, announced by China's central bank governor Yi Gang at a forum on Wednesday, is part of a suite of new measures aimed at further widening foreign investors' access to China's financial sector. It follows President Xi Jinping's relatively soothing rhetoric on trade ties with the U.S. in a speech Tuesday.

The so-called Shanghai-London Stock Connect program will come after Beijing moved in recent years to allow global investors to trade on its two domestic stock markets, Shenzhen and Shanghai, via similar trading links with Hong Kong. Those trading links have enabled billions of dollars to flow between Hong Kong and mainland bourses each day.

WSJ Pro: China Teases More Leeway for Local Fund Managers

China's foreign-exchange regulator hinted Wednesday that it might give domestic fund managers more leeway to invest in international stocks and bonds. Some in the market see the trial balloon as a potential tactic by Beijing to signal its willingness to open up its markets amid trade tensions with the U.S. The forex regulator said it "welcome[s] everyone to pay attention" to its statement at the end of this month on the Qualified Domestic Institutional Investor. That's a long-existing program that lets Chinese asset managers put money to work overseas. But the total has been capped at around $90 billion since early 2015 as the government has tried to cap overall outflows from China. The regulator's statement stopped short of saying it would boost quotas.

The Market's Wild Ride Is Chilling Brokerages' Revenue Engine

Turbulence in **financial markets** can be great for Wall Street trading desks—not so much for the firms' brokerage arms.

Income from advisory fees at their asset-management businesses—typically 1% of the value of client assets—surged as balances ballooned during the **stock market**'s nine-year rally. But rising interest rates and the specter of a trade war have punished markets over the past two months, pulling the **S&P 500** down 7.5% from its last closing high in late January.

Several brokers say the selloff has knocked stock-portfolio valuations down, dragged asset-management fees lower and even led to some margin calls for investors. That is threatening to disrupt the steady rise in revenue and profits that the brokerages enjoyed in recent years as they distanced themselves from the **volatility** that accompanies a commission-based business model.

Analysis: Ant Financial's Mysterious Valuation Inflation

China's Ant Financial is looking ever more like an elephant, but investors should be wary of getting squashed.

The financial affiliate of e-commerce behemoth Alibaba is raising $9 billion this week from a range of international investors, valuing it at a whopping $150 billion. On paper, Ant will be larger than banks such as Goldman Sachs and Morgan Stanley and will be China's sixth-largest financial firm, just below the state-owned Bank of China.

Quite where this heady valuation is coming from remains a mystery: Ant's previous funding round two years ago valued the company at just $60 billion. Ant doesn't disclose much financial information, although its pretax profit last year amounted to just $2 billion. Bank of China's earnings were 16 times bigger in the same period.

Wall Street Stressed by Fed's New Rules

Big Wall Street banks like Goldman Sachs and Morgan Stanleywon't get the relaxation of capital requirements that they hoped for under the Trump administration. That is the key takeaway from proposed changes to the annual stress test process announced by the Federal Reserve Tuesday. These tests are crucial to bank investors because they determine how much capital banks must hold, and how much they can pay out to shareholders in dividends and buybacks.

Currently banks must hold a fixed buffer equivalent to 2.5% of risk-weighted assets, above and beyond minimum levels. That would be replaced with a new, adjustable "stress capital buffer" that has a floor of 2.5% but could go higher, based on how much capital a bank loses in the hypothetical stress scenario. Thus, a bank with a common equity Tier 1 capital ratio of 9% that falls to 6% under the Fed's most severe scenario would have to hold an extra 3 percentage points of capital, not 2.5 points as under the existing system.

The net effect is to raise capital requirements on banks that see more **volatile** results during a crisis. Nomura Instinet analyst Steven Chubak estimates that Goldman and Morgan Stanley could have to retain some additional capital due to the changes. For investors, that means marginally less payouts to look forward to. These investment banks tend to see swifter losses during the stress tests due to their market sensitivity, compared to more commercially oriented banks like Citigroup and Bank of America.

Thursday, April 12

NA

The American Bar Association's business law section starts its three-day spring meeting in Orlando, Fla., which includes discussions on regulatory reform, anti-money-laundering regulations, artificial intelligence and banking practice, data breaches and the impact of Brexit on U.S. banking.

8:30 a.m.

The Securities and Exchange Commission hosts a daylong seminar to help investment companies and advisory firms improve their compliance programs for the protection of investors.

9:30 a.m.

U.S. Court of Appeals for the District of Columbia Circuit panel will hear an oral argument in a dispute over the Consumer Financial Protection Bureau's leadership, Leandra English v. Donald Trump.

10 a.m.

Consumer Financial Protection Bureau Acting Director Mick Mulvaney delivers the bureau's semiannual report to the Senate Banking Committee.

10 a.m.

The House Financial Services Subcommittee on Oversight and Investigations holds a hearing on the oversight of the Federal Housing Finance Agency.

2 p.m.

The House Financial Services Subcommittee on Monetary Policy and Trade holds a hearing on a bill that would modify the Committee on Foreign Investment in the U.S.

Tuesday, April 17

10 a.m.

The Federal Deposit Insurance Corp. meets to vote on a proposal related to a new accounting standard set to be implemented next year.

10 a.m.

Federal Reserve Vice Chairman for Supervision Randal Quarles delivers to the House Financial Services Committee the central bank's semiannual report on its supervisory efforts and plans.

2 p.m.

The Brookings Institutionhosts a discussion on the challenges and opportunities digital currencies pose to the Federal Reserve and other central banks.

Most Americans Like Their Bank but Don't Feel Financially Healthy

Most Americans are happy with their primary bank and prefer to visit a branch in person rather than bank online, according to a Morning Consult poll of 2,201 adults between March 30 and April 1. Having a physical bank branch was important to 76% of poll participants, and 62% said they would continue to visit physical locations even if they were able to bank online. The poll also showed that most people don't consider themselves to be financially healthy or prepared for retirement.

Fair Housing Law Has Been Ignored

Fifty years after the Fair Housing Act became law, efforts to end residential discrimination have seen "gradual progress and frequent setbacks," former Sen. Walter F. Mondale, who co-wrote the law, writes in a New York Times opinion piece. For example, the Department of Housing and Urban Development didn't get around to carrying out some of the law's strongest provisions until 2015, and the Trump administration has sought to delay enforcement of those rules by as much as seven years, he says. "The public servants tasked with implementing it have often forgotten—or refused to pursue—its ultimate goal of building an integrated society," he writes.

Struggling beverage maker Long Island Iced Tea Corp., now known as Long Blockchain after changing its name in December, hasn't been able to keep its market value above **Nasdaq**'s $35 million minimum requirement, so trading of its shares on the exchange will be halted Thursday.

Regulators in New York have fined Nationstar Mortgage $5 million for violations of the state's banking rules.

Thanks to a new regulatory mandate affecting publicly traded companies, big multinationals are revealing fresh details about how many people they employ in the U.S. and to what extent some of the most recognizable American brands rely on workers in lower-cost countries.

Big banks are expected to report the strongest first quarter for several of their core businesses in years. But it may take more than that to light another fire under bank stocks.

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

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WSJ PRO CENTRAL BANKING

Economy

Fed Minutes Signal Greater Confidence | Inflation Shows Signs of Pickup | U.S. Proposes Retooling Capital Rule | Draghi Warns on Impact of Tariff Threat | Harrison's Take: Don't Fret Higher Inflation This Spring – The Fed Won't; The Wall Street Journal's central banking newsletter for Thursday, April 12, 2018

2,141 words
12 April 2018
05:55 AM
WSJ Pro Central Banking
RSTPROCB
English

Harrison's Take: Don't Fret Higher Inflation This Spring – The Fed Won't

Fed Minutes Signal Greater Confidence in Reaching 2% Inflation

Underlying Inflation Shows Signs of Pickup in U.S.

U.S. Proposes Retooling Big-Bank Capital Rule

ECB's Draghi Warns on Impact of Tariff Threat on Confidence

Don't Fret Higher Inflation This Spring – The Fed Won't

Minutes of the Federal Reserve's March meeting released Wednesday show Fed officials are more confident that inflation will soon hit their 2% goal.

They have reason to be. Earlier Wednesday, the Labor Department reported the consumer-price index for all items except food and energy was up 2.1% in March over the previous year, compared with a 1.8% annual rise in February. Inflation looks stronger now that last year's big drop in cellphone plan prices is starting to drop out of the annual calculations.

The Fed's preferred inflation measure, to be released April 30, is also likely to show faster price increases.

Ordinarily, stronger inflation should prompt the Fed to tighten monetary policy. In this case, though, Fed officials might look through this spring's strong inflation numbers, just as they looked through last spring's weakness.

To drive that point home, the minutes included this warning, in the passive voice: "It was noted that the increase in the inflation rate arising from this source was widely expected and, by itself, would not justify a change in the projected path for the federal-funds rate."

Fed officials have also made clear they would be willing to tolerate inflation running above 2% for a period of time after living with lower inflation for the past few years.

So if inflation, as expected, starts firming rapidly over the next few months, it isn't necessarily an indication that monetary policy is about to get tighter and interest rates are about to rise faster.

The minutes just reinforced the message that officials have been sending for the past few months that the Fed is committed to its gradual path of interest rate increases over the next couple of years. It would take more than a few strong months of inflation to knock them off that position.

Key Developments Around the World

Fed Minutes Signal Greater Confidence in Reaching 2% Inflation

Federal Reserve officials at their meeting last month expressed greater confidence inflation would rise to their 2% target over the coming year, a development that could affect how much they raise interest rates in coming years. They also debated the costs and benefits of allowing the economy to run hot and discussed how they might need to later raise rates to a level that would deliberately slow growth, according to minutes of their March 20-21 meeting, which were released Wednesday. The minutes highlight just how much Fed officials' outlook has changed since last fall, when surprisingly slow inflation raised questions about the need for continued rate increases.

Underlying Inflation Shows Signs of Pickup in U.S.

U.S. consumer prices fell in March because of a brief drop in the cost of gasoline, but underlying inflation picked up. The consumer-price index fell 0.1% from a month earlier, the first decline since May 2017, the Labor Department said Wednesday. Excluding energy and food, "core" consumer prices rose 0.2% last month and were up 2.1% from a year earlier. The report suggests inflation, after being dormant much of last year, is again rising toward the Federal Reserve's 2% target.

U.S. Proposes Retooling Big-Bank Capital Rule

The Federal Reserve and the Office of the Comptroller of the Currency on Wednesday floated a revamp of the "supplementary leverage ratio" applying to the largest U.S. banks, those considered "systemically important" on a global scale. The group includes JPMorgan Chase & Co., Wells Fargo & Co., Goldman Sachs Group Inc. and five others. The agencies said the proposed changes would better tailor rules to each firm's "individual characteristics." In aggregate, the changes would cut the firms' capital requirements by 0.04%, they said.

ECB's Draghi Warns on Impact of Tariff Threat on Confidence

European Central Bank President Mario Draghi warned Wednesday that the threat of tariffs could weigh on investor confidence in the eurozone, and that the ECB would closely monitor the impact of possible trade wars on investment. "We have to be especially mindful of the channel of confidence," Mr. Draghi told students at an event in Frankfurt. An entrepreneur considering whether to invest in a sector that might be affected by tariffs is likely to wait until the situation is clearer, he said. That is "something we have to really look at," Mr. Draghi said. Still, Mr. Draghi said ECB officials are confident inflation will return to the ECB's target of just below 2% over time, because the factors holding it down are only temporary. "In a sense it's already happening," Mr. Draghi said.

Brazil's Goldfajn Stresses Need for Economic Reform

Brazil and other emerging markets will continue to benefit from global growth and low interest rates in developed nations, but need economic reform before the scenario changes, the country's central bank president said Wednesday. "The benign environment won't last forever," Ilan Goldfajn told foreign correspondents, calling for adjustments in emerging economies. In the case of Brazil, he said, "the reform agenda was quite [advanced] last year, but it still needs to continue." Brazil has been struggling to plug gaping budget shortfalls as tax receipts remain low after a historic recession and the government has been unable to substantially reduce mandatory spending. Mr. Goldfajn, however, said the country's large foreign-currency reserves will help Brazil navigate **volatility** that could stem from global factors.

Bank of Korea Stands Pat

South Korea's central bank left its key interest rate unchanged while it maintained its growth forecast and trimmed its inflation outlook for this year. The Bank of Korea's latest adjustment to its economic outlook and its decision to hold its base rate steady at 1.50% also reflected some caution over how the Trump administration's protectionist policies might affect the trade-dependent economy.

Quick Hits: Turkish Prime Minister Says Central Bank to Take Necessary Steps

Turkey's prime minister said the country's central bank will take the measures it deems necessary, and a European Central Bank official said he had no problem with increasing the bank's deposit rate. Here are quick hits on central banking and related market views from around the world.

Thursday

7:30 a.m. EDT

European Central Bank releases March 7-8 meeting minutes

8:15 a.m. EDT

ECB's Coeuré speaks

6 p.m. EDT

Minneapolis Fed's Kashkari speaks

Friday

7:30 a.m. EDT

Boston Fed's Rosengren speaks

9 a.m. EDT

St. Louis Fed's Bullard speaks

1 p.m. EDT

Dallas Fed's Kaplan speaks

How Information Frictions Affect Trade and Price Patterns

Claudia Steinwender researches how the difficulty of sending and receiving information impacts trade by studying the trans-Atlantic telegraph connection of 1866. She finds in a VoxEU column, "information frictions decrease average trade flows and the **volatility** of trade, leading to substantial welfare losses...When demand fluctuations are large, and when there is a time lag between exporting and selling, information technologies that help to forecast future demand can have an impact comparable to that of the telegraph in the 19th century." Still, flows "of information, though critical for the efficient functioning of markets, are often limited in reality, potentially distorting trade flows and price patterns," she writes.

The European Globalization Adjustment Fund: Time For a Reset

Grégory Claeys and André Sapir study the impact of the European Globalization Adjustment Fund, the European Union's active policy to reintegrate workers who lost their jobs as a result of globalization. They find in a VoxEU column, "only a small proportion of EU workers who lost their job because of globalization received EGF financing. Sadly, it is impossible at this time to assess whether workers who received EGF assistance did better in their job search than those who did not receive EGF assistance." They suggest "the Fund should improve its monitoring and widen the scope of its usage."

The Fed's Inflation Target Is Getting Close—Now What?

"Unless the economy suddenly flags—something that seems unlikely—core inflation should be consistently at or above the [Federal Reserve's] 2% target during the latter half of this year. Core inflation was last above 2% in 2012," Justin Lahart writes for The Wall Street Journal. "While reaching its inflation target won't set the Fed on a race to tighten policy, it will also make it more comfortable with continuing to raise rates. Investors who expect the same caution on rates the Fed has exhibited in the past, particularly at times of market tumult, could be in for a surprise. But the bigger risk is that the tax-cut and spending stimulus coursing through an economy with little labor market slack will get the Fed worried inflation risks going well above its target. Indeed, Congress's nonpartisan scorekeeper is predicting as much...The CBO has a longstanding tendency toward conservative forecasts. If the past holds true, investors should be prepared for the Fed to be more aggressive."

The Fed's New Rules Are a Letdown for Wall Street

The proposed changes to banks' stress tests that "should allow bank dividend yields to go higher over time" will be "roughly offset by the implementation of a new "stress capital buffer" that could raise capital requirements for certain banks," Aaron Back writes for The Wall Street Journal. "For investors, [this] means marginally less payouts to look forward to. These investment banks tend to see swifter losses during the stress tests due to their market sensitivity, compared to more commercially oriented banks like Citigroup and Bank of America."

A Plan for Europe's Great Unwinding

European Central Bank President Mario Draghi should back a new loan facility for banks that would send a credible signal that interest rates will rise gradually without jeopardizing price stability, wean banks off fixed-rate funding, and acclimate markets to the reality that quantitative easing will eventually be reversed, write Richard Barwell and Arnaud-Guilhem Lamy for The Wall Street Journal. "The ECB should offer a new round of long-term loans, which would expire in mid-2023, far beyond the expiry of the existing fixed-rate TLTROs in 2021," they propose. "Banks would be allowed to switch out of their existing loans into these new FG-LTROs but retain the cheap fixed rate of funding they currently enjoy until 2021. After that, the interest rate on these new long-term loans would vary according to the prevailing policy rate set by the ECB."

NPLs and the Transmission Mechanism

There is little evidenceto back recent claims in Europe that high levels of nonperforming loans crimp new bank lending and the transmission of monetary policy, writes the Bank of Italy's Paolo Angelini in a posting on VoxEU. "NPLs are relatively opaque and heterogeneous, and therefore difficult to value," he writes. "Also, they typically do not yield a steady return; thus, other things being equal, banks with large NPL holdings are less profitable, and pay a risk premium on capital and liquidity markets. Indeed, the Single Supervisory Mechanism has fostered a reduction of the stock of NPLs in banks' balance sheets, with very good results. I argue that although there are various reasons to support this policy, not all of them are well-grounded."

Mexican industrial production rose in February from the previous month and was slightly higher than a year before, with increases in factory output, construction and utilities partly offset by persistent oil industry weakness. Industrial production rose 0.4% seasonally adjusted from January, and was up 0.7% from February 2017, the National Statistics Institute said Wednesday.

Industrial production in the eurozone fell for a third straight month in February, an indication that economic growth may be slowing as the European Central Bank faces a key decision over one of its flagship stimulus programs.

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

Jon Hilsenrath; Katy Burne; Michael Derby; Nell Henderson; Jason Douglas; Paul Hannon; Harriet Torry; Kate Davidson; David Harrison; Kim Mackrael; Tom Fairless; Michael Maloney.

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Document RSTPROCB20180412ee4c0008d

The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB

Banks and Tech Firms Slip; Oil Rises After Trump Tweet

By THE ASSOCIATED PRESS
999 words
12 April 2018
The New York Times
NYTF
Late Edition - Final
2
English

Companies including banks and technology and health care firms fell Wednesday after U.S. stocks had surged the day before. **Oil prices** hit a three-year high after President Donald trump tweeted that the U.S. will launch missiles at targets in Syria.

Other than energy companies, stocks were slightly lower for most of the day. Banks slipped along with interest rates while health care and technology companies gave up some of the big gains they made on Tuesday. Trump said the U.S. will respond to the recent suspected chemical attack and Saudi Arabia said it intercepted missiles fired by rebels in Yemen. Fighting in the Middle East could restrict oil supplies and push prices higher.

The Federal Reserve released minutes from its meeting in March. Some policymakers felt the central bank may have to increase rates more quickly in response to faster economic growth and rising inflation, and it might have to focus on slowing the economy to keep inflation under control. The market didn't react dramatically to that development, but stock indexes trailed off in the afternoon.

Simona Mocuta, senior economist for State Street Global Advisors, said it's a challenge for investors to respond to events like possible strikes in Syria because it's not clear what the outcomes will be.

"There is so much uncertainty about the geopolitics that it's hard for the market even to price on a day-to-day basis," she said.

The **S&P 500 index** fell 14.68 points, or 0.6 percent, to 2,642.19 after it surged 1.7 percent Tuesday. The **Dow Jonesindustrial average** slid 218.55 points, or 0.9 percent, to 24,189.45. The **Nasdaq composite** lost 25.27 points, or 0.4 percent, to 7,069.03. But the Russell 2000 index of smaller-company stocks rose 3.36 points, or 0.2 percent, to 1,546.70, and most of the stocks on the New York Stock Exchange finished higher.

Facebook stock continued to rise as CEO Mark Zuckerberg testified before Congress for a second day. The stock surged Tuesday afternoon at the beginning of Zuckerberg's testimony. It rose 0.8 percent to $166.32 Wednesday after a jump of 4.5 percent Tuesday, its biggest gain in two years.

Daniel Ives, head of technology research for GBH Insights, said Facebook rallied for two reasons. One is that Zuckerberg did well in his testimony after investors had their doubts about how he would perform on Capitol Hill. The other is that Wall Street felt many members of Congress weren't very tough on Facebook because they don't grasp some of the relevant issues. As a result, investors grew less worried that the government will crack down on Facebook and other technology companies.

"A lot of the regulators and politicians don't really understand Facebook and its (business) model, so how can you expect that regulation is going to be a near-term issue?" he said. "The political theater and grandstanding has actually worked to the benefit of Facebook and Zuckerberg rather than to its detriment."

Facebook's stock is still down 10 percent since the Cambridge Analytica privacy scandal broke in mid-March. Other social media companies also rallied over the past two days. Snap, the parent of Snapchat, rose 2.2 percent, to $14.80. Twitter slipped 0.5 percent to $29.39 after a 5.4 percent gain Tuesday.

Energy companies rose as benchmark U.S. crude climbed 2 percent to $66.82 a barrel in New York. Brent crude, used to price international oils, gained 1.4 percent to $72.06 a barrel in London. **Oil prices** jumped more than 3 percent Tuesday as investors got more optimistic about a possible resolution to the U.S.-China trade spat.

Overseas markets mostly fell following their gains the day before. Germany's DAX lost 0.8 percent and the CAC 40 in France dropped 0.6 percent. Britain's FTSE 100 edged 0.1 percent lower. Japan's Nikkei 225 **stock index** lost 0.5 percent and the Kospi in South Korea declined 0.3 percent. Hong Kong's Hang Seng climbed 0.6 percent.

The yield on the **10**-**year Treasury** note fell to 2.78 percent from 2.80 percent. That put pressure on banks. When bond yields fall, it forces interest rates on mortgages and other kinds of loans lower, meaning lower profits for banks. JPMorgan Chase fell 1.7 percent to $110.62 and Bank of America declined 1.9 percent to $29.90.

Medical and security imaging equipment maker Analogic agreed to be bought by Altaris Capital Partners for $84 a share, or $1.05 billion. That was much less than investors had hoped for and the stock dropped 13.2 percent to $83.35. Analogic spiked from about $84 in March to as much as $96 a share Tuesday. Analogic noted that the **stock price** was lower than that when the company announced it would consider a sale.

The dollar dipped to 106.95 yen from 107.17 yen. The euro hardly budged as it rose to $1.2362 from $1.2361.

In other commodity trading, gold rose 1 percent to $1,360 an ounce. Silver also rose 1 percent to $16.77 an ounce. Copper lost 0.6 percent to $3.12 a pound.

Wholesale gasoline rose 1.3 percent to $2.07 a gallon and heating oil added 1.4 percent to $2.09 a gallon Natural gas edged up 0.7 percent to $2.68 per 1,000 cubic feet.

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AP Markets Writer Marley Jay can be reached at http://twitter.com/MarleyJayAP . His work can be found at https://apnews.com/search/marley%20jay

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

Document NYTF000020180412ee4c0005g

The New York Times

Business/Financial Desk; SECTB
Fed Expresses Concerns Over Trade and Tax Cuts

By JIM TANKERSLEY
1,044 words
12 April 2018
The New York Times
NYTF
Late Edition - Final
7
English

WASHINGTON -- Federal Reserve Board policymakers raised concerns at their March meeting about the prospect of the United States heading into a global trade war, zeroing in on potential harm to American farmers such a clash would cause, according to minutes of the meeting released by the Fed on Wednesday.

The officials also expressed uncertainty about how newly enacted tax cuts would affect the economy, partly because the cuts are expected to exacerbate the swelling of federal budget deficits, and because some of the cuts are to expire in the years ahead. Policymakers also expressed unanimous, increased confidence in the strength of the country's economic recovery, even accounting for trade and tax uncertainties.

The minutes of the meeting, on March 20 and 21, provide more detail into the concerns being raised by the farm industry about the potential domestic impact of President Trump's plan to impose a 25 percent tariff on imported steel and 10 percent on aluminum.

''Participants did not see the steel and aluminum tariffs, by themselves, as likely to have a significant effect on the national economic outlook,'' the minutes read, ''but a strong majority of participants viewed the prospect of retaliatory trade actions by other countries, as well as other issues and uncertainties associated with trade policies, as downside risks for the U.S. economy. Contacts in the agricultural sector reported feeling particularly vulnerable to retaliation.''

Fed policymakers also said at the meeting that they expected the combination of the tax cuts signed by Mr. Trump last year and a bipartisan congressional deal this year to increase federal spending to give economic output ''a significant boost'' in the next few years.

However, the minutes reflect officials' uncertainty about how big that boost might be, and when it might come, because there is little historical precedent for such fiscal stimulus when unemployment is so low. The minutes also show that policymakers ''suggested that uncertainty about whether all elements of the tax cuts would be made permanent, or about the implications of higher budget deficits for fiscal sustainability and real interest rates, represented sources of downside risk to the economic outlook.''

The meeting was the first under the Fed's new chairman, Jerome H. Powell. At the session's conclusion, officials announced that they would raise interest rates for the sixth time since the end of the Great Recession, in the range of 1.5 to 1.75 percent. Officials released economic projections indicating that they expected to raise rates three times next year, more than the two increases in 2019 that they had forecast in December. The Fed said at the time the economy was continuing to get stronger and that the central bank remained on track to keep raising rates gradually. Mr. Powell echoed those sentiments at a news conference after the meeting.

The minutes suggest that decision on interest rates generated little controversy: ''All participants agreed that the outlook for the economy beyond the current quarter had strengthened in recent months,'' and that they expected the annual inflation rate to rise in the months to come.

But the minutes say that a ''couple of participants'' suggested the Fed would benefit from holding off until a future meeting to raise rates, in order to wait for more data to confirm evidence that the rate of inflation was approaching the Fed's target of 2 percent annual growth.

Officials also debated the benefits of the economy's running hot -- with unemployment very low and growth above forecast trends -- for a prolonged period of time, weighing the potential for drawing more workers back to the labor force against the risk of financial instability and ''significant'' inflation growth.

Officials seemed to shrug off the increase in **stock market volatility** in February, attributing it in part to Labor Department reports that the suggested growth in wages -- and, with it, inflation -- was gaining steam, which could force the Fed to raise rates faster than expected. ''Many participants reported that their contacts had taken the previous month's turbulence in stride,'' the minutes read.

The official statement released immediately after the March meeting did not mention trade policy concerns, which roiled **financial markets** after the Trump administration announced its plans to impose tariffs on imported steel and aluminum, as well as on some other Chinese goods. Mr. Powell acknowledged those concerns at his news conference, saying that trade policy had begun to worry business leaders who speak with Fed officials. Still, he played down any immediate threat to growth.

''There's no thought that changes in trade policy should have an effect on the current outlook,'' Mr. Powell said at the news conference, adding that could change if a global trade dispute escalated.

In a speech in Chicago last week, Mr. Powell elaborated on the Federal Open Market Committee's concerns during a question-and-answer session.

''The discussion about tariffs is at a relatively early stage, and we talked about this at the F.O.M.C. meeting a couple of weeks ago now,'' he said. ''And people really don't see yet any implications in the near term for the outlook, because we don't know the extent to which the tariffs will actually come into effect and, if so, how big will that effect be and what will the timing of it be.''

Any negative effects from tariffs could put the Fed in a bind, forcing policymakers to break what Mr. Powell and his predecessors have repeatedly characterized as a delicate balance between supporting economic growth and job creation, and holding inflation to the target growth rate. Economists generally view tariff fallout as stagflationary, meaning it hurts growth and also feeds inflation. Taxes on imported goods raise prices for businesses and consumers, pushing up the inflation rate, while also dampening consumption and economic growth.

The minutes suggest that Fed officials are worrying more about that possibility than they have acknowledged publicly: ''Most participants also cited trade policy as a source of either uncertainty or downside risk,'' the minutes say.

Rolls of aluminum at a factory in Zouping, China. President Trump plans to impose a 10 percent tariff on imported aluminum. (PHOTOGRAPH BY AGENCE FRANCE-PRESSE -- GETTY IMAGES)

Document NYTF000020180412ee4c0004j

THE WALL STREET JOURNAL.

Page One

What's News: Business & Finance

221 words
11 April 2018
11:45 PM
The Wall Street Journal Online
WSJO
English

Facebook's Zuckerberg completed two days of testimony on Capitol Hill, where he sought to placate lawmakers amid calls for regulations to address privacy concerns.

Oil prices surged to their highest level since 2014 on Mideast tensions. U.S. crude futures jumped $1.31 to $66.82 a barrel.

Fed officials expressed greater confidence at their March meeting that inflation would rise to a 2% target.

U.S. stocks fell on global tensions and the latest inflation gauge. The Dow shed 218.55 points to 24189.45.

Bank regulators proposed retooling a major capital rule, which could benefit some of the biggest U.S. banks.

Fidelity is overhauling its wealth-management fees, tying costs strictly to how much a client invests.

Alphabet investors and others have renewed calls for transparency about YouTube's revenue and profitability.

Tesla defended its Autopilot system, blaming the driver for a fatal crash.

China's HNA could make a $2 billion profit from its Hilton investment.

Equifax shareholders were urged by a pension-fund adviser to oppose the re-election of three board members.

Apple tapped the head of its European music and content operations to lead Apple Music world-wide.

China pledged to launch a stock-trading link between Shanghai and London by the end of this year.

Document WSJO000020180412ee4c0005l

THE WALL STREET JOURNAL.
U.S. EDITION

Corrections & Amplifications
Corrections & Amplifications

501 words
12 April 2018
The Wall Street Journal
J
A2
English

Acting Associate Attorney General Jesse Panuccio wouldn't be in the chain of officials who could fire special counsel Robert Mueller because he is in an acting capacity and the post hasn't been officially filled. A graphic with a Page One article Wednesday about the possibility of President Donald Trump asking for Mr. Mueller to be fired incorrectly said Mr. Panuccio could dismiss him.

Adm. Philip Davidson has commanded the Sixth Fleet, which is responsible for Europe and Africa. In some editions Wednesday, a World Watch article about the nomination of Adm. Davidson to oversee all U.S. military operations and branches in the Pacific incorrectly said he has commanded the Seventh Fleet.

(See: "World News: World Watch" -- WSJ April 11, 2018)

Two groups of small colleges that have joined to lower their retirement-plan costs have set up multiple-employer plans. A Business & Finance article Saturday about the retirement plans incorrectly characterized them as multiemployer plans, which are maintained under collective-bargaining agreements.

(See: "Small Colleges Drop Out of TIAA --- Some groups create plans with combined retirement-account assets to lower fees" -- WSJ April 7, 2018)

The spot price for LBMA silver for April 3 was GBP 11.780, with a U.S. dollar equivalent of $16.520; April 4's prices were GBP 11.720 ($16.460); April 5's prices were GBP 11.590 ($16.305); April 6's prices were GBP 11.610 ($16.275); and April 9's prices were GBP 11.590 ($16.340). The Cash Prices tables for those dates, which were published April 4 through April 10, incorrectly contained data for the previous trading days.

A chart with a March 27 Markets article about yuan-denominated oil futures showed oil imports to the U.S. and China in billions of dollars a month. The chart incorrectly was labeled in thousands of dollars.

(See: "China Tries to Lift Yuan With Oil Futures" -- WSJ March 27, 2018)

On Friday, March 23, the **S&P 500** closed at 2588.26, down 2.10%; the S&P Financials Index closed down 2.99%, and the S&P Information Technology Index closed down 2.73%; the Dow Jones Transportation Average closed down 1.84%; the Wall Street Journal Dollar Index closed down 0.31%; the three-month London interbank offered rate closed at 2.29; and the Nikkei Stock Average closed at 20617.86, down 4.51%. The market-data strip at the top of page B1 on Saturday, March 24, incorrectly repeated closing data from Thursday, March 22, and a March 23 midday quote for the Nikkei.

A FirstEnergy Corp. power plant shown in a photo with a Business & Finance article Tuesday about the company is in Shippingport, Pa. The caption incorrectly said it is in Monaca, Pa.

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

Document J000000020180412ee4c0000i

THE WALL STREET JOURNAL.

CN-Others
早間市場快報

2,902 words
11 April 2018
08:00 PM
華爾街日報中文版 (繁體)
WSJCT
Chinese - Traditional

一、熱點回顧

特朗普警告俄羅斯：美國導彈將打到敘利亞

美國總統特朗普周三稱美國的導彈將打到敘利亞，並警告稱他願意通過向敘利亞總統阿薩德發起軍事打擊，來直接挑戰俄羅斯。此前阿薩德被指進行了化學武器襲擊。他還警告稱，俄羅斯不應與阿薩德合作。他將阿薩德稱為"用毒氣殺人的動物"，稱他殺死敘利亞本國人民，而且還樂在其中。目前敘利亞已經在美國與法國部署的配有巡航導彈的戰艦射程範圍之內，美國已經開始就針對敘利亞發起軍事行動動員國際社會的支持。特朗普緊接著又發推文宣稱美俄關係惡化，但之後似乎又建議俄羅斯撤回在敘利亞問題上的威脅。

美國眾議院議長瑞安將于1月任期屆滿後退休

美國眾議院議長瑞安(Paul Ryan)的辦公室周三表示，瑞安將在任期屆滿後退休，不再尋求競選連任。如果共和黨在2018年11月的中期選舉中失去眾議院控制權，這位威斯康星州共和黨人料將卸任。兩黨分析師目前均認為共和黨有可能失去眾議院控制權。但瑞安周三宣佈將于明年1月退休的消息令人感到意外。瑞安此舉將令其高層助理之間展開一場領導權之爭。眾議院多數黨領袖、加州共和黨議員Kevin McCarthy和眾議院多數黨黨鞭、路易斯安那州共和黨議員Steve Scalise被認為是最有可能接替瑞安的人選。

簡體版 | 繁體版

二、隔夜金融市場回顧

地緣政治緊張局勢和通脹數據拖累道指下跌、美國國債收益率下跌；美元下跌，因通脹符合預期；敘利亞情勢拖累歐股收跌；原油期貨升至三年高點，受地緣政治風險提振；黃金期貨走高，但美聯儲公佈會議紀要後漲幅縮窄；銅期貨下跌。

——美國股市

道瓊斯指數周三下跌，逆轉近期反彈走勢，因投資者研判日益升溫的地緣政治緊張局勢和最新的美國通脹數據。美東時間下午4點，道瓊斯指數跌218點，至24189點，跌幅0.9%。標普500指數跌0.6%，納斯達克綜合指數跌0.4%。主要股指周二創出逾兩周來最大單日漲幅，但較今年稍早觸及的紀錄高點仍跌逾6.5%。全球股市最近幾個交易日呈震蕩走勢，分析師稱，美國和中國的貿易口水戰以及與俄羅斯和敘利亞緊張局勢升級給市場造成壓力。美國原油期貨上漲2%，至2014年12月以來最高水平，支撐了能源類股。

——歐洲股市

歐洲股市周三收盤下跌，因分析師擔憂美國對敘利亞採取軍事行動可能會驚動市場。歐洲斯托克600指數收跌0.6%，至376.18點，本周以來的漲幅收窄至0.4%。德國DAX 30指數下跌0.8%，至12293.97點。法國CAC 40指數下跌0.6%，至5277.94點。英國富時100指數下跌0.1%，至7257.14點。投資者最新的地緣政治擔憂是美國空襲敘利亞的可能性不斷上昇，有關此類空襲行動的談論自上週末一起導致大馬士革平民死亡的疑似化武襲擊事件以來不斷發酵。這可能會將美國拉入與支持阿薩德政權的俄羅斯的衝突中。

——外匯市場

紐約匯市周三，美元下跌，之前公佈的美聯儲3月會議紀要顯示官員們計劃繼續加息。紐約匯市尾盤，華爾街日報美元指數跌0.1%，至83.64。美元周三一度短暫走高，但在美聯儲公佈上個月會議紀要後，後市回落。會議紀要顯示，決策者對明年通脹可能達到央行2%的目標日益有信心，並計劃繼續逐步上調短期利率。在勞工部公佈CPI後，美元下跌。3月份CPI較前一個月下降0.1%，完全是由於汽油價格暫時下降。

——美國國債

美國國債周三微幅走高，受到地緣政治緊張局勢升級以及CPI弱于預期的提振。基準10年期國債收益率收于2.790%，周二為2.799%。美國總統特朗普在Twitter上向俄羅斯喊話，稱美國將向敘利亞發射新型智能導彈。此後國債收益率和美國股指期貨在周三早盤雙雙下跌。數據顯示，美國3月份消費者價格指數下降，導致國債收益率再次下跌，之後跌幅縮窄。

——商品市場

原油期貨周三升至三年多來最高水平，同時中東地區緊張局勢升溫，表明拖累市場多年的供應過剩狀況有望結束。紐約商業交易所的美國原油期貨周三上漲1.31美元，至每桶66.82美元，漲幅2%。ICE歐洲期貨交易所的布倫特原油期貨上漲1.02美元，至每桶72.06美元，漲幅1.4%。美國和布倫特原油期貨均創下2014年12月以來最高水平。歐佩克削減相當于一年多產量的做法為油價這輪漲勢奠定了基礎，逐步緩解了令油價三年多來維持低迷的供應過剩狀況。委內瑞拉經濟危機加深，也導致該國原油產量大幅下降。西方國家可能對伊朗實施新的制裁，一些分析師和投資者稱油價還將進一步攀升。

黃金期貨周三在盤後交易中漲幅縮窄，此前美聯儲公佈了最新貨幣政策會議紀要。六月交割的黃金期貨在電子交易時段上漲0.6%至1,353.80美元/盎司。紐約商品交易所收盤價為1,360美元/盎司，為3月26日以來最高收盤價。會議紀要顯示，美聯儲官員在上個月的會議上表示對明年通脹達到央行2%的目標更有信心，並相信未來幾年經濟增長速度將超過可持續增速。一些投資者認為，會議紀要提振了央行加快加息的理由，這可能對黃金不利。

賤金屬方面，銅期貨下跌0.6%至3.1170美元/磅。

三、今日市場展望

經濟事件預告韓國韓國央行貨幣政策會議及利率決定

新加坡2月份零售額

中國3月份M2供應量

美國3月份進出口價格指數

法國3月份消費者價格指數

歐元區2月份工業產值

四、深度/獨家報道

美元為何在市場動蕩時波瀾不驚？

在貿易緊張局勢加劇以及全球經濟增長前景略微降溫的背景下，股市大幅震蕩，而美元令人矚目的一點卻是其平靜表現。

美元在1月份下跌，延續2017年的跌勢，但隨著市場遭遇震蕩，美元的跌勢中斷。美元自那時以來橫盤整理，歐元/美元持續位於1.23美元附近波動。

美國以外的地區經濟增長前景改善在去年推動美元兌歐元和新興市場貨幣下跌，歐元區錄得10年來的最快增速。但現在，以Markit採購經理人指數等調查為主的歐元區數據已失去動能，而美國經濟數據表現更好。

美國商品期貨交易委員會(Commodity Futures Trading Commission)的數據表明，投資者已削減美元的看跌倉位，但仍預計美元將下跌。美元下跌需要一個誘因，

不過眼下似乎還沒有這樣的誘因出現。美國股市在2017年大漲後估值已較高，與股市不同，美元已下跌很多，ICE美元指數下跌了近10%。

美國稅改以及支撐稅改的開支措施有望刺激經濟，這可能放緩了美元的下跌勢頭，儘管從長遠看，在經濟週期的後期階段出台刺激措施，其利弊還存在擔憂。美國經濟可能表現波動，而歐元區經濟更取決于全球經濟表現。穩步上昇的利率可能也會提振美元。

對投資者而言，新興市場股市和債市在今年為數不多的亮點之列，然而美元全面昇值對這些市場來說可能令人擔憂。新興市場的貨幣昇值是一種額外的吸引力，提昇了回報。但其他貨幣兌美元的上漲已停滯，俄羅斯盧布和土耳其里拉等一些貨幣因自己的政治和經濟問題受到嚴重打擊。

美元的橫盤整理表明，市場對於全球經濟下一步表現如何缺乏定論。在2017年持續下跌後，橫盤整理本身就是一個信號。美元可能只是跌勢暫停，但其缺乏波動不能被視為理所當然。

美國股市重現動蕩，但波動性指數ETF依然失寵

那些能讓投資者從股市劇烈波動中獲利的交易所交易基金(ETF)今年大漲。但散戶基本上對這些產品敬而遠之，他們之前曾因押注波動性而損失慘重。

如今押注波動性具有數年來最充分的理由。利率不斷上昇、貿易戰擔憂以及科技股大跌都引發了美國股市大幅波動，這與市場此前的長期平靜形成對照。標普500指數在過去15個交易日中有10個交易日的漲跌幅度超過1%，芝加哥期權交易所波動性指數(VIX)今年上昇了97%。

VIX周一走高，此前道瓊斯工業股票平均價格指數回吐了盤中440點漲幅的大部分，因有報道稱，聯邦調查人員搜查了長期擔任美國總統特朗普(Donald Trump)律師的Michael Cohen的辦公室和住所。

市場動蕩已經讓那些追蹤VIX的產品成為今年表現最好的投資之一。自2018年年初以來，iPath S&P 500 VIX Short-Term Futures ETF上漲近79%，而利用杠桿從VIX期貨獲得回報的ProShares Ultra VIX Short-Term Futures ETF攀升96%。

FactSet數據顯示，儘管出現上述漲幅，但今年到目前為止，從波動性上昇中獲利的ETF產品出現了10多億美元的資金流出。

近年來，隨著股市穩步走高，同時VIX降至紀錄低點，這些基金已經失寵。

CFRA的ETF研究負責人Todd Rosenbluth稱，波動性迅速受寵和失寵的事實理所當然地讓投資者停止追逐這些回報。

Document WSJCT00020180412ee4c00003

THE WALL STREET JOURNAL.

CN-Others
早间市场快报

2,902 words
11 April 2018
08:00 PM
华尔街日报中文版 (简体)
WSJCN
Chinese - Simplified

一、热点回顾

特朗普警告俄罗斯：美国导弹将打到叙利亚

美国总统特朗普周三称美国的导弹将打到叙利亚，并警告称他愿意通过向叙利亚总统阿萨德发起军事打击，来直接挑战俄罗斯。此前阿萨德被指进行了化学武器袭击。他还警告称，俄罗斯不应与阿萨德合作。他将阿萨德称为"用毒气杀人的动物"，称他杀死叙利亚本国人民，而且还乐在其中。目前叙利亚已经在美国与法国部署的配有巡航导弹的战舰射程范围之内，美国已经开始就针对叙利亚发起军事行动动员国际社会的支持。特朗普紧接着又发推文宣称美俄关系恶化，但之后似乎又建议俄罗斯撤回在叙利亚问题上的威胁。

美国众议院议长瑞安将于1月任期届满后退休

美国众议院议长瑞安(Paul Ryan)的办公室周三表示，瑞安将在任期届满后退休，不再寻求竞选连任。如果共和党在2018年11月的中期选举中失去众议院控制权，这位威斯康星州共和党人料将卸任。两党分析师目前均认为共和党有可能失去众议院控制权。但瑞安周三宣布将于明年1月退休的消息令人感到意外。瑞安此举将令其高层助理之间展开一场领导权之争。众议院多数党领袖、加州共和党议员Kevin McCarthy和众议院多数党党鞭、路易斯安那州共和党议员Steve Scalise被认为是最有可能接替瑞安的人选。

简体版 | 繁体版

二、隔夜金融市场回顾

地缘政治紧张局势和通胀数据拖累道指下跌、美国国债收益率下跌；美元下跌，因通胀符合预期；叙利亚情势拖累欧股收跌；原油期货升至三年高点，受地缘政治风险提振；黄金期货走高，但美联储公布会议纪要后涨幅缩窄；铜期货下跌。

——美国股市

道琼斯指数周三下跌，逆转近期反弹走势，因投资者研判日益升温的地缘政治紧张局势和最新的美国通胀数据。美东时间下午4点，道琼斯指数跌218点，至24189点，跌幅0.9%。标普500指数跌0.6%，纳斯达克综合指数跌0.4%。主要股指周二创出逾两周来最大单日涨幅，但较今年稍早触及的纪录高点仍跌逾6.5%。全球股市最近几个交易日呈震荡走势，分析师称，美国和中国的贸易口水战以及与俄罗斯和叙利亚紧张局势升级给市场造成压力。美国原油期货上涨2%，至2014年12月以来最高水平，支撑了能源类股。

——欧洲股市

欧洲股市周三收盘下跌，因分析师担忧美国对叙利亚采取军事行动可能会惊动市场。欧洲斯托克600指数收跌0.6%，至376.18点，本周以来的涨幅收窄至0.4%。德国DAX 30指数下跌0.8%，至12293.97点。法国CAC 40指数下跌0.6%，至5277.94点。英国富时100指数下跌0.1%，至7257.14点。投资者最新的地缘政治担忧是美国空袭叙利亚的可能性不断上升，有关此类空袭行动的谈论自上周末一起导致大马士革平民死亡的疑似化武袭击事件以来不断发酵。这可能会将美国拉入与支持阿萨德政权的俄罗斯的冲突中。

——外汇市场

纽约汇市周三，美元下跌，之前公布的美联储3月会议纪要显示官员们计划继续加息。纽约汇市尾盘，华尔街日报美元指数跌0.1%，至83.64。美元周三一度短暂走高，但在美联储公布上个月会议纪要后，后市回落。会议纪要显示，决策者对明年通胀可能达到央行2%的目标日益有信心，并计划继续逐步上调短期利率。在劳工部公布CPI后，美元下跌。3月份CPI较前一个月下降0.1%，完全是由于汽油价格暂时下降。

——美国国债

美国国债周三微幅走高，受到地缘政治紧张局势升级以及CPI弱于预期的提振。基准10年期国债收益率收于2.790%，周二为2.799%。美国总统特朗普在Twitter上向俄罗斯喊话，称美国将向叙利亚发射新型智能导弹。此后国债收益率和美国股指期货在周三早盘双双下跌。数据显示，美国3月份消费者价格指数下降，导致国债收益率再次下跌，之后跌幅缩窄。

——商品市场

原油期货周三升至三年多来最高水平，同时中东地区紧张局势升温，表明拖累市场多年的供应过剩状况有望结束。纽约商业交易所的美国原油期货周三上涨1.31美元，至每桶66.82美元，涨幅2%。ICE欧洲期货交易所的布伦特原油期货上涨1.02美元，至每桶72.06美元，涨幅1.4%。美国和布伦特原油期货均创下2014年12月以来最高水平。欧佩克削减相当于一年多产量的做法为油价这轮涨势奠定了基础，逐步缓解了令油价三年多来维持低迷的供应过剩状况。委内瑞拉经济危机加深，也导致该国原油产量大幅下降。西方国家可能对伊朗实施新的制裁，一些分析师和投资者称油价还将进一步攀升。

黄金期货周三在盘后交易中涨幅缩窄，此前美联储公布了最新货币政策会议纪要。六月交割的黄金期货在电子交易时段上涨0.6%至1,353.80美元/盎司。纽约商品交易所收盘价为1,360美元/盎司，为3月26日以来最高收盘价。会议纪要显示，美联储官员在上个月的会议上表示对明年通胀达到央行2%的目标更有信心，并相信未来几年经济增长速度将超过可持续增速。一些投资者认为，会议纪要提振了央行加快加息的理由，这可能对黄金不利。

贱金属方面，铜期货下跌0.6%至3.1170美元/磅。

三、今日市场展望

经济事件预告韩国韩国央行货币政策会议及利率决定

新加坡2月份零售额

中国3月份M2供应量

美国3月份进出口价格指数

法国3月份消费者价格指数

欧元区2月份工业产值

四、深度/独家报道

美元为何在市场动荡时波澜不惊？

在贸易紧张局势加剧以及全球经济增长前景略微降温的背景下，股市大幅震荡，而美元令人瞩目的一点却是其平静表现。

美元在1月份下跌，延续2017年的跌势，但随着市场遭遇震荡，美元的跌势中断。美元自那时以来横盘整理，欧元/美元持续位于1.23美元附近波动。

美国以外的地区经济增长前景改善在去年推动美元兑欧元和新兴市场货币下跌，欧元区录得10年来的最快增速。但现在，以Markit采购经理人指数等调查为主的欧元区数据已失去动能，而美国经济数据表现更好。

美国商品期货交易委员会(Commodity Futures Trading Commission)的数据表明，投资者已削减美元的看跌仓位，但仍预计美元将下跌。美元下跌需要一个诱因，

不过眼下似乎还没有这样的诱因出现。美国股市在2017年大涨后估值已较高，与股市不同，美元已下跌很多，ICE美元指数下跌了近10%。

美国税改以及支撑税改的开支措施有望刺激经济，这可能放缓了美元的下跌势头，尽管从长远看，在经济周期的后期阶段出台刺激措施，其利弊还存在担忧。美国经济可能表现波动，而欧元区经济更取决于全球经济表现。稳步上升的利率可能也会提振美元。

对投资者而言，新兴市场股市和债市在今年为数不多的亮点之列，然而美元全面升值对这些市场来说可能令人担忧。新兴市场的货币升值是一种额外的吸引力，提升了回报。但其他货币兑美元的上涨已停滞，俄罗斯卢布和土耳其里拉等一些货币因自己的政治和经济问题受到严重打击。

美元的横盘整理表明，市场对于全球经济下一步表现如何缺乏定论。在2017年持续下跌后，横盘整理本身就是一个信号。美元可能只是跌势暂停，但其缺乏波动不能被视为理所当然。

美国股市重现动荡，但波动性指数ETF依然失宠

那些能让投资者从股市剧烈波动中获利的交易所交易基金(ETF)今年大涨。但散户基本上对这些产品敬而远之，他们之前曾因押注波动性而损失惨重。

如今押注波动性具有数年来最充分的理由。利率不断上升、贸易战担忧以及科技股大跌都引发了美国股市大幅波动，这与市场此前的长期平静形成对照。标普500指数在过去15个交易日中有10个交易日的涨跌幅度超过1%，芝加哥期权交易所波动性指数(VIX)今年上升了97%。

VIX周一走高，此前道琼斯工业股票平均价格指数回吐了盘中440点涨幅的大部分，因有报道称，联邦调查人员搜查了长期担任美国总统特朗普(Donald Trump)律师的Michael Cohen的办公室和住所。

市场动荡已经让那些追踪VIX的产品成为今年表现最好的投资之一。自2018年年初以来，iPath S&P 500 VIX Short-Term Futures ETF上涨近79%，而利用杠杆从VIX期货获得回报的ProShares Ultra VIX Short-Term Futures ETF攀升96%。

FactSet数据显示，尽管出现上述涨幅，但今年到目前为止，从波动性上升中获利的ETF产品出现了10多亿美元的资金流出。

近年来，随着股市稳步走高，同时VIX降至纪录低点，这些基金已经失宠。

CFRA的ETF研究负责人Todd Rosenbluth称，波动性迅速受宠和失宠的事实理所当然地让投资者停止追逐这些回报。

Document WSJCN00020180411ee4b002xl

THE WALL STREET JOURNAL.

CT-Others
早間市場快報

2,902 words
11 April 2018
08:00 PM
華爾街日報中文版 (繁體)
WSJCT
Chinese - Traditional

一、熱點回顧

特朗普警告俄羅斯：美國導彈將打到敘利亞

美國總統特朗普周三稱美國的導彈將打到敘利亞，並警告稱他願意通過向敘利亞總統阿薩德發起軍事打擊，來直接挑戰俄羅斯。此前阿薩德被指進行了化學武器襲擊。他還警告稱，俄羅斯不應與阿薩德合作。他將阿薩德稱為"用毒氣殺人的動物"，稱他殺死敘利亞本國人民，而且還樂在其中。目前敘利亞已經在美國與法國部署的配有巡航導彈的戰艦射程範圍之內，美國已經開始就針對敘利亞發起軍事行動動員國際社會的支持。特朗普緊接着又發推文宣稱美俄關係惡化，但之後似乎又建議俄羅斯撤回在敘利亞問題上的威脅。

美國眾議院議長瑞安將於1月任期屆滿後退休

美國眾議院議長瑞安(Paul Ryan)的辦公室周三表示，瑞安將在任期屆滿後退休，不再尋求競選連任。如果共和黨在2018年11月的中期選舉中失去眾議院控制權，這位威斯康星州共和黨人料將卸任。兩黨分析師目前均認為共和黨有可能失去眾議院控制權。但瑞安周三宣布將於明年1月退休的消息令人感到意外。瑞安此舉將令其高層助理之間展開一場領導權之爭。眾議院多數黨領袖、加州共和黨議員Kevin McCarthy和眾議院多數黨黨鞭、路易斯安那州共和黨議員Steve Scalise被認為是最有可能接替瑞安的人選。

簡體版 | 繁體版

二、隔夜金融市場回顧

地緣政治緊張局勢和通脹數據拖累道指下跌、美國國債收益率下跌；美元下跌，因通脹符合預期；敘利亞情勢拖累歐股收跌；原油期貨升至三年高點，受地緣政治風險提振；黃金期貨走高，但美聯儲公布會議紀要后漲幅縮窄；銅期貨下跌。

——美國股市

道瓊斯指數周三下跌，逆轉近期反彈走勢，因投資者研判日益升溫的地緣政治緊張局勢和最新的美國通脹數據。美東時間下午4點，道瓊斯指數跌218點，至24189點，跌幅0.9%。標普500指數跌0.6%，納斯達克綜合指數跌0.4%。主要股指周二創出逾兩周來最大單日漲幅，但較今年稍早觸及的紀錄高點仍跌逾6.5%。全球股市最近幾個交易日呈震蕩走勢，分析師稱，美國和中國的貿易口水戰以及與俄羅斯和敘利亞緊張局勢升級給市場造成壓力。美國原油期貨上漲2%，至2014年12月以來最高水平，支撐了能源類股。

——歐洲股市

歐洲股市周三收盤下跌，因分析師擔憂美國對敘利亞採取軍事行動可能會驚動市場。歐洲斯托克600指數收跌0.6%，至376.18點，本周以來的漲幅收窄至0.4%。德國DAX 30指數下跌0.8%，至12293.97點。法國CAC 40指數下跌0.6%，至5277.94點。英國富時100指數下跌0.1%，至7257.14點。投資者最新的地緣政治擔憂是美國空襲敘利亞的可能性不斷上升，有關此類空襲行動的談論自上周末一起導致大馬士革平民死亡的疑似化武襲擊事件以來不斷髮酵。這可能會將美國拉入與支持阿薩德政權的俄羅斯的衝突中。

——外匯市場

紐約匯市周三，美元下跌，之前公布的美聯儲3月會議紀要显示官員們計劃繼續加息。紐約匯市尾盤，華爾街日報美元指數跌0.1%，至83.64。美元周三一度短暫走高，但在美聯儲公布上個月會議紀要后，後市回落。會議紀要显示，決策者對明年通脹可能達到央行2%的目標日益有信心，並計劃繼續逐步上調短期利率。在勞工部公布CPI后，美元下跌。3月份CPI較前一個月下降0.1%，完全是由於汽油價格暫時下降。

——美國國債

美國國債周三微幅走高，受到地緣政治緊張局勢升級以及CPI弱於預期的提振。基準10年期國債收益率收於2.790%，周二為2.799%。美國總統特朗普在Twitter上向俄羅斯喊話，稱美國將向敘利亞發射新型智能導彈。此後國債收益率和美國股指期貨在周三早盤雙雙下跌。數據显示，美國3月份消費者價格指數下降，導致國債收益率再次下跌，之後跌幅縮窄。

——商品市場

原油期貨周三升至三年多來最高水平，同時中東地區緊張局勢升溫，表明拖累市場多年的供應過剩狀況有望結束。紐約商業交易所的美國原油期貨周三上漲1.31美元，至每桶66.82美元，漲幅2%。ICE歐洲期貨交易所的布倫特原油期貨上漲1.02美元，至每桶72.06美元，漲幅1.4%。美國和布倫特原油期貨均創下2014年12月以來最高水平。歐佩克削減相當於一年多產量的做法為油價這輪漲勢奠定了基礎，逐步緩解了令油價三年多來維持低迷的供應過剩狀況。委內瑞拉經濟危機加深，也導致該國原油產量大幅下降。西方國家可能對伊朗實施新的制裁，一些分析師和投資者稱油價還將進一步攀升。

黃金期貨周三在盤后交易中漲幅縮窄，此前美聯儲公布了最新貨幣政策會議紀要。六月交割的黃金期貨在电子交易時段上漲0.6%至1,353.80美元/盎司。紐約商品交易所收盤價為1,360美元/盎司，為3月26日以來最高收盤價。會議紀要显示，美聯儲官員在上個月的會議上表示對明年通脹達到央行2%的目標更有信心，並相信未來幾年經濟增長速度將超過可持續增速。一些投資者認為，會議紀要提振了央行加快加息的理由，這可能對黃金不利。

賤金屬方面，銅期貨下跌0.6%至3.1170美元/磅。

三、今日市場展望

經濟事件預告韓國韓國央行貨幣政策會議及利率決定

新加坡2月份零售額

中國3月份M2供應量

美國3月份進出口價格指數

法國3月份消費者價格指數

歐元區2月份工業產值

四、深度/獨家報道

美元為何在市場動蕩時波瀾不驚？

在貿易緊張局勢加劇以及全球經濟增長前景略微降溫的背景下，股市大幅震蕩，而美元令人矚目的一點卻是其平靜表現。

美元在1月份下跌，延續2017年的跌勢，但隨着市場遭遇震蕩，美元的跌勢中斷。美元自那時以來橫盤整理，歐元/美元持續位於1.23美元附近波動。

美國以外的地區經濟增長前景改善在去年推動美元兌歐元和新興市場貨幣下跌，歐元區錄得10年來的最快增速。但現在，以Markit採購經理人指數等調查為主的歐元區數據已失去動能，而美國經濟數據表現更好。

美國商品期貨交易委員會(Commodity Futures Trading Commission)的數據表明，投資者已削減美元的看跌倉位，但仍預計美元將下跌。美元下跌需要一個誘因，

不過眼下似乎還沒有這樣的誘因出現。美國股市在2017年大漲后估值已較高，與股市不同，美元已下跌很多，ICE
美元指數下跌了近10%。

美國稅改以及支撐稅改的開支措施有望刺激經濟，這可能放緩了美元的下跌勢頭，儘管從長遠看，
在經濟周期的後期階段出台刺激措施，其利弊還存在擔憂。美國經濟可能表現波動，
而歐元區經濟更取決於全球經濟表現。穩步上升的利率可能也會提振美元。

對投資者而言，新興市場股市和債市在今年為數不多的亮點之列，
然而美元全面升值對這些市場來說可能令人擔憂。新興市場的貨幣升值是一種額外的吸引力，
提升了回報。但其他貨幣兌美元的上漲已停滯，
俄羅斯盧布和土耳其里拉等一些貨幣因自己的政治和經濟問題受到嚴重打擊。

美元的橫盤整理表明，市場對於全球經濟下一步表現如何缺乏定論。在2017年持續下跌后，
橫盤整理本身就是一個信號。美元可能只是跌勢暫停，但其缺乏波動不能被視為理所當然。

美國股市重現動蕩，但波動性指數ETF依然失寵

那些能讓投資者從股市劇烈波動中獲利的交易所交易基金(ETF)今年大漲。但散戶基本上對這些產品敬而遠之，
他們之前曾因押注波動性而損失慘重。

如今押注波動性具有數年來最充分的理由。利率不斷上升、貿易戰擔憂以及科技股大跌都引發了美國股市大幅波動
，這與市場此前的長期平靜形成對照。標普500指數在過去15個交易日中有10個交易日的漲跌幅度超過1%，
芝加哥期權交易所波動性指數(VIX)今年上升了97%。

VIX周一走高，此前道瓊斯工業股票平均價格指數回吐了盤中440點漲幅的大部分，因有報道稱，
聯邦調查人員搜查了長期擔任美國總統特朗普(Donald Trump)律師的Michael Cohen的辦公室和住所。

市場動蕩已經讓那些追蹤VIX的產品成為今年表現最好的投資之一。自2018年年初以來，iPath S&P 500 VIX
Short-Term Futures ETF上漲近79%，而利用槓桿從VIX期貨獲得回報的ProShares Ultra VIX Short-Term Futures
ETF攀升96%。

FactSet數據显示，儘管出現上述漲幅，但今年到目前為止，從波動性上升中獲利的ETF產品出現了10
多億美元的資金流出。

近年來，隨着股市穩步走高，同時VIX降至紀錄低點，這些基金已經失寵。

CFRA的ETF研究負責人Todd
Rosenbluth稱，波動性迅速受寵和失寵的事實理所當然地讓投資者停止追逐這些回報。

Document WSJCT00020180411ee4b005mt

THE WALL STREET JOURNAL.
U.S. EDITION

Trump and China Share a Bad Idea on Trade

By Robert J. Barro
933 words
11 April 2018
The Wall Street Journal
J
A15
English

The Trump theory of international trade seems straightforward: Selling stuff to foreigners is good, and buying stuff from foreigners is bad. It's a form of mercantilism. Exports are attractive because they represent domestic production and American jobs. Imports are undesirable because that production and employment otherwise could have happened at home.

Simple economic reasoning, however, suggests that this logic is backward. Imports are things we want, whether consumer goods, raw materials or intermediate goods. Exports are the price we have to pay to get the imports. It would be great, in fact, if we could get more imports without having to pay for them through added exports.

Economists typically favor free trade, which has a lot to recommend it from a global perspective. As my favorite economist, David Ricardo, argued in the early 1800s, free trade ensures that production takes place in its most efficient location, as governed by principles of comparative advantage. That's why the U.S. imports bananas and exports soybeans and high-tech products.

Nevertheless, departures from free trade can sometimes be rewarding for a single country. For example, if the Chinese want to subsidize particular goods, Americans can benefit by buying them at artificially low prices. In the extreme case of China giving goods away free, it takes a lot of imagination to construct a model in which this "dumping" would be bad for the U.S. overall (though it might harm some American producers).

President Trump and Commerce Secretary Wilbur Ross have argued recently that the Trump theory implies a trade war can be desirable if directed against a country, such as China, with which the U.S. has a large trade deficit. In 2017, the Chinese sold the U.S. $524 billion of goods and services and bought only $187 billion, for a bilateral trade deficit of $337 billion.

As I understand the reasoning, it's that China has more to lose. If a full-blown trade war cut bilateral trade to zero, the U.S. would lose just $187 billion in sales to Chinese customers, while China would lose $524 billion in sales to Americans. In reality, both countries would be hurt in a trade war, and the U.S. would probably lose more by being cut off from Chinese imports.

The twist is that China's leaders seem to embrace the same mercantilist theory of international trade that Mr. Trump espouses. They probably agree that they have been taking the U.S. to the cleaners for years by selling Americans far more goods and services than they buy. This outlook is actually favorable for avoiding a trade war, since it makes the Chinese more likely to offer serious concessions, including the removal of restrictions on American imports and investment.

Many serious commentators look at America's large trade deficit with China and argue that something has to be done. But it's misleading to look at a single bilateral trade deficit, given that the U.S. also runs many bilateral trade surpluses. To the extent that trade deficits are a legitimate economic concern, the question is the global trade deficit, which totaled $568 billion in 2017. The worry is that this overall deficit has led to a large U.S. debt to foreigners, which must be repaid eventually. At the end of 2017, this debt stood at an impressive $7.8 trillion, or 40% of U.S. gross domestic product.

Theoretically, the large U.S. debt should result in an excess of money that Americans pay out to foreigners compared with what Americans get from foreigners. This imbalance should reduce U.S. imports, thereby moving the economy toward balanced trade overall. But things have not worked out this way. Instead the net investment income America earns from abroad has grown over time, reaching $251 billion, or 1.3% of GDP, in 2017. An explanation for part of this puzzling pattern is that the U.S. borrows a lot through low-interest Treasury paper and then earns much higher returns on direct investments and portfolio holdings. Somehow, America's low-interest government debt is highly valued by the rest of the world, which allows the persistent gap between imports and exports to continue. As Jason Furman, chairman of President Obama's Council of Economic Advisers, put it to me recently, the U.S. economy is now the world's largest and most successful hedge fund.

If President Trump won't believe economists who tell him that a trade war is ill-advised, he should at least believe the **stock market**. Since his election, Mr. Trump has pointed with pride to rising share prices, which he has attributed to his sound policies on taxes and regulations. Although there is a danger of reading too much into day-to-day fluctuations, it is probably true that stock prices have no equal as a report card on economic policy. Thus Mr. Trump is right that the **stock-market** advance signals support for his pro-market agenda. He should take it seriously, then, when talk of tariffs and trade wars leads to sell-offs and persistently high **volatility**. These are signs, if only the president will heed them, that the new Trump mercantilism is not such a good idea.

Mr. Barro is a professor of economics at Harvard University and a visiting scholar at American Enterprise Institute.

(See related letters: "Letters to the Editor: China-U.S. Trade on a Tilted Playing Field" -- WSJ April 23, 2018)

Document J000000020180411ee4b0001g

THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Fed Proposes Shift In Big-Bank Rules on Capital, Stress Tests

By Ryan Tracy and Liz Hoffman
633 words
11 April 2018
The Wall Street Journal
J
B12
English

Corrections & Amplifications

The Federal Reserve's stress-test proposal would have the regulator assume banks restrain growth in their balance sheets during stressful periods. A Business & Finance article on Wednesday about changes to rules for big banks incorrectly suggested the Fed would assume shrinking balance sheets.

(WSJ April 16, 2018)

(END)

The Federal Reserve proposed retooling capital rules and annual "stress tests" for the largest U.S. financial firms, the first major big-bank rule change of the Trump era.

The Fed on Tuesday said the changes would simplify rules for big banks such as JPMorgan Chase & Co. and Wells Fargo & Co. without endangering the financial system. "This proposal significantly simplifies our capital regime while maintaining its strength," said Randal Quarles, Fed vice chairman for supervision.

Some parts are likely to be welcomed by big banks. The changes would reduce the possibility banks would fail the Fed's annual stress tests, which examine whether firms can continue lending during a severe recession.

On the other hand, Wall Street banks have been clamoring that capital rules restricting their borrowing are too strict -- and the changes would keep those rules steady or tighten them slightly for the biggest banks.

"The question has been: Do we think the banks are overcapitalized, undercapitalized or appropriately capitalized?" one chief financial officer at a big bank said. Tuesday's proposal suggests the Fed "thinks we are appropriately capitalized."

For eight large U.S. banks considered "systemically important" to the global financial system, the proposals altogether would maintain or "in a few cases, increase" capital requirements, the Fed said. It didn't specify which banks could face higher capital requirements.

In addition to JPMorgan, Wells Fargo and Citigroup Inc., that list of eight firms includes Goldman Sachs Group Inc., Morgan Stanley, Bank of America Corp., State Street Corp. and Bank of New York Mellon Corp.

For other large banks that don't have global footprints, the Fed said capital requirements wouldn't change or could go down modestly. That group includes U.S. Bancorp, Capital One Financial Corp., PNC Financial Services Group Inc. and others.

High-profile slip-ups in stress tests have damaged the reputations of Citigroup and other firms in recent years. Banks must pass the test before rewarding investors with dividends and share buybacks.

Some of the Fed's changes would make the tests easier to pass. The proposal would allow firms to project cuts in dividend payments and a shrinking balance sheet under stress, both assumptions they are prevented from making under current rules. That would boost banks' capital levels in the stress test.

Banks also would no longer fail stress tests because the Fed projects they don't have enough equity capital funding. In previous years, banks that failed this "quantitative" part of the tests were barred from increasing the amount of capital they pay to shareholders.

The largest, most complex banks, generally those with more than $250 billion in assets, could only fail the exams for "qualitative" reasons -- for instance, if the Fed determines the firm has risk-management deficiencies.

For large Wall Street firms, those changes could be offset by another aspect of the proposal: Banks' stress-test results would be used to calculate a "stress capital buffer" requirement, which the firms would have to meet during the ensuing year. If a firm's capital falls below this level, it would face limits on its capital distributions or curbed bonus payments.

That means the stress tests, which imagine doomsday scenarios, will still constrain big banks. Some bank executives have said the 2018 test, which assumes 10% unemployment and a 65% slide in the **stock market**, is unrealistically harsh.

The proposal was approved by the Fed's governing board in a 3-0 vote.

The Fed will accept comments on the proposal during the next several months, and officials said they hope to complete it in time for it to apply during the 2019 big-bank stress tests.

Document J000000020180411ee4b00025

WSJ PRO FINANCIAL REGULATION

Markets

U.S. Proposes Loosening Big-Bank Capital Rule; Federal Reserve, Office of the Comptroller of the Currency seek revamped 'supplementary leverage ratio'

By Ryan Tracy and Lalita Clozel
749 words
11 April 2018
07:26 PM
WSJ Pro Financial Regulation
RSTPROFR
English

WASHINGTON—Bank regulators proposed retooling a major capital rule, their second move in as many days that could benefit some of the country's largest banks.

The Federal Reserve and the Office of the Comptroller of the Currency on Wednesday proposed loosening the "supplementary leverage ratio," a rule applying to eight large U.S. banks considered crucial to the functioning of the global financial system. The group includes JPMorgan Chase & Co., Wells Fargo & Co. and Goldman Sachs Group Inc.

As with the prior day's Fed proposal to revamp annual "stress tests," officials characterized Wednesday's move as a way of simplifying the rule book for Wall Street without endangering the financial system.

This time, however, regulators were divided. The Fed's governing board approved the proposal by a 2-1 vote. Fed Chairman Jerome Powell and Fed Vice Chairman for Supervision Randal Quarles, both appointed to their current posts by President Donald Trump, voted for the move. Lael Brainard, an Obama appointee, opposed it.

Ms. Brainard declined to comment. A Fed spokesman pointed to an April 3 speech in which Ms. Brainard said: "At a time when valuations seem stretched and cyclical pressures are building, I would be reluctant to see our large banking institutions releasing the capital and liquidity buffers that they have built."

The Federal Deposit Insurance Corp., led by an Obama appointee, didn't join the proposal, a departure from the practice of the three U.S. banking agencies adopting capital rules concurrently. FDIC Chairman Martin Gruenberg said in a statement the agency was concerned about "reductions in capital requirements" that address "the excessive leverage that helped deepen the financial crisis."

Just how much Wednesday's proposal might allow individual banks to lower their capital levels wasn't immediately clear. The Fed and OCC said the proposed changes would better tailor the rule to each firm's "individual characteristics."

Taking into account other rules the banks must follow, the proposed changes would only slightly reduce the aggregate amount of capital required to be held by all eight banks, the agencies said.

Still, the move could benefit some of the big firms, especially those that ran up against the leverage ratio in recent years. The leverage ratio requires big banks to fund their assets with a minimum amount of investor equity, as opposed to more **volatile** funding sources. It is one of several ways regulators measure a bank's riskiness.

After the 2008 bailouts, regulators appointed by President Barack Obama fixed the minimum leverage ratio for the biggest U.S. banks at 5% of assets.

Large Wall Street firms have complained that level was too high. Unlike other capital rules, the leverage ratio generally treats every asset the same, whether it is a subprime mortgage loan or Treasury bond. Supporters say this feature means the rule is less susceptible to manipulation. Banks say it unfairly punishes safe activities.

Wednesday's proposal could result in a lower leverage-ratio requirement for the eight biggest U.S. banks. Instead of 5%, banks' minimum ratio would be 3%, plus an added "surcharge" that varies depending how banks score on another measure of their riskiness. Based on regulatory filings, the leverage ratio "surcharge" for the eight banks would likely range from 0.75% to 1.75%.

The rule would further benefit the firms by lowering the leverage-ratio requirement for their taxpayer-insured banking subsidiaries.

"This is largest step regulators have taken to weaken systemic risk protections for the biggest banks since Trump was elected," said Marcus Stanley, policy director for Americans for Financial Reform, a group that advocates for stricter Wall Street rules.

The proposal comes as Congress is considering a new law designed to ease the leverage ratio for at least two of the eight firms—State Street Corp. and Bank of New York Mellon Corp.

Those firms have large custody banking businesses, in which they hold large amounts of assets in safekeeping on behalf of other financial institutions such as mutual funds. The bill would order regulators to treat those businesses more favorably by excluding deposits placed at a central bank from the total assets counted in the leverage ratio.

If the bill passes, regulators would have to ensure Wednesday's proposal is consistent with it.

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Document RSTPROFR20180411ee4b000b5

THE WALL STREET JOURNAL.

U.S. Markets
Markets

Dow Industrials Slid Amid Geopolitical Tensions, Inflation Data; Combined trading volumes at the NYSE and Nasdaq were the lowest of the year, signaling cautiousness among investors

By Amrith Ramkumar and Riva Gold
892 words
11 April 2018
04:41 PM
The Wall Street Journal Online
WSJO
English

* Political tensions hurt global stocks

* Crude oil prices continue climbing

* Fed minutes show officials plan to continue raising rates

U.S. stocks edged lower Wednesday, reversing a recent rebound, as investors parsed escalating geopolitical tensions and the latest gauge of U.S. inflation.

The Dow industrials fell 218.55 points, or 0.9%, to 24189.45. The S&P 500 declined 14.68 points, or 0.6%, to 2642.19, and the Nasdaq Composite fell 25.27 points, or 0.4%, to 7069.03. Major indexes posted their largest one-day rise in more than two weeks Tuesday but remain more than 6.8% off all-time highs hit earlier this year.

Combined trading volumes on the New York Stock Exchange and Nasdaq were the lowest of the year, according to WSJ Market Data Group, a sign to some analysts that investors remain cautious.

Stocks around the world have seesawed in recent sessions, with analysts pointing to comments on trade from the U.S. and China and mounting tensions with Russia and Syria as sources of market stress.

Some investors worry that trade disruptions or other international conflicts could lead to higher costs for corporations and slower economic growth. That unease comes at a point when some analysts were already anxious about the impact of higher interest rates.

"This is happening at a time when the fundamentals for the equity markets are not as good as they were just a few months ago," said Luca Paolini, chief strategist at Pictet Asset Management, citing solid but declining global growth and more normal inflation. "All this risk tends to be correlated."

Mr. Paolini said he expects strong earnings growth to lead many investors to buy when stocks fall, spurring further volatility. First-quarter earnings season begins in earnest Friday with results from some of the largest banks.

President Donald Trump said early Wednesday that U.S. missiles "will be coming" to Syria, and warned he was willing to challenge Russia directly in launching a military strike against Syrian President Bashar al-Assad's forces over an alleged chemical-weapons attack.

Recently announced U.S. sanctions against more than three dozen Russian individuals and entities have also rippled through markets, boosting commodity prices by creating supply uncertainty for metals including aluminum and palladium. Russia is a major producer of both materials.

Investors have been tracking a rise in oil prices, as some think conflicts in the Middle East could hinder output and further support prices. U.S. crude oil climbed 2% to $66.82 a barrel—its highest level since December 2014—and boosted shares of energy firms for the third straight session.

Investors also were digesting the latest updates on the economy and monetary policy. U.S. consumer prices fell in March due to a drop in gasoline prices, but underlying inflation showed signs of picking up, data showed

Wednesday. The consumer-price index fell 0.1% from a month earlier, the first decline since May 2017. Excluding energy and food, consumer prices rose 0.2%, extending a trend of steady growth.

The yield on the benchmark 10-year U.S. Treasury note edged down to 2.790% from 2.799% Tuesday. Yields fall as prices rise. Gold, another haven asset investors favor when they think markets might turn rocky, added 1.1% and was near its highest level of the year.

Minutes from the Federal Reserve's March meeting showed officials signaled greater confidence in reaching their 2% inflation target over the coming year and affirmed plans to continue raising short-term interest rates gradually.

Following recent **volatility**, investors will likely focus even more on upcoming economic data releases and earnings figures for fresh information about the market's health, said Jeff Carbone, managing partner at Cornerstone Wealth.

"I think concentration will really shift to earnings at this point," Mr. Carbone said.

Among individual stocks, Facebook shares added $1.28, or 0.8%, to $166.32 in a third straight session of gains. Chief Executive Mark Zuckerbergfaced questions from Congress regarding the firm's handling of user data for the second straight day.

Netflix shares climbed 5.60, or 1.9%, to 303.67 after JPMorgan Chase analysts raised their price target on the streaming giant to $328 from $285.

Cruise line operator Carnival and toy maker Mattel were also among the **S&P 500**'s best performers, supporting the consumer discretionary sector. Carnival increased its quarterly dividend and reauthorized its stock repurchase program, and Jefferies analysts upgraded Mattel to hold from underperform.

Shares of Fastenal shed 3.37, or 6.2%, to 51.05 after the maker of fasteners and manufacturing tools posted quarterly earnings that were in line with expectations.

Elsewhere, the Stoxx Europe 600 shed 0.6%, following a mixed performance across Asian markets. Japan's Nikkei Stock Average and Australia's S&P ASX 200 each closed 0.5% lower.

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WSJ PRO CENTRAL BANKING

Economy

Fed Minutes Signal Greater Confidence in Reaching 2% Inflation; Central bankers at last month's policy meeting believed the economy would run hot for the next few years

By Nick Timiraos
932 words
11 April 2018
05:11 PM
WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—Federal Reserve officials at their meeting last month expressed greater confidence inflation would rise to their 2% target over the coming year, a development that could affect how much they raise interest rates in coming years.

They also debated the costs and benefits of allowing the economy to run hot and discussed how they might need to later raise rates to a level that would deliberately slow growth, according to minutes of their March 20-21 meeting, which were released Wednesday.

The minutes highlight just how much Fed officials' outlook has changed since last fall, when surprisingly slow inflation raised questions about the need for continued rate increases.

Fed officials last month believed the economy would run hot, or grow faster than its sustainable rate, for the next few years, the minutes said.

In March, "all participants agreed that the outlook for the economy beyond the current quarter had strengthened in recent months," the minutes said. In addition, "all participants expected inflation on a 12-month basis to move up in coming months."

The outlook has shifted since late last year because Congress and the White House approved tax cuts and a boost in federal government spending for this year and next. The economy hasn't often had such fiscal stimulus when unemployment is so low.

Last year, falling unemployment supported the case for rate increases. The jobless rate has held at 4.1% since last October, near an 18-year low.

But inflation pressures softened last year, bolstering arguments in favor of slowing the pace of rate rises. At the time, top Fed officials said they expected the slowdown would prove transitory, and inflation pressures have firmed up in recent months.

Officials noted the potential benefits of letting the economy run hot, such as drawing more Americans into the workforce from the sidelines and speeding inflation's return toward the central bank's 2% goal. The policy makers also noted potential costs: "An overheated economy could result in significant inflation pressure or lead to financial instability," the minutes said.

The Fed seeks to keep inflation at 2% because it views that level as consistent with an economy with healthy demand for goods and services.

At the same time, some officials warned they eventually could need to lift rates to a level that would deliberately restrict growth.

Some officials said they might need to acknowledge in future postmeeting policy statements that interest rates eventually would rise from a low level that spurs growth "to being a neutral or restraining factor for economic activity," the minutes said.

After holding its benchmark federal-funds rate near zero for seven years, the Fed has raised it six times since late 2015, most recently last month to a range between 1.5% and 1.75%. Officials also penciled in two more quarter-percentage-point rate increases in 2018 and three such moves in 2019.

The Fed isn't likely to raise rates at its next meeting, May 1-2, but investors largely expect another quarter-percentage-point increase at the following meeting in June. Investors have focused more attention on whether the Fed will feel pressure to add a fourth rate increase this year. The answer largely turns on inflation.

Of the 15 Fed officials at March's meeting, 12 penciled in either three or four rate increases for 2018, and they were equally divided between those two paths. Most officials also penciled in at least three rate increases for 2019.

If Fed officials grow more confident that inflation is rising toward their 2% target over time, they could stick to their tentative plan for three rate increases this year. But if it looks like new federal spending, tax cuts, a weaker dollar and lower unemployment will lead to an acceleration in price pressures, policy makers could act more aggressively.

Consumer prices excluding **volatile** food and energy items rose 2.1% in March from a year earlier, according to the so-called core consumer-price index, released by the Labor Department Wednesday. That was the strongest reading since February 2017.

Economists at JPMorgan Chase estimate the Fed's preferred inflation gauge, produced by the Commerce Department, will show annual core inflation of 1.9% in March when it is released later this month. In February, it was 1.6%.

Annual inflation is expected to rise in coming months because the weak monthly readings of last March and April will no longer be included in year-over-year comparisons, the minutes said.

This upturn is "widely expected and, by itself, would not justify a change in the projected path for the federal-funds rate," the minutes said.

While the minutes show Fed officials are optimistic about economic growth, the prospect of trade fights loomed as one significant concern.

"A strong majority" of Fed officials saw the prospect of retaliatory trade actions by other countries as a risk for the U.S. economy, the minutes said. Officials' contacts in the agriculture industry reported "feeling particularly vulnerable to retaliation."

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THE WALL STREET JOURNAL.

Politics

Trump Looks to Assuage Trade Critics With Farm Package; The aid package, which could climb into the billions of dollars, is still being developed

By Bob Davis, Siobhan Hughes and Jesse Newman
1,494 words
11 April 2018
04:40 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON—The Trump administration is seeking to blunt domestic opposition to its trade policies with a relief package for farmers affected by the U.S. trade spat with China, say officials involved in the discussions.

The aid package, which could climb into the billions of dollars, is still being developed. Agriculture and congressional officials are examining Depression-era programs like the Commodity Credit Corp., which was created in 1933 to stabilize farm incomes, and which permits borrowing of as much as $30 billion from the Treasury to finance its activities. Using the CCC would also give the administration an existing program to tap, rather than having to devise something new that would need to clear Congress.

These programs haven't traditionally been used in trade fights, but Congress has started to clear the way for the CCC to be tapped.

Last month, lawmakers lifted restrictions that, until now, stood in the way of the Agriculture Department using a special price-support program to aid farmers. The change, tucked into a sweeping, $1.3 trillion spending bill, reversed years of restrictions that had prevented the CCC from supporting farm prices or buying surplus products.

Sen. Chuck Grassley (R., Iowa) said that the Trump administration could rely on the CCC and related authorities to shield farmers from the effects of any tariffs imposed by China. "I've had a conversations with people in the administration that thought if there were ever tariffs imposed, that the income coming from the tariffs could be used for that purpose," Mr. Grassley said on Tuesday.

Farmers are on the front lines of the U.S.-China trade fight. China is targeting U.S. agricultural products for tariffs in retaliation for U.S. levies on Chinese goods because Beijing realizes that the Farm Belt was crucial to President Donald Trump's electoral victory. Mr. Trump said on Monday that farmers may initially take a financial hit from tariffs, but "we'll make it up to them."

By putting together a farm-relief program, the administration hopes that will make it less likely China will focus as heavily on farmers. That is because Beijing would know the farmers have an income stream even if they are hit by levies in retaliation for U.S. tariffs.

Many farm groups say they aren't looking for a handout and would rather have unimpeded trade with China. "Farmers are more interested in negotiation [with China] than mitigation," said Davie Stephens, vice president of the American Soybean Association and a farmer who raises crops near Clinton, Ky. "Let's get an agreement where tariffs don't have to be implemented."

Soybeans are one of the U.S. exports likely to face Chinese tariffs if the current trade tensions unfold as many people fear.

Some Republicans are amplifying those concerns. "This administration proposal is Saturday-morning-cartoon central planning," Sen. Ben Sasse (R., Neb.) said in response to the news that the Trump administration was examining the use of the CCC. "We want more trade, not less. Farmers want to feed the world and win with trade. Now, some in Washington instead want to pay them to lose. That's a bad idea and not a real strategy to fight Chinese cheating."

A coalition of about 45 trade associations, representing industries from high technology to shoes—and all of which oppose tariffs on China—are focusing their lobbying efforts on agriculture in pitches to Capitol Hill and the

White House, said those involved in the lobbying. "Farmers are seen as the one group able to change the president's mind," said a lobbyist involved in the effort.

Farmers for Free Trade, a trade group supported by the American Farm Bureau Federation, as well as by pork, wheat and corn producers, said it has so far spent $650,000 on an anti-tariff television ad, featuring a soybean farmer. The ad is airing in markets surrounding Washington, D.C., and Mar-a-Lago, Fla., Mr. Trump's weekend retreat.

China retaliated against U.S. steel and aluminum tariffs by imposing tariffs ranging from 15% to 25% on U.S. pork, fruits, wine and nuts. Beijing then threatened 25% tariffs on U.S. soybeans shortly after the U.S. targeted a passel of Chinese goods for alleged violation of U.S. intellectual property laws.

Prices for soybeans tumbled last week after China's threats, though the market has since rebounded, thanks to poor U.S. weather and signs a U.S.-China trade war could still be avoided. Hog prices fell more than 5% in early April when China said it would start levying planned tariffs on U.S. pork.

The **volatility** in prices—as well as shifting opinions over whether a full-scale trade war will break out—pose many unanswered questions that make it difficult to devise a compensation plan, said, Darci Vetter, a former agriculture trade official in Obama and Bush administrations.

"Who would be considered harmed and eligible? How would you structure a payment to them? How would you deliver it across the country?" she asked.

Working out the details could take months, she said, extending uncertainty through the fall season when farmers typically purchase seed and other crop supplies for the coming year.

An Agriculture Department spokesman said that "it wouldn't be prudent to give away our playbook and let China know exactly how we would plan to mitigate what they have threatened." The spokesman said, "We will not allow our agricultural producers to bear the brunt of China's retaliation."

The CCC provides loans and payments to farmers when prices or revenues decline for major crops, including wheat, corn, soybeans, peanuts and rice, and it provides other types of support for dairy, cotton and sugar. Over time, its focus has expanded to include crops that are considered specialties and not commodities.

The program was created to head off the sort of price declines that had preceded the Great Depression, but in fiscal 2012, Congress clamped down after Republicans complained that the Obama administration had abused the program to help then-Senate Agriculture Committee Chairwoman Blanche Lincoln (D., Ark.). In the fall of 2010, Ms. Lincoln was in a tight re-election race that she eventually lost.

The Agriculture secretary at the time, Tom Vilsack, spent $348 million on cotton, rice, soybeans, chicken and other products generated largely in the South to make purchases to prop up farmers.

Rep. Robert Aderholt (R., Ala.) supported restrictions after that episode, but Agriculture Secretary Sonny Perdue asked him to reverse the policy as the threat of counter-tariffs loomed. "There could be some retaliatory actions, and we wanted to be in a position to help our farmers," said Mr. Aderholt, who helped tuck the language to lift restrictions into the spending bill.

The cost of any compensation program could quickly mount. China is by far the largest foreign buyer of U.S. soybeans, making up nearly 60% of international sales, according to the Agriculture Department.

If tariffs sapped Chinese demand for U.S. soybeans, prompting the USDA to purchase crop supplies to boost prices, it would have to buy huge quantities to provide a significant lift, farm groups said. Government inventories could also compete with farmers' fresh crops in the long run, putting a ceiling on prices.

Compensating farmers for a 10% reduction in the price of soybeans and hogs could cost $5 billion, according to industry calculations.

In White House debates over how aggressively to push China in the trade fight, Mr. Perdue, sometimes joined by U.S. ambassador to China Terry Branstad, a former Iowa governor, has urged for the U.S. to negotiate with China over tariffs, say those involved in the discussions.

They have warned that farmers could get battered by retaliation. But, over time, that argument has had less impact, say administration officials, because the president and others in the administration feel that China needs to be confronted.

At a Senate Finance Committee hearing in March, U.S. Trade Representative Robert Lighthizer explained the administration's thinking. "It's not possible to take the position that, because of soybean farmers, we're not going to stick up for our rights in a whole variety of ways," he said.

Write to Bob Davis at bob.davis@wsj.com, Siobhan Hughes at siobhan.hughes@wsj.com and Jesse Newman at jesse.newman@wsj.com

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THE WALL STREET JOURNAL.

Markets
Gold Settles Higher, but Edges Lower After Fed Minutes; Fed officials signaled greater confidence in reaching their 2% inflation target, possibly a bearish signal for gold

By Ira Iosebashvili
322 words
11 April 2018
03:05 PM
The Wall Street Journal Online
WSJO
English

Gold prices pared gains in aftermarket trading Wednesday after the Federal Reserve released minutes from its latest monetary-policy meeting.

Gold for June delivery recently was up 0.6% at $1,353.80 a troy ounce in electronic trading. Prices closed at $1,360 a troy ounce in regular trading on the Comex division of the New York Mercantile Exchange, the highest close since March 26.

Fed officials at their meeting last month signaled greater confidence in reaching their 2% inflation target over the coming year and believed the economy would grow faster than its sustainable rate for the next few years, the minutes showed.

Some investors believed the comments bolstered the case for the central bank to raise rates at a faster pace, a potentially **bearish** development for gold, which struggles to compete with yield-bearing investments when rates rise.

Earlier in the session, geopolitical tensions pushed the metal higher. President Donald Trump said early Wednesday that U.S. missiles "will be coming" to Syria, and warned he was willing to challenge Russia directly in launching a military strike against Syrian President Bashar al-Assad's forces over an alleged chemical-weapons attack. The comments benefited prices for gold, a popular destination for investors during times of political or economic uncertainty.

Political tensions also buoyed prices for palladium, a key Russian export. Palladium for June delivery closed up 1.2% at $960.95 a troy ounce.

In base metals, aluminum for delivery in three months rose 2.2% to $2,250 a metric ton on the New York Mercantile Exchange. Russia is the world's second-largest exporter of aluminum, after China.

Copper fell 0.6% to $3.1170 a pound.

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Document WSJO000020180411ee4b001e1

THE WALL STREET JOURNAL.

Markets

Bank Stocks Limp into Earnings Season; Big banks are poised to report strong earnings, but that might not be enough to spark their stock prices

By Rachel Louise Ensign and Peter Rudegeair
510 words
11 April 2018
01:34 PM
The Wall Street Journal Online
WSJO
English

Big banks are expected to report the strongest first quarter for several of their core businesses in years. But it may take more than that to light another fire under bank stocks.

Between the 2016 presidential election and the end of 2017, bank stocks rose 42% as the operating environment for lenders quickly brightened. An era of big fines and strained profit margins suddenly gave way to a lighter regulatory touch and a much lower tax rate. Driven by these developments and gradual increases in interest rates, the sector far outperformed the broader market.

By the first quarter of 2018, bank stocks traded at higher valuations than they had in years—and investors didn't seem convinced they should grow much beyond that. The KBW **Nasdaq** Bank index, a key measure of bank stocks, is roughly flat since the start of the year. That is only marginally better than the **S&P 500**, which has fallen about 1%. Big banks such as Citigroup Inc. and Wells Fargo & Co. have underperformed.

Despite the middling performance, there were bright spots for banks. Market turmoil in the first quarter, which hurt bank stocks, should actually lift trading revenue. And interest rates continued to rise as the Federal Reserveraised its benchmark rate for a sixth time.

Rising rates are typically good for banks because they turn a profit on the difference between what they pay on deposits and the rate they collect on loans. Although long-term rates didn't rise as quickly as short-term ones, many bank loans to companies are pegged to the London interbank offered rate, or Libor. This rate rose sharply—hitting 2.7% this week, compared with 2.11% at the end of last year—which will help lending profit margins.

Commercial loan growth also may help profits. This finally picked up toward the end of the quarter after an unexplained and steep slowdown following the 2016 presidential election. It remains below its fast pace from a few years ago, however.

Banks have been able to pocket the benefit from higher rates because they largely haven't felt pressure to pay more interest to depositors. Eventually that will change as banks come under pressure to keep deposits from moving elsewhere. For now, though, there isn't much pressure to increase those rates, which could crimp margins.

Most of this is priced into bank stocks, however. And low long-term rates could act as a drag on bank profitability. A flattening yield curve, a bond-market gauge of economic conditions, doesn't bode well for future bank profitability. Even worse, it potentially signals economic growth isn't going to ramp up much from here, which is what bank stocks really need to propel them higher.

Write to Rachel Louise Ensign at rachel.ensign@wsj.com and Peter Rudegeair at Peter.Rudegeair@wsj.com

Document WSJO000020180411ee4b004mp

THE WALL STREET JOURNAL.

Markets

Russia Moves Markets, in Six Charts; Investors expect continued volatility amid worries over further U.S. actions and a military strike on Syria

By Alistair MacDonald
432 words
11 April 2018
12:33 PM
The Wall Street Journal Online
WSJO
English

Concerns about the effects of U.S. sanctions on Russia and the risks of military action against Moscow's Syrian allies have buffeted a broad range of markets this week.

Last Friday, Washington announced sanctions against government officials and business magnates in Russia. President Donald Trump also criticized Moscow for its support of Syrian President Bashar al-Assad following an alleged chemical-weapons attack. On Wednesday, he warned he was willing to challenge Russia directly in launching a military strike against Mr. Assad.

While markets may soon bounce back, as they did following a sanctions-induced Russia selloff in 2014, investors expect continued **volatility** amid worries over further U.S. actions and a military strike on Syria.

Ruble

The Russian currency has borne the brunt of the selling and is currently around 9% lower than just before the U.S. sanctions were announced. While Moscow was heavily sanctioned following its annexation of Crimea in 2014, investors say Washington went further last week by ordering Americans to sell holdings in companies related to Russian magnate Oleg Deripaska. That raises the possibility that U.S. fund managers will eventually be stopped from owning other Russian assets, including government debt, investors say.

Oil

The Brent crude benchmark, which gauges global **oil prices**, held near a more than three-year high Wednesday, buoyed by concerns about the possibility of a U.S.-led military strike on Syria. Several other factors impact **oil prices**, but some analysts say a U.S. strike could ratchet up tensions in the Middle East and disrupt supply, helping drive the gains.

Rusal

The sanctions have contributed to knocking 56% off the share price of Mr. Deripaska's United Co. Rusal PLC, the world's second-biggest supplier of aluminum this week.

Aluminum

The industrial metal has gained by around 9.5% this week as investors anticipate less supply from Russian producers like Rusal. On Tuesday, the London Metal Exchange said it would no longer facilitate trade in Rusal products.

Russian 10-Year Debt

The yield on 10-year government bonds jumped and Russia's finance ministry canceled a weekly auction of ruble-denominated government bonds citing "unfavorable market conditions."

MICEX Index of Russian stocks

Many Russian-listed shares have almost recovered from their initial steep selloff. Among the reasons for this is the fall in the ruble against the dollar making exports more profitable.

Write to Alistair MacDonald at alistair.macdonald@wsj.com

Document WSJO000020180411ee4b00336

THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Volatility Pays but Still Scares Investors

By Asjylyn Loder
631 words
11 April 2018
The Wall Street Journal
J
B12
English

Exchange-traded products that enable investors to profit from wild price swings in stocks are enjoying big gains this year. But retail investors, who have been burned in the past by betting on **volatility**, are mostly steering clear of them.

The case for buying into **volatility** is the best it has been in years. Rising interest rates, fears of a trade war and a rout in technology stocks have triggered big swings in U.S. stocks, a contrast after an extended period of market calm.

The **S&P 500 stock index** has moved more than 1% on 11 of the past 16 trading days, while the Cboe **Volatility** Index, known as the VIX, is up 85% this year.

The market swings have made investments that track Wall Street's fear gauge among the year's top performers. The Path **S&P 500** VIX Short-Term Futures exchange-traded note is up 74% since the start of 2018, while the ProShares Ultra VIX Short-Term Futures ETF, which uses leverage to juice the daily returns of VIX futures, has gained 88%.

Despite those gains, exchange-traded products that profit from rising **volatility** have suffered more than $1 billion in outflows so far this year, according to FactSet.

The funds have fallen out of favor in recent years as stocks climbed steadily and the VIX fell to record lows.

"The fact that **volatility** can come into favor and fall out of favor very quickly has rightfully given investors pause when chasing these returns," said Todd Rosenbluth, head of ETF research for CFRA.

ETFs pegged to a rising VIX have a history of losing money. They tend to suffer in periods of protracted market calm and have been hit by the nine-year bull run in U.S. stocks. The products face additional headwinds because of a quirk of futures trading that steadily eats away at returns. The iPath ETN, for example, has suffered eight consecutive years of declines.

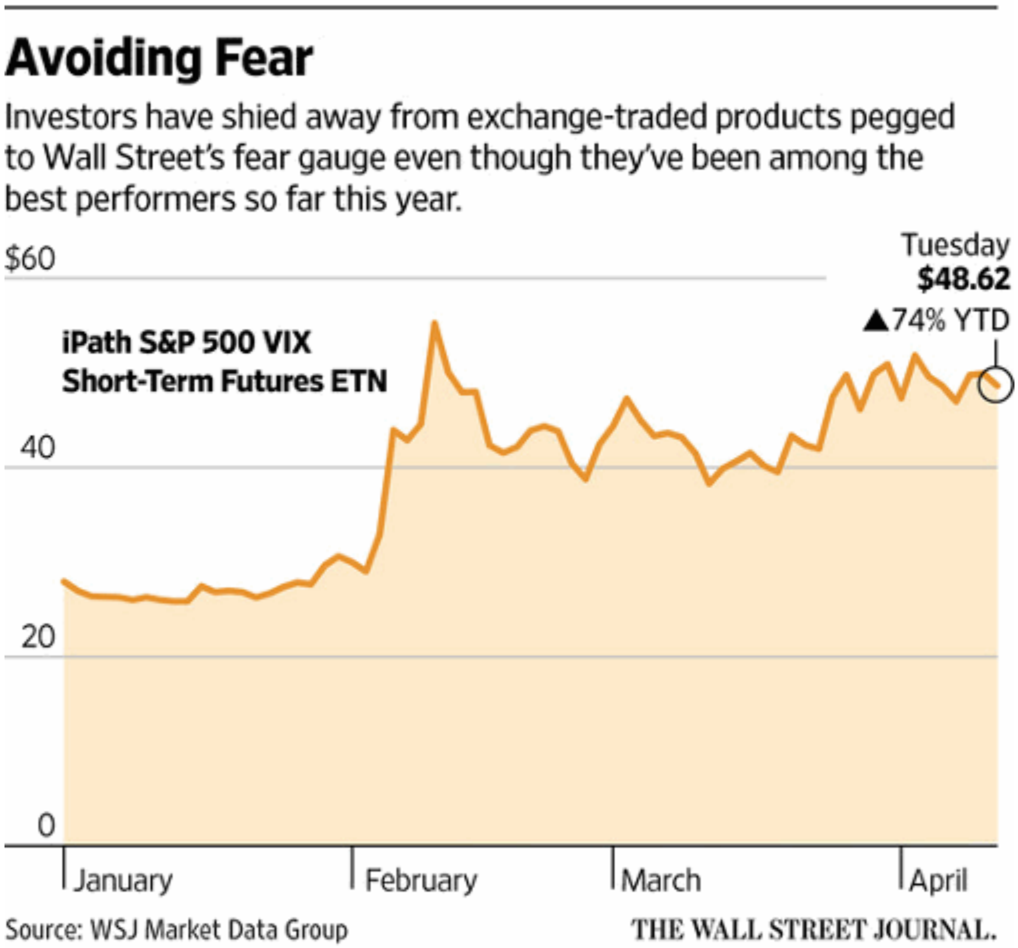
The losses had become so predictable that investors began taking the opposite tack, betting against the VIX in record numbers. That strategy backfired in February, when ETPs that profit when the VIX falls lost 80% of their assets in a matter of hours. Two products were closed, and others are a fraction of their former size.

"It was a big story and it definitely tainted the whole VIX ETF complex," said Eric Balchunas, senior ETF analyst for Bloomberg Intelligence. "Some would argue that's a good thing. If there's a little bit of retail repellent, that's not necessarily a bad thing, because people can lose a lot of money fast."

The VIX index uses options on the **S&P 500** to measure expectations for the speed and severity of market moves. It typically rises when stocks fall, making it an attractive form of insurance.

The iPath ETN, launched in 2009, was the first to give investors a way to invest in Wall Street's fear gauge without the cost and complexity of trading futures and options. It proved popular in the immediate aftermath of the financial crisis, when shell-shocked savers were eager for anything that might protect their nest eggs from another crash. The iPath ETN took in $3.6 billion in 2009 and 2010, according to FactSet.

But insurance comes at a cost. Because uncertainty increases with time, the further away an anticipated decline is, the more expensive it is to insure against. That means VIX futures for this month are typically cheaper than next month's contracts, which are cheaper than the month after that, and so on. That forces investors to pay a premium to maintain the protection, eroding returns.



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Document J000000020180411ee4b0000p

THE WALL STREET JOURNAL.

CT-Markets
美國股市重現動蕩，但波動性指數ETF依然失寵

Asjylyn Loder
414 words
11 April 2018
03:01 AM
華爾街日報中文版 (繁體)
WSJCT
Chinese - Traditional

那些能讓投資者從股市劇烈波動中獲利的交易所交易基金(ETF)今年大漲。但散戶基本上對這些產品敬而遠之，他們之前曾因押注波動性而損失慘重。

如今押注波動性具有數年來最充分的理由。利率不斷上升、貿易戰擔憂以及科技股大跌都引發了美國股市大幅波動，這與市場此前的長期平靜形成對照。標普500指數在過去15個交易日中有10個交易日的漲跌幅度超過1%，芝加哥期權交易所波動性指數(VIX)今年上升了97%。

VIX周一走高，此前道瓊斯工業股票平均價格指數回吐了盤中440點漲幅的大部分，因有報道稱，聯邦調查人員搜查了長期擔任美國總統特朗普(Donald Trump)律師的Michael Cohen的辦公室和住所。

市場動蕩已經讓那些追蹤VIX的產品成為今年表現最好的投資之一。自2018年年初以來，iPath S&P 500 VIX Short-Term Futures ETF上漲近79%，而利用槓桿從VIX期貨獲得回報的ProShares Ultra VIX Short-Term Futures ETF攀升96%。

FactSet數據显示，儘管出現上述漲幅，但今年到目前為止，從波動性上升中獲利的ETF產品出現了10多億美元的資金流出。

近年來，隨着股市穩步走高，同時VIX降至紀錄低點，這些基金已經失寵。

Document WSJCT00020180411ee4b0048t

THE WALL STREET JOURNAL.

CN-Markets
美國股市重現動蕩，但波動性指數ETF依然失寵

Asjylyn Loder
414 words
11 April 2018
03:01 AM
華爾街日報中文版 (繁體)
WSJCT
Chinese - Traditional

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Document WSJCT00020180411ee4b004bl

The New York Times

Business/Financial Desk; SECTB
China Leader Says Dialogue Can Resolve Tariffs Rift

By ALEXANDRA STEVENSON; Ana Swanson contributed reporting from Washington, Cao Li from Boao, Jane Perlez from Beijing, and Matt Phillips from New York.
1,357 words
11 April 2018
The New York Times
NYTF
Late Edition - Final
1
English

BOAO, China -- President Xi Jinping on Tuesday portrayed China as committed to opening its economy as he presented an alternative vision to President Trump's calls for tariffs and restricting trade, urging ''dialogue rather than confrontation.''

Speaking publicly for the first time since the beginning of an escalating trade dispute between his country and the United States, Mr. Xi implicitly took aim at the Trump administration.

''The Cold War mentality and zero-sum game are increasingly obsolete,'' Mr. Xi said. ''Only by adhering to peaceful development and working together can we truly achieve win-win results.''

Mr. Xi also pledged to rebuff efforts to impose barriers to world trade, saying that ''China's door of opening up will not be closed and will only open up even wider.''

[READ MORE: Why President Trump's trade clash with China may get worse before it gets better.]

He highlighted areas where China was willing to give, including pledging to ease restrictions on imported cars by the end of the year as well as repeating open-ended promises to give foreigners greater access to the country's **financial markets** -- promises officials have made in the past. He also pledged to strengthen intellectual property rights, addressing one of Mr. Trump's main complaints.

The speech, delivered at the Boao Forum for Asia in China's southern island province of Hainan, was the Chinese government's latest effort to position the country as an advocate of free trade and reliable growth. The pro-trade sentiments buoyed markets worldwide, with the **Standard & Poor's 500-stockindex** up nearly 1.7 percent on Tuesday.

The speech also garnered an enthusiastic response from Mr. Trump, who pointed to the potential for negotiations. ''We will make great progress together!'' he wrote in a Twitter post on Tuesday.

But Mr. Xi's pitch runs counter to longstanding accusations that China violates trade rules and intellectual property rights. The Chinese president is also pushing a nationalistic agenda, as he tightens his grip on the country's political, social and economic life.

Some were skeptical that China would follow through on its pledges of openness. ''People will say about the Boao speech: 'Show me.' We heard this in Davos last year,'' Joerg Wuttke, former president of the European Chamber of Commerce in Beijing, said in referring to Mr. Xi's 2017 speech at the World Economic Forum.

In a briefing, the White House press secretary, Sarah Huckabee Sanders, said that the administration was encouraged by Mr. Xi's words but that it wanted to see concrete actions from China. In the meantime, she said it would keep moving forward with its plans to impose tariffs.

At a time when the United States' policies have threatened to upset the stability of the world order, China's growing confidence and its verbal support of global trade rules offer other countries a potentially appealing alternative to Mr. Trump's rhetoric.

Mr. Xi spoke just days after the United States and China exchanged tit-for-tat tariff threats that have ignited worries of a global trade war. Trump administration officials have accused China of forcing foreign companies doing business here to give up trade secrets as part of Beijing's effort to retool the Chinese economy and create companies that can compete with American rivals.

On trade, China has tried to project a balanced tone. It retaliated quickly last week after the United States detailed proposed tariffs it wanted to levy on about $50 billion in Chinese-made goods, saying it would match Washington's efforts dollar for dollar. At the same time, Chinese officials have said they want to avoid a trade war and negotiate.

On Tuesday, Mr. Xi appeared to have given Mr. Trump a concession by pledging to ''significantly'' lower tariffs on imported automobiles by the end of the year. Just hours before, Mr. Trump had taken to Twitter to complain about China's 25 percent tax on imported automobiles.

But Mr. Xi's pledges to open China's banking, auto and manufacturing sectors are not entirely new. Last November, China said it would ease and eventually remove limits on foreign ownership of banks and other financial firms, but financial firms have not received details about when and how that will happen.

Even as trade disputes cast a shadow over the world's two biggest economies, Chinese officials see the increasingly strident tone from Washington as an opportunity. Since Mr. Trump was elected in 2016 and pursued an America First policy that has alienated some allies, Mr. Xi and other Chinese leaders have tried to fill the void left by America's declining presence on the world stage.

Mr. Xi traveled to Davos for the first time last year to call for global leadership on climate on the eve of the inauguration of Mr. Trump, who has publicly questioned the science behind climate change. Chinese officials were also front and center at the most recent Davos gathering, in January, where they cited China's progress and called for more international cooperation on several fronts.

That call for unity could also help calm some unease resulting from Mr. Xi's recent power grab. Last month, China formally ended term limits for its top leader, which could make Mr. Xi the country's chief for life. That move has caused jitters among some in the United States and other countries.

At Boao, Chinese officials have promoted Mr. Xi's leadership as providing an opening to carry out ambitious plans to overhaul the country's economy and make it more open.

On trade, government leaders and Chinese corporate chiefs have sought to strike a delicate balance: playing down worries about the effect on China of a protracted trade fight, while warning that the global economic system could be disrupted by a trade war and that the United States risks falling behind.

''If a trade conflict becomes a trade war, the U.S. is more likely to be hurt worse by this than China,'' Dai Xianglong, a former governor of the People's Bank of China, said on Monday at the opening of the forum.

Other countries could be hit as well, said Fan Gang, director of China's National Economic Research Institute. China is just a piece of a complicated regional supply chain across Asia, he said, citing the example of the Apple iPhone. Any retaliation from the United States would have a ripple effect from South Korea to Malaysia, Japan and Taiwan.

''There is definitely a big uncertainty with this trade conflict. We started with trade friction and now conflict and possibly a war,'' Mr. Fan said. ''This trade war has an impact on the whole supply chain, and this is the systematic risk for China right now,'' he added.

Many Chinese business executives tried to strike a similar balance in their remarks at Boao. But some warned that the technological focus of Mr. Trump's proposed tariffs could further split the American and Chinese technology worlds -- and, ultimately, stifle innovation.

''International standards come from Germany, America and Japan,'' said Dong Mingzhu, the chairwoman of Gree Electric Appliances, a leading Chinese manufacturer. ''We in China don't have any -- but I believe we will have international standards.''

Others did warn of the potential economic impact if tensions worsen. On Monday evening, Jack Ma, the billionaire executive chairman of Alibaba, warned that his pledge to create a million jobs in the United States could be threatened by a trade dispute between China and the United States.

''If China and the U.S. have good relations, we could create not just a million, but 10 million jobs.''

But, he added, "if they don't have good relations, we're going to destroy 10 million jobs."

President Xi Jinping of China delivering a speech Monday at the Boao Forum for Asia. "The Cold War mentality and zero-sum game are increasingly obsolete," he said. (PHOTOGRAPH BY KYODO/REUTERS) (B2)

Document NYTF000020180411ee4b0006l

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Producer-Price Increase Suggests Rising Inflation

By Sharon Nunn
439 words
11 April 2018
The Wall Street Journal
J
A2
English

WASHINGTON -- A gauge of U.S. business prices rose more than expected in March, the latest sign inflation pressures may be building.

The producer-price index, a measure of the prices businesses receive for their goods and services, increased a seasonally adjusted 0.3% in March from a month earlier, the Labor Department said Tuesday. Economists had expected a 0.1% rise.

The increase resulted from a rise in food prices and continued robust price growth in the services sector. Food prices grew 2.2% in March, the largest one-month increase in about four years. Meanwhile, prices in the services sector rose strongly for the third straight month, with price growth coming in at 2.9% in March from the prior year, the largest annual change in almost eight years.

Food prices tend to be **volatile**, along with energy prices and a gauge called trade services, but when excluding these three categories, prices rose 0.4% in March, still coming in above economists' expectations of 0.2% growth.

"We're starting to see the pressures coming from an economy that's running a bit hot," said Stephen Stanley, chief economist at Amherst Pierpont Securities. "It makes sense that if a tight labor market is leading to price pressures, you'd see that mostly in the services sector because labor input is the biggest cost [there]."

Price growth in parts of the health-care industry helped drive up prices in the overall services industry. Cable- and satellite-services prices also increased.

Over the longer term, annual gains in the headline index have risen since the beginning of 2016 as the effects of falling gasoline prices have faded, while the two core measures also have drifted higher.

The producer-prices measure usually follows the same trends as other broad inflation gauges, though it doesn't always translate into what consumers pay. Signs of possible building inflation pressures have emerged in other recent reports.

In March, an index tracking raw-materials prices for manufacturers hit its highest level since April 2011, according to the Institute for Supply Management. Wages are now rising somewhat faster than they did earlier in the U.S.'s current economic expansion, the Labor Department's most recent jobs report showed.

"With the labor market continuing to tighten, and labor costs being the primary driver of inflation in the dominant service sector, we continue to expect core inflation to move higher," Joshua Shapiro, chief U.S. economist at MFR Inc. said in a note to clients Monday.

Document J000000020180411ee4b00026

THE WALL STREET JOURNAL.
U.S. EDITION

World News: China Pledges More Open Market --- Xi outlines easier access to financial sector, tariff cuts; Trump isn't mentioned

By Lingling Wei
692 words
11 April 2018
The Wall Street Journal
J
A7
English

BOAO, China -- President Xi Jinping offered to further open China's markets to foreign business, though he stopped short of proposing the thoroughgoing changes the Trump administration says it is seeking to avert a trade fight.

In a speech Tuesday that Chinese officials billed as packed with policy initiatives, Mr. Xi promised increased imports, accelerated access to China's insurance and other financial sectors, greater protections for intellectual property and lower tariffs and reduced ownership restrictions for foreign car makers.

While Mr. Xi didn't mention President Donald Trump or the trade friction with the U.S. in his 40-minute speech, his proposals offered an olive branch to Washington, addressing some of the persistent criticisms leveled at Beijing by the Trump administration.

Markets surged following the remarks. The **Dow Jones Industrial Average** rose almost 429 points, or 1.8%, to 24408, and the **S&P 500** climbed 1.7%.

Mr. Xi's initiatives, however, included some previously offered policy changes, left out a definite timetable for action, and skirted core complaints by the U.S. about China's industrial policies that the White House says favor domestic companies and force the transfer of U.S. technology.

Overall, Mr. Xi's address to political and business leaders attending a government-backed conference signaled that any market opening will be gradual, with Beijing keeping a heavy hand in managing the process.

"While we're crossing the river by feeling the stones, we're also strengthening top-level planning," Mr. Xi told the annual Boao Forum on China's island province of Hainan.

Business executives and policy analysts described Mr. Xi's offers as at best a missed opportunity to tamp down U.S. criticism and at worst likely to be read as the kind of holding action the Trump administration says Beijing has long used to defer substantive concessions.

"This speech was about modestly expanding market access, not constraining industry policy," said Scott Kennedy, a deputy director at the Center for Strategic and International Studies, a Washington think tank. "I expect the Trump administration to criticize the speech as too little, too slow."

The U.S. has in recent months imposed some limited penalties on imports of Chinese steel, aluminum and other goods and threatened tariffs on $150 billion of other Chinese products to reduce a $375 billion trade deficit with China. Beijing has mirrored those actions and threatened stern measure-for-measure retaliation. Prospects for an outright trade war between the world's largest economies have rattled global markets, and Chinese officials have said in recent days that current tensions and rhetoric preclude negotiations.

Ultimately, Beijing is aiming for a negotiated settlement to the disputes, Chinese officials and analysts said -- something the Trump administration says it wants too.

"China has shown its muscle," said Chen Deming, former Chinese commerce minister while attending the Boao Forum. "But at the end of the day, both sides will have to sit down and talk."

A question, some analysts said, is whether Mr. Xi's speech provides any opening -- or whether he is taking a hard line to wait out the U.S.

For some analysts and economists inside and outside China, Mr. Xi's remarks are further proof that when Beijing talks of reform today, it doesn't mean the economic liberalization of the 1980s and 1990s, when the leadership closed legions of state plants, laying off tens of thousands of workers, to prepare for an influx of foreign capital. Rather, reform today means continued fine-tuning of a government-led model, those analysts suggested.

"President Xi's remarks do not represent a dramatic departure from existing Chinese policy, but rather a reiteration of the same themes Xi has promoted throughout his tenure," said Zhu Chaoping, a Shanghai-based global market strategist at J.P. Morgan Asset & Wealth Management. That means China "will gradually open up at its own pace and in the manner the government believes is most suited for China," he said.

Document J000000020180411ee4b00017

THE WALL STREET JOURNAL.
U.S. EDITION

Streetwise: Trade Threats Are Real But Risk Hard to Gauge

By James Mackintosh
706 words
10 April 2018
The Wall Street Journal
J
B1
English

Sometimes it is worth asking stupid questions. Here is one: Why should we care about President Donald Trump 's threatened 25% tariffs on $150 billion in trade with China?

"Duh, tariffs are bad," would be the response from anyone convinced of the benefits of trade -- and that is almost everyone who has studied economics -- as well as anyone who has read anything about the Great Depression.

Yet the actual direct impacts of the tariffs are easily manageable, both for the U.S. and China, because $150 billion just isn't that much. Even including earlier tariffs on solar panels, washing machines, steel and aluminum, this year's tariffs will apply to less than 7% of U.S. imports. On top of that, the U.S. isn't nearly as reliant on trade as many smaller, more open economies.

Stock markets haven't taken the tit-for-tat tariff announcements well, but aren't down all that much. So what is the problem?

There are two big threats, and one unquantifiable risk. First, that the tariffs confirm Mr. Trump's longstanding protectionist instincts, and so are just the start of a descent into a global trade war big enough to trash the economy. Second, that the tariffs spook markets, which are still assuming that the trade threats are part of the president's "art of the deal" and will be negotiated down. Impossible to measure is the danger that the trade threats prove to be the straw that breaks the back of a global economy already showing plenty of signs of strain.

The direct effect of the tariffs, even assuming they come fully into force, isn't that significant. Brian Coulton, chief economist at Fitch Ratings , thinks they amount to a hit of 0.3% of China's economy, not much in the context of Beijing's target of 6.5% expansion this year. The effect in the U.S. is smaller, although growth there is lower, too.

To put the trade frictions in context, Goldman Sachs economists calculate that in total they will add 1.6 percentage points to U.S. effective tariffs, calculated as customs duties divided by total imports, pushing them up to 3.1%. They think that will knock less than 0.1 percentage point from growth even with full Chinese retaliation.

Still, even significant tariffs wouldn't have that much direct impact on the U.S. economy. Goldman calculates that a 10% across-the-board import tariff, six times the size of the total measures so far, would only knock 0.2% off U.S. gross domestic product, assuming the rest of the world retaliated. Inflation would rise by a bit more than 0.2 percentage point.

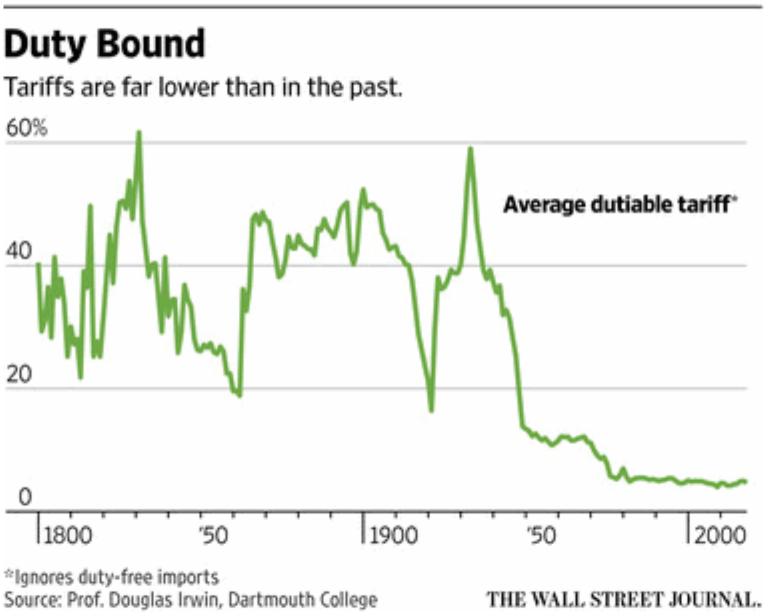
Mr. Coulton examined a true trade-war scenario last year, assuming 35% tariffs were imposed on Mexico, China, South Korea and Taiwan, and they retaliated in full. The effect would be messy for Americans, with a 1.3-percentage-point-lower growth rate due almost entirely to falling stock prices.

Stocks are important because they play such a big role in U.S. portfolios. Threaten their value, and consumer and business confidence crumbles, hitting the economy and pushing stocks down even more.

For three weeks, stock markets have been trying to price in the trade dangers, and the **S&P 500** has lost about 4%, worsened by worries about technology companies. If shareholders start to believe a serious trade war is imminent, stocks could fall far further and hurt the economy, even if Mr. Trump ultimately doesn't follow through.

Finally, the trade threats come at a bad time for the economy. Confidence in global synchronized growth helped push shares up to highs at the end of January, but since then economic data in much of the world have been disappointing. U.S. shoppers have proved less resilient than hoped, and the Federal Reserve Bank of Atlanta 's first-quarter growth estimate is below 2.5%, from a high above 5% before the **stock market** correction.

There is no way to know how threats of a trade war will interact with the complex global economy, but they can't help. Duh, indeed.



Document J000000020180410ee4a0001v

Markets

Fed Floats First Major Big-Bank Rule Change of Trump Era; Federal Reserve proposes retooling stress tests and capital rules, says big banks' capital requirements could go modestly up or down

By Ryan Tracy and Liz Hoffman
756 words
10 April 2018
WSJ Pro Financial Regulation
RSTPROFR
English

Corrections & Amplifications

The Federal Reserve's stress-test proposal would have the regulator assume banks restrain growth in their balance sheets during stressful periods. An earlier version of this article incorrectly suggested the Fed would assume shrinking balance sheets. (April 15, 2018)

The Federal Reserve proposed retooling capital rules and annual "stress tests" for the largest U.S. financial firms, the first major big-bank rule change of the Trump era.

The Fed on Tuesday said the changes would simplify rules for big banks such as JPMorgan Chase & Co. and Wells Fargo & Co. without endangering the financial system. "This proposal significantly simplifies our capital regime while maintaining its strength," said Randal Quarles, Fed vice chairman for supervision.

Some parts are likely to be welcomed by big banks. The changes would reduce the possibility banks would fail the Fed's annual stress tests, which examine whether firms can continue lending during a severe recession.

On the other hand, Wall Street banks have been clamoring that capital rules restricting their borrowing are too strict—and the changes would keep those rules steady or tighten them slightly for the biggest banks.

"The question has been: Do we think the banks are overcapitalized, undercapitalized or appropriately capitalized?" one chief financial officer at a big bank said. Tuesday's proposal suggests the Fed "thinks we are appropriately capitalized."

For eight large U.S. banks considered "systemically important" to the global financial system, the proposals altogether would maintain or "in a few cases, increase" capital requirements, the Fed said. It didn't specify which banks could face higher capital requirements.

In addition to JPMorgan, Wells Fargo and Citigroup Inc., that list of eight firms includes Goldman Sachs Group Inc., Morgan Stanley, Bank of America Corp., State Street Corp. and Bank of New York Mellon Corp.

For other large banks that don't have global footprints, the Fed said capital requirements wouldn't change or could go down modestly. That group includes U.S. Bancorp, Capital One Financial Corp., PNC Financial Services Group Inc. and others.

High-profile slip-ups in stress tests have damaged the reputations of Citigroup and other firms in recent years. Banks must pass the test before rewarding investors with dividends and share buybacks.

Some of the Fed's changes would make the tests easier to pass. Under the proposal, the Fed's exams would assume banks make cuts in dividend payments and restrain growth in their balance sheets during stressful periods, both things that don't happen under current rules. That would boost banks' capital levels in the stress test.

Bankers have been pressing for such changes. Fed officials said the proposed changes were designed to make the tests more realistic.

Banks also would no longer fail stress tests because the Fed projects they don't have enough equity capital funding. In previous years, banks that failed this "quantitative" part of the tests were barred from increasing the amount of capital they pay to shareholders.

The largest, most complex banks, generally those with more than $250 billion in assets, could only fail the exams for "qualitative" reasons—for instance, if the Fed determines the firm has risk-management deficiencies.

The proposal also eliminates some of the Fed's capital measurements, reducing the total number of big-bank capital requirements from 24 to 14, the Fed said.

For large Wall Street firms, those changes could be offset by another aspect of the proposal: Banks' stress-test results would be used to calculate a "stress capital buffer" requirement, which the firms would have to meet during the ensuing year. If a firm's capital falls below this level, it would face limits on its capital distributions or curbed bonus payments.

That means the stress tests, which imagine doomsday scenarios, will still constrain big banks. Some bank executives have said the 2018 test, which assumes 10% unemployment and a 65% slide in the **stock market**, is unrealistically harsh.

The proposal was approved by the Fed's governing board in a 3-0 vote. Mr. Quarles and Fed Chairman Jerome Powell, both nominated to their current posts by President Donald Trump, supported it along with Fed governor Lael Brainard, an Obama appointee.

The Fed will accept comments on the proposal during the next several months, and officials said they hope to complete it in time for it to apply during the 2019 big-bank stress tests.

Write to Ryan Tracy at ryan.tracy@wsj.com and Liz Hoffman at liz.hoffman@wsj.com

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Markets

Fed Floats First Major Big-Bank Rule Change of Trump Era; Federal Reserve proposes retooling stress tests and capital rules, says big banks' capital requirements could go modestly up or down

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756 words
10 April 2018
WSJ Pro Central Banking
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THE WALL STREET JOURNAL.

Markets

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U.S. Markets
Markets

U.S. Stocks Surge After China's Xi Eases Trade Fears; Tech stocks also outperform as Facebook CEO Mark Zuckerberg testifies before Congress

By David Hodari and Allison Prang
726 words
10 April 2018
05:38 PM
The Wall Street Journal Online
WSJO
English

Major U.S. stock indexes climbed Tuesday, with the Dow adding more than 400 points, as remarks from Chinese President Xi Jinping soothed concerns about a trade war that had rattled markets in recent weeks.

The gains were broad-based with nine of 11 sectors in the **S&P 500** marching higher. Energy stocks in the index led the way, rising 3.3% for their best day since Nov. 30, 2016, as the price of crude oil rallied 3.3% to $65.51 a barrel. The tech sector also helped drive the broader index, rising 2.5% as investors responded positively to Facebook Chief Executive Mark Zuckerberg's testimony before Congress about the social-media company's handling of personal-user data.

While President Xi's comments were calming for the market on a short-term basis, concerns over trade will likely linger, several analysts said.

Bob Doll, senior portfolio manager and chief equity strategist for Nuveen Asset Management, said he thinks there will be "more nasty words" to come from both sides, and Mr. Xi's recent comments are just one chapter in the story.

"It's a bumpy road and today's a good day," he said, adding that his firm will probably sell some stocks that are doing especially well and perhaps buy them back at a lower cost in a few days.

The **Dow Jones Industrial Average** rose 428.90 points, or 1.8%, to 24408.00, after climbing as much as 532 points earlier in the session. The **S&P 500** rose 43.71 points, or 1.7%, to 2656.87, while the technology-focused **Nasdaq Composite** climbed 143.96 points, or 2.1%, to 7094.30. All three indexes have climbed for five of the past six trading sessions.

Boeing, which has become an unofficial proxy for trade fears, was the best performer in the Dow, rising $12.35, or 3.8%, to $334.83.

Meanwhile, shares of Facebook added 7.11, or 4.5%, to 165.04—their largest percentage gain in almost two years.

James Cakmak, an analyst for Monness, Crespi, Hardt & Co., said pressure on large-cap technology companies could hold through the midterm elections in the fall.

"I think the degree of regulatory pressures are likely to ease after this, but they'll also likely still linger through November," he said, referring to Mr. Zuckerberg's testimony Tuesday.

Airline companies were one of the few drags on the market as American Airlines gave a guidance update that failed to please investors. Its shares fell 2.36, or 4.7%, to 47.46, while United Continental slumped 93 cents, or 1.4%, to 67.59, and Southwest Airlines dropped 72 cents, or 1.3%, to 54.13.

Gains for U.S. stocks came as the Stoxx Europe 600 climbed 0.8%. Asian stocks also rose after the Chinese president pledged to significantly broaden market access this year.

Speaking at the Boao Forum, an annual economic summit, Mr. Xi pledged Beijing's commitment to further economic liberalization as well as promising greater intellectual property protection and increased access to China's financial and manufacturing sectors for foreign companies.

While he made no direct reference to President Donald Trump or China's simmering trade tensions with the U.S., his conciliatory tone was taken well by the market.

While the speech succeeded in alleviating fears of a bruising trade war between the U.S. and China, it may not have drawn a line under the recent tit-for-tat tariffs exchanged between the two superpowers.

"The speech does not allow the Trump Twitter feed to report 'mission accomplished.' If the U.S. cannot spin a win, trade tensions are likely to continue," said Paul Donovan, chief economist at UBS Global Wealth Management in a podcast on Tuesday.

In Asia, Hong Kong's Hang Seng Index rallied 1.7%, as did Shanghai's composite index, with Chinese banks among the sharpest risers.

Write to David Hodari at David.Hodari@dowjones.com and Allison Prang at allison.prang@wsj.com

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* Heard on the Street: The What-Have-You-Done-for-Me-Lately **Stock Market**

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THE WALL STREET JOURNAL.

Markets
Copper Climbs as Trade Worries Abate; Some analysts fear protectionist trade policies will crimp demand for copper and other raw materials

By Amrith Ramkumar and Christopher Alessi
533 words
10 April 2018
03:04 PM
The Wall Street Journal Online
WSJO
English

Copper prices surged Tuesday after Chinese President Xi Jinpingpromised foreign companies greater access to China's financial and manufacturing sectors, pledging Beijing's commitment to further economic liberalization amid rising trade tensions with the U.S.

Front-month copper for April delivery added 1.9% to $3.1310 a pound on the Comex division of the New York Mercantile Exchange—its highest close since March 14. Prices of the industrial metal have fallen 4.5% this year but rebounded of late with gains in eight of the last 10 sessions, as some investors bet that anxiety over a

possible trade war between the U.S. and China was overblown.

Some analysts fear protectionist trade policies will lead to higher manufacturing costs and slower economic growth, crimping demand for copper and other raw materials.

On Tuesday, Mr. Xi quelled some of those fears by saying China would increase imports, improve the protection of intellectual property and provide a more transparent, rule-based environment for foreign investment.

Some investors think recent announcements by the country and the U.S. of tariffs on a wide range of products might be negotiating tactics and that both parties will eventually reach a compromise.

Despite a slow start to the year for copper, some **bullish** investors expect steady demand as energy efficient infrastructure takes hold around the world and a lack of new mining investments to boost prices moving forward.

"The underlying fundamentals are still all there," said Leigh Goehring, managing partner at G&R Associates.

Analysts have also been keeping an eye on economic data out of China, the world's largest copper consumer. Lukewarm data to start the year helped send copper to its first quarterly decline since 2015 last quarter, but a gauge of manufacturing activity recently showed an uptick in production in March.

Metals tied to Russia extended their Monday gains following U.S. sanctions on Russian companies. Aluminum climbed 2.9% on the London Metal Exchange, while palladium added 1.9% in New York. Russia is a major supply source of both metals, and the LME on Tuesday announced a trading suspension on metal from the world's second-largest aluminum producer, United Co. Rusal, adding to supply worries.

"The U.S. sanctions against Russian oligarchs and their companies are continuing to keep the markets on tenterhooks," analysts at Commerzbank said in a note to clients.

Among precious metals, front-month gold for April delivery inched up 0.4% to $1,342.00 a troy ounce. Prices have stayed between about $1,305 and $1,360 this year, with safe-haven buying, moves in the dollar and interest-rate worries dictating swings within that range.

A weaker dollar makes gold and other dollar-denominated commodities cheaper for overseas buyers. On Tuesday, the WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, was down 0.1%.

David Hodari contributed to this article.

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com and Christopher Alessi at christopher.alessi@wsj.com

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

The What-Have-You-Done-for-Me-Lately Stock Market; Investors are focused on political turmoil and will need surprising good news to start buying stocks again

By Justin Lahart
498 words
10 April 2018
12:11 PM
The Wall Street Journal Online
WSJO
English

For his first year in office, investors saw President Donald Trump as a boon for the **stock market**. But lately? Not so much.

Mr. Trump's election confronted investors with competing narratives. On the one hand, his victory ratcheted up political uncertainty. He lacked policy experience, his plans were only lightly sketched out and his views on some matters, such as trade, were anathema to markets. But on the other hand, a Trump presidency and a Republican-controlled Congress held out the possibility for substantial tax cuts, deregulation and other pro-business policies—a big positive for earnings and growth.

Throughout last year the potential for tax cuts mattered a lot to investors, helping drive stocks up sharply. The early fruits of this will soon be on display, as companies report first-quarter earnings that are substantially higher than a year earlier as a result of the corporate tax cut.

But investors already know about the tax cut, and the expected boost to earnings are reflected in stock prices. With nothing like the tax cut coming from Washington this year, investors have been left with the political uncertainty Mr. Trump's presidency ushered in.

At the moment that uncertainty is pitched. Mr. Trump's trade spat with China has unsettled investors while recent departures from the White House, including last month's resignation of top economic adviser Gary Cohn, suggest the president will continue to embrace his more protectionist instincts. The **S&P 500** rose 34% from Election Day to its January peak, but has fallen 8% since then. And with a choppy market spooking investors, the Cboe **Volatility** Index, or VIX, has shot higher.

Aggravating the problem: **Stock market** valuations even after the recent selloff remain elevated, making it more difficult for stocks to absorb bad news without falling further. The **S&P 500** trades at 16.4 times expected earnings, according to FactSet. While that price-earnings ratio is down from the 18.6 registered in January, it is still historically high.

This doesn't mean stocks can't recapture the highs they reached in January. The economy remains strong, earnings will be solid and the Federal Reserve doesn't appear to be overly worried about inflation. The challenge is those factors are largely priced into stocks.

Investors will need something more to get them to buy, including assurances that the U.S. and China won't get into a trade war, and that turmoil in the White House will ease. More importantly, investors may need to see some good news that they haven't yet accounted for—signs, say, that the economy will grow even more rapidly, with even less inflation than they think.

Until then, the **stock market** could be a perilous place.

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

Document WSJO000020180410ee4a0048t

THE WALL STREET JOURNAL.

Opinion

Trump and China Share a Bad Idea on Trade; Imports are things we want, and we pay for them with exports. Isn't getting more for less a good thing?

By Robert J. Barro
927 words
10 April 2018
06:23 PM
The Wall Street Journal Online
WSJO
English

The Trump theory of international trade seems straightforward: Selling stuff to foreigners is good, and buying stuff from foreigners is bad. It's a form of mercantilism. Exports are attractive because they represent domestic production and American jobs. Imports are undesirable because that production and employment otherwise could have happened at home.

Simple economic reasoning, however, suggests that this logic is backward. Imports are things we want, whether consumer goods, raw materials or intermediate goods. Exports are the price we have to pay to get the imports. It would be great, in fact, if we could get more imports without having to pay for them through added exports.

Economists typically favor free trade, which has a lot to recommend it from a global perspective. As my favorite economist, David Ricardo, argued in the early 1800s, free trade ensures that production takes place in its most efficient location, as governed by principles of comparative advantage. That's why the U.S. imports bananas and exports soybeans and high-tech products.

Nevertheless, departures from free trade can sometimes be rewarding for a single country. For example, if the Chinese want to subsidize particular goods, Americans can benefit by buying them at artificially low prices. In the extreme case of China giving goods away free, it takes a lot of imagination to construct a model in which this "dumping" would be bad for the U.S. overall (though it might harm some American producers).

President Trump and Commerce Secretary Wilbur Ross have argued recently that the Trump theory implies a trade war can be desirable if directed against a country, such as China, with which the U.S. has a large trade deficit. In 2017, the Chinese sold the U.S. $524 billion of goods and services and bought only $187 billion, for a bilateral trade deficit of $337 billion.

As I understand the reasoning, it's that China has more to lose. If a full-blown trade war cut bilateral trade to zero, the U.S. would lose just $187 billion in sales to Chinese customers, while China would lose $524 billion in sales to Americans. In reality, both countries would be hurt in a trade war, and the U.S. would probably lose more by being cut off from Chinese imports.

The twist is that China's leaders seem to embrace the same mercantilist theory of international trade that Mr. Trump espouses. They probably agree that they have been taking the U.S. to the cleaners for years by selling Americans far more goods and services than they buy. This outlook is actually favorable for avoiding a trade war, since it makes the Chinese more likely to offer serious concessions, including the removal of restrictions on American imports and investment.

Many serious commentators look at America's large trade deficit with China and argue that something has to be done. But it's misleading to look at a single bilateral trade deficit, given that the U.S. also runs many bilateral trade surpluses. To the extent that trade deficits are a legitimate economic concern, the question is the global trade deficit, which totaled $568 billion in 2017. The worry is that this overall deficit has led to a large U.S. debt to foreigners, which must be repaid eventually. At the end of 2017, this debt stood at an impressive $7.8 trillion, or 40% of U.S. gross domestic product.

Theoretically, the large U.S. debt should result in an excess of money that Americans pay out to foreigners compared with what Americans get from foreigners. This imbalance should reduce U.S. imports, thereby moving the economy toward balanced trade overall. But things have not worked out this way. Instead the net investment income America earns from abroad has grown over time, reaching $251 billion, or 1.3% of GDP, in 2017. An explanation for part of this puzzling pattern is that the U.S. borrows a lot through low-interest Treasury paper and then earns much higher returns on direct investments and portfolio holdings. Somehow, America's low-interest government debt is highly valued by the rest of the world, which allows the persistent gap between imports and exports to continue. As Jason Furman, chairman of President Obama's Council of Economic Advisers, put it to me recently, the U.S. economy is now the world's largest and most successful hedge fund.

If President Trump won't believe economists who tell him that a trade war is ill-advised, he should at least believe the **stock market**. Since his election, Mr. Trump has pointed with pride to rising share prices, which he has attributed to his sound policies on taxes and regulations. Although there is a danger of reading too much into day-to-day fluctuations, it is probably true that stock prices have no equal as a report card on economic policy. Thus Mr. Trump is right that the **stock-market** advance signals support for his pro-market agenda. He should take it seriously, then, when talk of tariffs and trade wars leads to sell-offs and persistently high **volatility**. These are signs, if only the president will heed them, that the new Trump mercantilism is not such a good idea.

Mr. Barro is a professor of economics at Harvard University and a visiting scholar at American Enterprise Institute.

Document WSJO000020180410ee4a006sj

THE WALL STREET JOURNAL.

Markets
Crude Gains as Trade Tensions Ease; Escalating tensions in Syria contribute to oil-price rise

By Christopher Alessi and Stephanie Yang
630 words
10 April 2018
04:58 PM
The Wall Street Journal Online
WSJO
English

Oil prices rose to a two-week high on Tuesday amid receding U.S.-China trade tensions and rising geopolitical upheaval in the Middle East.

Light, sweet crude for May delivery rose $2.09, or 3.3%, to $65.51 a barrel on the New York Mercantile Exchange, the biggest one-day dollar gain since 2016. Brent, the global benchmark, settled up $2.39, or 3.5%, to $71.04 a barrel, the highest level in more than three years.

Crude prices have recently come under pressure as the U.S. threatened new tariffs on Chinese imports and Beijing responded in kind. But the market has pared losses this week as American and Chinese officials moved to soften their rhetoric over the trade spat.

"The bears got pretty well entrenched midweek last week," said Donald Morton, who oversees an energy trading desk at Herbert J. Sims & Co. "I think they all got run over here in the last 24 hours."

Major U.S. stocks also rose as concerns over a trade war eased. The **Dow Jones Industrial Average** rose 1.8% and the **S&P 500** closed up 1.7%.

"**Stock market** bulls were faithfully followed by oil market bulls and the latter group was provided with more ammunition in the form of an increased tension in the Middle East," said Tamas Varga, an analyst at brokerage PVM Oil Associates Ltd.

Escalating tensions in Syria following a suspected chemical weapons attack fed concerns that renewed conflict in the Middle East could hinder oil output and weigh on global supply. Growing expectations that the U.S. could reimpose economic sanctions on Iran, hindering its oil industry, has also contributed to a renewed geopolitical risk premium out of the Middle East and bolstered prices in recent weeks.

"The geopolitical risk premium is going to get inflated in a big way into the weekend," said John Kilduff, founding partner at Again Capital. "Likely it will calm back down, but for now that's not the situation."

Analysts said **oil prices** were also supported by media reports Monday that Saudi Arabia wants crude near $80 a barrel, an indicator that the major oil exporter may continue to hold supply off the market to boost prices.

The coordinated effort between the Organization of the Petroleum Exporting Countries and other countries including Russia to limit output has helped eliminate a global oil glut and pushed inventory levels closer to the five-year average.

However, Thomas Pugh, commodities economist at Capital Economics, warned "there is a significant risk that if tensions in the Middle East ease, further trade tariffs are imposed or U.S. inventories start to rise, then investor sentiment could sour and prices would fall much more sharply than we are currently anticipating."

Oil-market observers are looking ahead to monthly reports this week from the U.S. Energy Information Administration, the International Energy Agency and the Organization of the Petroleum Exporting Countries.

Traders and analysts surveyed by The Wall Street Journal expect on average that EIA data will show crude stockpiles falling by 500,000 barrels in the week ended April 6.

The American Petroleum Institute, an industry group, said late Tuesday that its own data for the week showed a 1.8-million-barrel increase in crude supplies, a 2-million-barrel rise in gasoline stocks and a 3.8-million-barrel decrease in distillate inventories, according to a market participant.

Gasoline futures advanced 2.9% to $2.0409 a gallon and diesel futures gained 3.4% to $2.0648 a gallon.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

The Dollar's Curious Calm in the Market Storm; With stocks swinging to and fro, why is the foreign-exchange market so calm?

By Richard Barley
403 words
10 April 2018
03:58 AM
The Wall Street Journal Online
WSJO
English

Stocks have swung violently amid rising trade tensions and a modest cooling of the outlook for global growth. The dollar has made an equally important statement by doing not much at all.

The dollar fell in January, continuing 2017's decline, but that trend broke as turbulence hit markets. Since then it has moved sideways: against the euro it is stuck around $1.23.

Brighter economic prospects outside the U.S. pushed the dollar lower last year against the euro and emerging-market currencies; the eurozone recorded its best growth for a decade. But now eurozone data, led by surveys like the Markit purchasing managers index, has

lost steam, while U.S. data has been better behaved.

Data from the U.S. Commodity Futures Trading Commission suggests investors have pared back **bearish** bets on the dollar, but are still looking for it to fall. That will require a catalyst, although none seems to be imminent. Unlike stocks, which after a huge rally in 2017 were highly valued, the dollar has already moved a long way, with the ICE U.S. dollar index falling nearly 10%.

The dollar's decline was likely slowed by the prospect of stimulus from tax and spending measures to support it, even if there are longer-term worries about the merits of stimulus so late in the economic cycle. The U.S. economy could get a bump while the eurozone is more exposed to global fortunes. Steadily rising interest rates could boost the dollar as well.

A broadly rising dollar would be a worrying development for emerging-market stocks and bonds, among the few bright spots for investors this year. Appreciating currencies have acted as an additional lure, boosting returns. But the rally against the dollar has stalled and some currencies like the Russian ruble and Turkish lira are being hit hard by political and economic problems of their own making.

The dollar's sideways motion suggests there is a lack of conviction on what happens next for the global economy. That in itself, after the dollar's sustained decline of 2017, is a signal. The dollar may just be pausing, but its lack of movement can't be taken for granted.

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Document WSJO000020180410ee4a00105

THE WALL STREET JOURNAL.

Markets

Volatility Is Back. Scarred ETF Investors Aren't; Exchange-traded products that profit from rising volatility have fallen out of favor, despite gains

By Asjylyn Loder
815 words
10 April 2018
07:21 AM
The Wall Street Journal Online
WSJO
English

Exchange-traded products that enable investors to profit from wild price swings in stocks are enjoying big gains this year. But retail investors, who've been burned in the past by betting on **volatility**, are mostly steering clear of them.

The case for buying into **volatility** is the best it has been in years. Rising interest rates, fears of a trade war and a rout in technology stocks have triggered big swings in U.S. stocks, a contrast after an extended period of market calm. The **S&P 500 stock index** has moved more than 1% on 10 of the past 15 trading days, while the Cboe **Volatility** Index, known as the VIX, is up 97% this year.

The VIX ticked higher on Monday after the **Dow Jones Industrial Average** erased most of a 440-point gain following reports that federal investigators had searched the office and home of Michael Cohen, President Donald Trump's longtime lawyer.

The market swings have made investments that track Wall Street's fear gauge among the year's top performers. The iPath **S&P 500** VIX Short-Term Futures exchange-traded note is up almost 79% since the start of 2018, while the ProShares Ultra VIX Short-Term Futures ETF, which uses leverage to juice the daily returns of VIX futures, gained 96%.

Despite those gains, exchange-traded products that profit from rising **volatility** have suffered more than $1 billion in outflows so far this year, according to FactSet.

The funds have fallen out of favor in recent years as stocks climbed steadily higher and the VIX fell to record lows.

"The fact that **volatility** can come into favor and fall out of favor very quickly has rightfully given investors pause when chasing these returns," said Todd Rosenbluth, head of ETF research for CFRA.

ETFs pegged to a rising VIX have a long history of losing money. They tend to suffer in periods of protracted market calm, and have been hit hard by the nine-year bull run in U.S. stocks. The products face additional headwinds because of a quirk of futures trading that steadily eats away at returns. The iPath ETN, for example, has suffered eight consecutive years of declines.

The losses had become so predictable that investors began taking the opposite tack, betting against the VIX in record numbers. That strategy backfired in February, when ETPs that profit when the VIX falls lost 80% of their assets in a matter of hours. Two products were closed, and others are a fraction of their former size.

"It was a big story and it definitely tainted the whole VIX ETF complex," said Eric Balchunas, senior ETF analyst for Bloomberg Intelligence. "Some would argue that's a good thing. If there's a little bit of retail repellent, that's not necessarily a bad thing, because people can lose a lot of money fast."

The VIX index uses options on the **S&P 500** to measure expectations for the speed and severity of market moves. It typically rises when stocks fall, making it an attractive form of insurance.

The iPath ETN, launched in 2009, was the first to give investors a way to invest in Wall Street's fear gauge without the cost and complexity of trading futures and options. It proved popular in the immediate aftermath of the financial crisis, when shellshocked savers were eager for anything that might protect their nest eggs from another crash. The iPath ETN took in $3.6 billion in 2009 and 2010, according to FactSet.

But insurance comes at a cost. Because uncertainty increases with time, the further away an anticipated decline is, the more expensive it is to insure against. That means VIX futures for this month are typically cheaper than next month's contracts, which are cheaper than the month after that, and so on. That forces investors to pay a premium to maintain the protection, eroding returns.

It is especially draining for exchange-traded products that try to profit when VIX futures rise. For example, a single share of the iPath **S&P 500** VIX Short-Term Futures exchange-traded note bought at its 2009 launch was worth $107,090, after adjusting for splits, according to FactSet. It settled Monday at $49.92.

"If you time it perfectly, you can really hit the jackpot," Mr. Balchunas said. "But it's a really expensive hedge. And if you don't understand the futures curve, it can be a nasty surprise."

Write to Asjylyn Loder at asjylyn.loder@wsj.com

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Document WSJO000020180410ee4a001xh

THE WALL STREET JOURNAL.

Economy
U.S. Business Price Growth Came in Hotter Than Expected Last Month; Latest data a sign inflation pressures may be building in the economy

By Sharon Nunn
544 words
10 April 2018
12:20 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON—A gauge of U.S. business prices grew more than expected in March, the latest sign inflation pressures may be building in the economy.

The producer-price index, a measure of the prices businesses receive for their goods and services, rose a seasonally adjusted 0.3% in March from a month earlier, the Labor Department said Tuesday, while economists had expected a smaller 0.1% increase.

The surprise came because of a sharp rise in food prices and continued robust price growth in the services sector. Final demand food prices ballooned 2.2% in March, the largest one-month increase in about four years. Meanwhile, prices in the services sector rose strongly for the third-straight month, with price growth coming in at 2.9% in March from the prior year, the largest annual change in almost eight years.

Food prices tend to be **volatile**, along with energy prices and a gauge of margins called trade services, but when excluding these three categories, prices rose 0.4% in March, still coming in above economists' expectations of 0.2% growth.

"We're starting to see the pressures coming from an economy that's running a bit hot," said Stephen Stanley, chief economist at Amherst Pierpont Securities. "It makes sense that if a tight labor market is leading to price pressures, you'd see that mostly in the services sector because labor input is the biggest cost [there]."

Price growth in parts of the health-care industry helped drive up prices in the overall services industry. Cable and satellite subscriber services prices also increased robustly.

In the longer term, annual gains in the headline index have risen since the beginning of 2016 as the effects of falling gasoline prices faded, while the two core measures also have drifted higher.

The producer prices measure usually follows the same trends as other broad inflation gauges, though it doesn't always translate into what consumers pay. Signs of possible building inflation pressures have emerged in other recent reports.

In March, an index tracking raw-materials prices for manufacturing industries hit its highest level since April 2011, according to the Institute for Supply Management. Wages are now rising somewhat faster than they did earlier in the U.S.'s current economic expansion, the Labor Department's most recent jobs report showed.

"With the labor market continuing to tighten, and labor costs being the primary driver of inflation in the dominant service sector, we continue to expect core inflation to move higher," Joshua Shapiro, chief U.S. economist at MFR, Inc. said in a note to clients Monday.

Ramped-up inflation could cause the Federal Reserve to pick up the pace of interest-rate increases this year, but Fed Chairman Jerome Powell said last week that "as long as the economy continues broadly on its current path, further gradual increases in the federal-funds rate will best promote" its goals for the economy.

The Labor Department's report on the consumer-price index arrives Wednesday, with economists expecting inflation to remain unchanged.

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Document WSJO000020180410ee4a002jp

WSJ PRO FINANCIAL REGULATION

Markets
Curtains for Experiment Meant to Boost Trading in Small Stocks; Pilot will likely end in October as officials say results don't justify widening 'tick' size

By Dave Michaels
725 words
10 April 2018
04:29 PM
WSJ Pro Financial Regulation
RSTPROFR
English

A **stock-market** experiment designed to make small stocks more attractive to investors hasn't yielded the silver bullet its supporters had hoped for, and probably won't be extended beyond October, regulators said Tuesday.

The pilot program, which some lawmakers in Congress pressured the Securities and Exchange Commission to conduct, sought to reward brokers for facilitating trades in small stocks by increasing the profit they earn by handling trades. SEC officials said the results don't justify permanently widening the "tick" size, or the price increment at which shares are quoted.

In the pilot, investors could trade shares of some small companies only in increments of 5 cents, rather than 1 cent. The change was the first adjustment to "tick" sizes since stock exchanges started pricing shares in pennies instead of fractions in 2001. Had the experiment shown better results, it could have been made permanent.

The pilot "may demonstrate that a policy solution worth exploring is not necessarily a policy solution that makes sense for the long haul," SEC Trading and Markets Director Brett Redfearn told a conference in Chicago. Mr. Redfearn said he would recommend the experiment end in October as called for in the regulation that created it.

The pilot altered the tick size for about 1,200 companies with market values below $3 billion. The experiment was controversial from the start, with retail brokers such as Charles Schwab Corp. and TD Ameritrade Holding Corp. complaining that it would raise trading costs for investors.

Research has shown that investors are the losers from the experiment, said Richard Johnson, vice president of market structure and technology at Greenwich Associates. Trading volumes for stocks in the different sample groups haven't increased, he said.

"What a terrible waste of money this whole thing has been," Mr. Johnson said. "It should be a lesson in how not to pass market structure regulation."

The SEC said in a 2012 report that the pilot program was unnecessary. But lobbying by brokers such as Cowen Inc. and other advocates such as David Weild, a former **Nasdaq** Inc. executive, helped put pressure on the SEC to run the pilot. House lawmakers passed legislation in 2014 that would have mandated the SEC conduct the pilot program.

Its backers speculated that rewarding brokers for trading small stocks would allow Wall Street to publish more research on those companies. That, in turn, would stoke more investor interest in small-caps, which would create an incentive for newer companies to go public.

The move to one-penny increments in 2001 was widely viewed as good for investors because it slashed profits for brokers who commit to buying or selling stocks throughout the trading day. These "market makers" tend to profit from wide bid-offer spreads, the difference between prices to buy and sell a stock. With decimalization, such spreads became smaller.

Mr. Redfearn didn't elaborate on the SEC's conclusions about the pilot program, although he said the experiment would provide regulators with other pieces of useful data, such as information about the relationship between trading costs and bid-offer spreads.

"This is more of my personal view," he told the Security Traders Association. "There is ample evidence from the data that there probably is nothing here that suggests that we came up with something we want to implement right now on a permanent basis."

Once the experiment is over, the SEC could pivot to other ideas for promoting small-stock liquidity, such as concentrating all orders for hard-to-trade stocks on a single exchange. Currently, stock trading is fragmented across 13 exchanges and dozens of over-the-counter venues known as dark pools.

Nasdaq has called for rule changes that would allow smaller companies to pick a single market where their stock is traded. The measure would give exchanges a monopoly on trading some shares, but **Nasdaq** says it would allow markets and companies to customize trading rules for stocks shunned by big investors.

The SEC plans to hold a roundtable on April 23 to discuss such ideas, Chairman Jay Clayton said Tuesday.

Alexander Osipovich contributed to this article.

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Document RSTPROFR20180410ee4a000b5

THE WALL STREET JOURNAL.

Markets

How to Lose Money Betting on a Trade War; If President Trump continues his opposition to free trade, there is only downside for investors

By James Mackintosh
806 words
10 April 2018
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

The U.S. on March 22 threatened tariffs on $60 billion of goods from China. An earlier version of this article incorrectly referred to $60 billion of tariffs. (April 10, 2018)

The perils of betting on **stock-market** themes were on show last week for anyone trading on a trade war. Two obvious bets went wrong, even as the entire market moved down on trade worries.

Monday brought a big rebound and is a reminder that President Donald Trump's trade policies may not end up so very different to those of previous U.S. presidents. But an unpredictable president may have prompted investors to start assuming the worst.

The first obvious trade is a bet that the winners of global trade will suffer from trade-war threats. The clearest winners from global trade have been Germany, Japan, South Korea and Singapore, yet when Mr. Trump announced hefty tariffs on $60 billion of goods from China on Thursday, their stock markets beat the **S&P 500**, in dollar terms. Their stock markets are also all ahead of the S&P since Mr. Trump was elected in 2016, including dividends.

Trade, important as it is, isn't the only thing investors care about. The U.S. market was hit last week by the plunging price of Facebook Inc.'s shares, and the dollar weakened, too. Even if trade were the only thing that mattered, some big U.S. companies were hurt badly by trade fears on Thursday, notably Boeing Co.

The second simple bet against free trade was to buy U.S. steel companies, as they were expected to profit from Mr. Trump's steel tariffs. Yet U.S. Steel Corp. plummeted 11% on Thursday, leaving the **stock price** down for the year, because Mr. Trump chose to exempt European imports from the steel tariffs he had announced earlier. Close ally Japan wasn't exempted, and its steel stocks slightly underperformed the wider market, but not by much.

Such erratic behavior might be part of Mr. Trump's deliberately unpredictable negotiating style, as with previous threats to pull out of the North American Free Trade Agreement or not to defend NATO allies. It creates a dilemma both for partners and investors: Should they take Mr. Trump at his word?

After Mr. Trump was elected, the **stock market** rose, fell, then rose again, along with the prospects for corporate-tax cuts. This was the sort of uncertainty investors like: Something good might happen. It wasn't clear whether Mr. Trump's policies would make it through Congress, but if they did it would surely help stocks.

The uncertainty today is whether something bad will happen. If Mr. Trump is serious about trashing the global trading system, there are few places for investors to hide. Stocks will suffer, the economy will slow and inflation will pick up.

There is a decent case to be made that things aren't really that terrible in international trade. Mr. Trump's approach is similar to previous presidents, only noisier. The U.S., like just about every country, has always had a transactional approach to trade deals; Mr. Trump is just open about it.

Certainly the willingness to defy international rules isn't so wildly different to the past. Because Washington ignored several World Trade Organization decisions, six of the seven WTO-authorized retaliatory measures are against the U.S.—and three of the eight pending measures are, too.

True, Mr. Trump's announced China tariffs are far bigger than past threats, but China and the U.S. have quietly started negotiating to improve U.S. access to Chinese markets. A deal with South Korea was struck over the weekend avoiding steel tariffs in exchange for a limit on steel exports and some minor concessions on cars.

However, if it turns out that Mr. Trump is serious—and his opposition to free trade is one of the few areas where his views haven't changed in decades—there is only downside for investors. We have switched from an era of uncertainty about policy helping the markets to one of uncertainty about policy hurting.

Investors already have waked up to this, and until Monday's rally had stopped buying the dips. Deutsche Bank strategist Jim Reid points out that the **S&P 500** had closed below the middle of its daily range every day for the past two weeks, the longest such period for more than three decades.

Mr. Trump's trade policies so far would probably have only a minor damping effect on global and U.S. growth. The threat that he might mean what he says and start a proper trade war would be much more significant in the long run. Unfortunately, it is hard to profit from.

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* Stocks Rebound as Trade Fears Ebb

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THE WALL STREET JOURNAL.
U.S. EDITION

NYSE Welcomes Nasdaq-Listed Stocks

By Alexander Osipovich
368 words
10 April 2018
The Wall Street Journal
J
B13
English

The New York Stock Exchange has ended a decades-old restriction that prevented stocks listed on rival exchanges from being bought and sold on its historic trading floor in lower Manhattan.

The change took effect on Monday as part of a long-awaited upgrade of the NYSE's systems. Now, Nasdaq-listed securities such as Apple Inc. or Kraft-Heinz Co., as well as any U.S. exchange-traded fund, can be traded on the NYSE's flagship exchange for the first time.

That expands the number of securities that can potentially be traded at the Big Board to all 8,600 stocks and ETFs listed in the U.S. Until now, trading at the venerable exchange was limited to the roughly 3,150 securities listed on the NYSE, effectively making it a gated community for the shares of firms that met the exchange's listing standards and were willing to pay the NYSE's listing fees.

But that restriction made less sense as markets went electronic and dozens of rival trading platforms emerged, assisted by regulations that encouraged greater competition in the exchange business. That eroded the NYSE's status as the go-to marketplace for buying and selling large-cap stocks.

Until this week, out of the 12 U.S. stock exchanges in operation, the NYSE's flagship exchange was the only one that limited trading to its own listed securities.

"That is a 180-degree turnaround for the NYSE," said James Angel, an associate professor of finance at Georgetown University.

Investors are unlikely to notice much difference as a result of Monday's change. But the move could potentially lead to an uptick in the NYSE's market share, analysts say.

The Big Board, owned by Intercontinental Exchange Inc., and its two smaller sister exchanges handled 22.6% of U.S. equities trading volume in February, according to research firm Tabb Group.

That is bigger than the NYSE's two largest rivals -- Nasdaq Inc. and Cboe Global Markets Inc. -- but it is much reduced from the nearly 40% market share that the NYSE group of exchanges enjoyed a decade ago.

Humbled Giant

The New York Stock Exchange's share of stock-trading volume has fallen over the past decade as new rivals have emerged.

Note: Chart shows combined share of all NYSE exchanges including Arca and NYSE American.
Source: Tabb Group

THE WALL STREET JOURNAL.

Document J000000020180410ee4a0002g

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Corporate Bonds Go Into Reverse Following Steady Gains

By Richard Barley
449 words
10 April 2018
The Wall Street Journal
J
B14
English

[Financial Analysis and Commentary]

Corporate bonds have been the easiest way to eke out a higher gain in a yield-starved world. This year, though, they are doing the opposite. The corporate-bond money maker has gone into reverse.

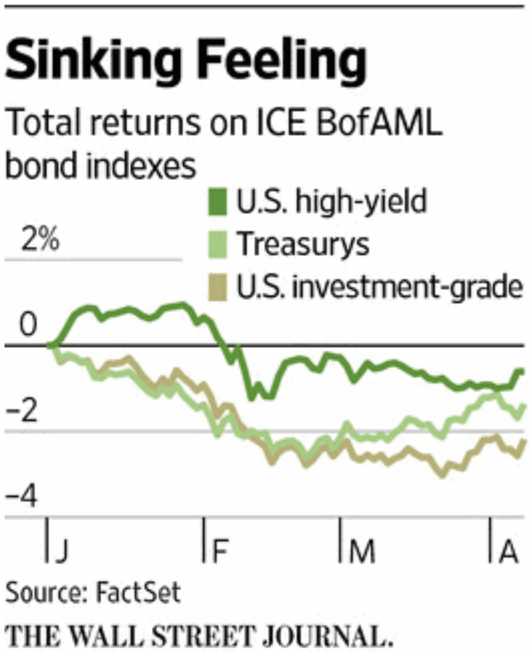
U.S. investment-grade corporate bonds -- issued by blue-chip names with relatively strong balance sheets -- have returned minus 2.2% this year, compared with minus 1.4% for Treasurys, ICE BofAML indexes show. The poor performance is due to widening credit spreads, with the gap between corporate bond yields and underlying government yields expanding to 1.14 percentage points, from 0.98 at the start of 2018. Junk bonds, cushioned by higher yields, are faring a little better but are still down 0.6%. The contrast with last year's strong gains is stark.

Corporate bonds look vulnerable on several fronts. Underlying government-bond yields have moved higher as the Federal Reserve has lifted rates and fears about inflation have returned. But credit spreads had also reached very tight levels at the end of 2017 -- diminishing the cushion against Treasury yield moves. Indeed, the spread on U.S. corporate bonds as a share of their total yield recently reached the lowest level in a decade, BlackRock notes. The recent widening has pushed the share up only a little.

But it isn't necessarily higher rates that explain wider spreads. After all, if Treasury yields are rising because of stronger growth and inflation, that should be good news for company balance sheets. The rub is that credit spreads also behave like measures of **volatility** in that they reflect a premium for uncertainty about the future. U.S. policies on trade, taxes and spending are raising the prospect of higher economic **volatility** in the future. If **volatility** is here to stay, so are wider spreads, making it harder for corporate bonds to recoup their losses.

Meanwhile, negative total returns mean investors are pulling back. An exchange-traded fund that tracks the U.S. market, the iShares iBoxx $ Investment Grade Corporate Bond ETF, has recorded net outflows of more than $5 billion this year, according to FactSet. Riskier high-yield bond funds have logged outflows for 12 weeks, the longest streak since 2007, according to Bank of America Merrill Lynch.

Higher yields and, in particular, wider spreads on investment-grade corporate bonds will at some point act as a lure for cash. But the market moves so far aren't big enough to offer obvious value. Spreads are still tight by historical standards. The ride could stay bumpy for some time.



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WSJ PRO FINANCIAL REGULATION

Markets
Big Banks Find Back Door to Subprime Loans | Payday Lenders Sue CFPB | Deng's Take: China Cautious on Official Digital Currency; The Wall Street Journal's financial regulation newsletter for Tuesday, April 10, 2018.

2,590 words
10 April 2018
06:34 AM
WSJ Pro Financial Regulation
RSTPROFR
English

Deng's Take: China Cautious on Official Digital Currency

Big Banks Find a Back Door to Finance Subprime Loans

Payday Lenders Sue CFPB as Hopes for Quick Regulatory Fix Fade

Rising Home Prices Push Borrowers Deeper Into Debt

OCC Chief Lays Out New Posture on Banks

China Cautious on Official Digital Currency

China's central bank was quick to explore the idea of official cryptocurrencies, but the ultimate outcome of its efforts might prove underwhelming.

Central banks around the world are looking into whether they should create their own virtual currencies. The People's Bank of China got an early start, setting up a research unit in 2014 to look into the matter.

Like many other governments, however, Beijing remains deeply wary about anonymity, user decentralization and other features that cryptocurrencies such as bitcoin confer. As indicated in recent articles by central-bank officials, the Chinese government has lofty plans to go digital, but it is staying far away from crypto.

Both Fan Yifei, the central bank's deputy governor, and Yao Qian, head of its digital currency research, have written that an official digital currency would rely to some extent on the existing banking infrastructure used for fiat currency. They suggest that usage of an official digital currency would be akin to using the Chinese yuan—similar to the digitization of money in Chinese mobile-payment services WeChat Pay and Alipay.

Under such a system, the central bank would control issuance and track users' real identities, retaining power over the nation's money supply. Such a setup also would mean the government would be ultimately liable should anything go wrong.

Mr. Fan wrote in a China Business News article in January that the idea would be to achieve "controlled anonymity." Mr. Yao echoed his point in the same publication in March, saying that users' potential losses and risks have to be controlled. He also stressed that commercial banks shouldn't be marginalized, promising a role for the nation's largest state-owned lenders, which are getting sidelined in e-commerce payments by fast-rising mobile services.

Bobby Lee, who used to run one of China's largest bitcoin exchanges, BTCC, said he doesn't rule out an official Chinese digital currency one day giving Alipay and WeChat Pay "a run for their money." But China's plans don't incorporate the kinds of innovations that some hope can eventually revolutionize the world of finance.

"It's not what I would call a cryptographic currency," Mr. Lee said.

Analysts say China could roll out features to ensure the central bank remains firmly in control, for example daily transaction limits.

China's efforts stand in contrast with those of other governments such as Canada, Singapore and Hong Kong. Regulators there appear to be open to incorporating blockchain technologies in their version of an official digital currency. The blockchain data structure that underpins bitcoin makes it possible to create a digital ledger of transactions that can be shared among a distributed network of computers; it uses cryptography to allow participants to manipulate the ledger in a secure way without the need for a central authority.

However, those governments are exploring such options for use only between banks, shying away from a broader rollout to retail investors.

"Central banks have different reasons for why they want to do this," Antony Lewis, director of research at London-based blockchain firm R3, said of the differences in plans around the world. When it comes to rolling out a retail-versus-wholesale system, he says, "there may never be a global standard."

Key Developments in Washington, on Wall Street, and Beyond

Big Banks Find a Back Door to Finance Subprime Loans

These days, Wells Fargo & Co. and Citigroup Inc. are unlikely to make a $14,000 auto loan to a borrower with a subprime credit score. That is now the domain of direct lenders such as Exeter Finance LLC, based in Irving, Texas.

But where does Exeter get the money to make subprime auto loans? From Wells Fargo and Citigroup. They have helped lend Exeter $1.4 billion for that very purpose.

Bank loans to Exeter and other nonbank financial firms have increased sixfold between 2010 and 2017 to a record high of nearly $345 billion, according to a Wall Street Journal analysis of regulatory filings. They are now one of the largest categories of bank loans to companies.

Payday Lenders Sue CFPB as Hopes for Quick Regulatory Fix Fade

Payday lenders sued the government on Monday, seeking to stop a rule they say would end their business model, ratcheting up pressure on the Consumer Financial Protection Bureau to back away from planned regulation of their industry.

Trump administration officials who took over the bureau in November are reviewing the rule, which was put in place by Obama-era officials last year. But two payday-lending trade groups aren't counting on those officials to revise the rule to their liking before it takes effect in 2019.

Rising Home Prices Push Borrowers Deeper Into Debt

More Americans are stretching to buy homes, the latest sign that rising prices are making homeownership more difficult for a broad swath of potential buyers.

Roughly one in five conventional mortgage loans made this winter went to borrowers spending more than 45% of their monthly incomes on their mortgage payment and other debts, the highest proportion since the housing crisis, according to new data from mortgage-data tracker CoreLogic Inc. That was almost triple the proportion of such loans made in 2016 and the first half of 2017, CoreLogic said.

OCC Chief Lays Out New Posture on Banks

Comptroller of the Currency Joseph Otting promised a new regulatory relationship with the nation's banks, saying he wants his agency to be more responsive to "our customers, which are the banks."

Mr. Otting, a Trump appointee and former banking executive who now heads the agency that supervises his former peers, on Monday laid out his plans to ease the application of banking regulations to cut compliance costs for banks in an effort to encourage them to lend more.

Speaking at a community-banking conference, he also said he wanted to run the Office of the Comptroller of the Currency in a "more cost-efficient and a more effective manner."

Big Bond Trades Would Stay Secret Under Proposal

Wall Street could get the green light to hold back some information from the public about large bond trades under a proposal advanced Monday by a Securities and Exchange Commission advisory panel.

The committee composed of banks, brokers, money managers and academics approved the recommendation to design a one-year pilot program to reduce transparency in the corporate bond market. The rules would allow traders to withhold for two days the price of investment-grade trades valued over $10 million, or block trades, making it easier for mutual funds and other institutions to buy and sell large numbers of bonds, according to supporters.

The Financial Industry Regulatory Authority, which manages a service that reports bond trades to the public, would have to design the pilot program. The SEC would need to approve Finra's pilot for the experiment to happen.

Enforcement of Anti-Money-Laundering Rule Will Start Slowly, Regulators Say

Regulators said they won't immediately crack down on financial institutions once a new anti-money-laundering rule takes effect next month.

The rule requires financial institutions to identify the true owners of companies when they open bank accounts. It will get a light enforcement touch in the early days after the May 11 effective date, regulatory officials said Monday at an anti-money-laundering compliance conference. The rule was in the works since 2012; it was finalized four years later.

The U.S. Treasury Department's Financial Crimes Enforcement Network, or FinCEN, will oversee the rule and released guidance to that effect last week, but multiple government agencies will examine compliance, depending on the financial institution. Those regulators won't be tough, at least early on, they said at the ACAMS moneylaundering.com International AML and Financial Crime Conference.

Regulators Focus on Compliance Innovation, Technology

Deutsche Bank's New CEO, a Risk Veteran, Warns of 'Tough Decisions'

Christian Sewing, a career Deutsche Bank AG employee little known outside Germany, learned with near-certainty Friday night that he should prepare to take the global stage running the country's biggest lender.

Now that he's been appointed CEO, his role is clear: to make Deutsche Bank safer and more profitable, in part by shrinking it.

That task has proven fraught with difficulty even for past incumbents who had decades of investment banking experience. Investment banking and trading, Deutsche Bank's biggest sources of profits, are lately struggling.

Analysis: Changing Deutsche Bank's CEO Is Easier Than Changing Its Fate

U.S. Shuts Down Backpage, a Classified-Ad Website, Indicts Co-Founders

Federal officials said Monday they were shutting down Backpage, a controversial classified-ad website that has long been accused by political leaders and law-enforcement officials of providing a platform for prostitution and sex trafficking.

As part of the federal operation, a grand jury in Arizona indicted seven people associated with Backpage on charges of facilitating prostitution and money laundering. They included Michael Lacey, 69 years old, and James Larkin, 68, the co-founders of Backpage.

Other charges allege that people associated with Backpage have earned about $500 million in revenue related to prostitution since 2004, and that they engaged in a conspiracy to launder the illicit funds through overseas banks.

China Plans Central Database to Keep an Eye on Sprawling Financial Sector

China plans to establish a unified financial database within five years, to better monitor and prevent risks in a vast financial sector comprised of varied institutions from conglomerates to small online platforms.

The government first plans to build a statistics system for asset-management products across financial sectors. It then aims to broaden its efforts to create a database that tracks local financial institutions including internet operations, according to a statement late Monday by the nation's cabinet.

NYSE Opens Doors As Volume Declines

The New York Stock Exchange has ended a decades-old restriction that prevented stocks listed on rival exchanges from being bought and sold on its historic trading floor in lower Manhattan. Now, **Nasdaq** -listed securities such as Apple Inc. or Kraft-Heinz Co., as well as any U.S. exchange-traded fund, can be traded on the NYSE's flagship exchange for the first time. That expands the number of securities that can potentially be traded at the Big Board to all 8,600 stocks and ETFs listed in the U.S.

Until now, trading at the venerable exchange was limited to the roughly 3,150 securities listed on the NYSE, effectively making it a gated community for the shares of firms that met the exchange's listing standards and were willing to pay the NYSE's listing fees. But that restriction made less sense as markets went electronic and dozens of rival trading platforms emerged, assisted by regulations that encouraged greater competition in the exchange business. That eroded the NYSE's status as the go-to marketplace for buying and selling large-cap stocks.

The Big Board and its two smaller sister exchanges handled 22.6% of U.S. equities trading volume in February, according to research firm Tabb Group. That is bigger than the NYSE's two largest rivals—**Nasdaq** and Cboe Global Markets Inc.—but it is much reduced from the nearly 40% market share that the NYSE group of exchanges enjoyed a decade ago.

Tuesday, April 10

12:30 p.m.

Securities and Exchange Commission Chairman Jay Clayton speaks at an **equity market** structure symposium in Chicago.

Wednesday, April 11

10 a.m.

Consumer Financial Protection Bureau Acting Director Mick Mulvaney delivers the bureau's semiannual report to the House Financial Services Committee.

2 p.m.

The Institute for **Financial Markets** and the Mercatus Center at George Mason University co-host a series of discussions on the regulation of cryptocurrencies, including a 5 p.m. talk with Commodity Futures Trading Commission member Russ Behnam.

Thursday, April 12

NA

The American Bar Association's business law section starts its three-day spring meeting in Orlando, Fla., which includes discussions on regulatory reform, anti-money-laundering regulations, artificial intelligence and banking practice, data breaches and the impact of Brexit on U.S. banking.

8:30 a.m.

The Securities and Exchange Commission hosts a daylong seminar to help investment companies and advisory firms improve their compliance programs for the protection of investors.

9:30 a.m.

U.S. Court of Appeals for the District of Columbia Circuit panel will hear an oral argument in a dispute over the Consumer Financial Protection Bureau's leadership, Leandra English v. Donald Trump.

10 a.m.

Consumer Financial Protection Bureau Acting Director Mick Mulvaney delivers the bureau's semiannual report to the Senate Banking Committee.

10 a.m.

The House Financial Services Subcommittee on Oversight and Investigations holds a hearing on the oversight of the Federal Housing Finance Agency.

2 p.m.

The House Financial Services Subcommittee on Monetary Policy and Trade holds a hearing on a bill that would modify the Committee on Foreign Investment in the U.S.

Major Financial Losses After 50 Increase Risk of Death

People 51 years old or older who experience a major monetary loss have a higher risk of death than their financially stable peers, according to a study published in the Journal of the American Medical Association. Using data from the Health and Retirement Study, which followed 8,714 people aged 51-61 from 1994 through 2014, the researchers found that people who lost at least 75% of their household net worth over a two-year period had a 50% higher chance of dying during the 20-year period, and an 87% higher chance of dying if they also lost their primary residence. "With limited years remaining to regain lost wealth in older age, the health consequences of these negative wealth shocks may be long-lasting," they write.

Deutsche Bank's Problems Aren't Leaving with Cryan

Deutsche Bank is replacing its chief executive, "but its strategic vacuum remains," Peter Thal Larsen writes for Reuters Breakingviews. Incoming CEO Christian Sewing will have to address the problems he inherited from departing chief John Cryan, but the bank's "home market is a weak base from which to rebuild," he says. "A merger with domestic rival Commerzbank might improve returns, but would also increase exposure to the low-margin German market," he writes.

As the only confirmed listing exchange for Saudi Arabian Oil Co., the giant company better known as Aramco, Saudi Arabia's Tadawul stock exchange could balloon in size—or be overwhelmed.

A music entrepreneur abruptly canceled plans to turn royalties from rapper Eminem's songs into a public company through use of a controversial listing shortcut.

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Document RSTPROFR20180410ee4a0002t

The New York Times

Business/Financial Desk; SECTB
Can New Trump Advisers Head Off a Trade War?

By NEIL IRWIN
1,197 words
10 April 2018
The New York Times
NYTF
Late Edition - Final
2
English

These are unsettled times in **financial markets**.

Stock prices rose or fell by more than 1 percent in four of five days last week, and if anything those closing numbers masked even larger swings within each trading session. A common measure of expected **stock market volatility** is about to double its level from early January.

The proximate cause is pretty obvious: President Trump is threatening a trade war with China and perhaps other trading partners. But beneath those daily headlines are two more fundamental questions: Is there a Kudlow Put? And is there a Powell Put?

More specifically, will the White House economic adviser Larry Kudlow (and his free-trader allies within the administration) be able to rein in the Trump administration's trade stance if markets keep falling? And will the Federal Reserve's chairman, Jerome Powell, be ready to take action, such as by delaying interest rate increases or even cutting rates, if markets tumble further?

If the answers are ''yes,'' there isn't much to worry about and the **stock market** should be able to keep humming along at its current high levels. If it's a ''no,'' well, in a word, uh-oh.

A ''put'' is an option contract that offers its buyer protection against losses. If you own a stock worth $100 and buy a put with a strike price of $80, you are ensuring the ability to sell for that price if you wish, so you can't lose more than 20 percent of your money.

Back in the 1990s, traders started referring to the ''Greenspan Put,'' the notion that the **stock market** as a whole had the equivalent of a giant put option in the form of the Fed chairman Alan Greenspan. Amid an emerging markets debt crisis in 1998, the Fed cut interest rates to try to guard the United States against economic fallout, which helped the **stock market** gain a whopping 29 percent that year despite the global troubles.

This notion that the Fed is always ready to act when the stock markets start to dip has almost become a piece of conventional wisdom in market circles over the years -- often said with a bit of snark and implicit criticism of the Fed for supposedly bailing out investors whenever the going gets tough. Fed officials themselves hate the idea, and argue that they're looking out for the economy, not markets.

Nonetheless, in the popular discourse the Greenspan Put gave way to the (Ben) Bernanke Put, and to the (Janet) Yellen Put, as Mr. Greenspan's successors engaged in multiple rounds of ''quantitative easing'' in recent years.

Which brings us to the 2018 equivalents.

Early last week, the **stock market** was losing ground as the Trump administration rolled out plans for punitive tariffs on $50 billion in Chinese imports, and the Chinese government said it would retaliate with comparable tariffs on American goods.

The market sell-off abruptly halted on Wednesday after Mr. Kudlow told reporters in the White House driveway, in effect, not to sweat the incipient trade war. He said it was possible the tariffs would never come to pass and that the president was ''ultimately a free trader'' who ''wants to solve this with the least amount of pain.''

The **Standard & Poor**'**s500 index** ended that day up 1.2 percent.

So the question is whether Mr. Kudlow -- not so much the individual, but the trade war-averse faction within the administration of which he is perhaps the most visible member -- and others are going to be in position to prevent the administration from doing anything economically destructive on trade.

The pattern on trade policy through the first 14 months of the Trump administration has been to pair blustery talk -- about pulling out of the North American Free Trade Agreement, for example -- with more modest policy actions and negotiations that may avert real economic damage.

But the question is whether that dynamic is changing, with the departure of more internationalist voices within the administration like Mr. Kudlow's predecessor, Gary Cohn, and the former secretary of state Rex Tillerson.

If Mr. Kudlow is able to offer only soothing words in the White House driveway -- and those words aren't matched by restraint in policymaking -- the Kudlow Put will turn out to be fairly worthless. A warning sign about that possibility came Thursday night, when the administration threatened tariffs on an additional $100 billion in Chinese imports, in retaliation to China's retaliation.

This is the kind of escalation that would, if it became policy rather than mere threat, be quite ominous for **financial markets**. Again on Friday, Mr. Kudlow offered calming messages, saying ''there are all kinds of back-channel discussions going on.'' But given the continued escalation after his earlier attempts at calm, the Kudlow Put didn't quite work, and the market fell 2 percent that day.

Then there is Mr. Powell, who is in his second month as Federal Reserve chairman. He delivered a speech Friday that threw into doubt whether the Powell Put exists -- at least with respect to potential economic disruption from a trade war.

He mentioned that business contacts had told Fed officials they were worried that trade tensions could spill into broader economic distress. But he did not go the next step of giving any hint that this might lead the Fed to reconsider its plans to raise interest rates gradually in the year ahead.

There's good reason for that. If the trade skirmish escalates into a trade war, it will harm economic growth, but it will also be inflationary. Prices would rise for American consumers in the near term because of the new tariffs, and would rise in the medium term as production of goods moved to less economically advantageous locations.

It is an economic problem that the Fed's tools would be particularly ill suited to solve; the Fed can help address weak demand in the economy but can't do much about a negative supply shock, which is what a trade war would be.

So it's understandable that Mr. Powell would be quiet on the subject, and disinclined to float the possibility that Fed interest rate policy could or would prevent damage from a trade war. But if things continue to escalate, expect markets to hang on his every word even more in search of evidence that the Powell Put is real.

The way to think of fluctuations in the **stock market**, both last week and in the months ahead, is as a continuing effort to determine whether the Kudlow Put and the Powell Put exist, and if so, how powerful they may be.

But given President Trump's newfound willingness to chart his own aggressive path on trade policy, and the limits of the Fed's tools in the event of a trade war, these may not be options contracts you want to rely on.

Some hope Larry Kudlow, a White House economic adviser who advocates free trade, will be able to rein in action against China. (PHOTOGRAPH BY DOUG MILLS/THE NEW YORK TIMES)

Document NYTF000020180410ee4a0006f

The New York Times

Business/Financial Desk; SECTB
Morning Rally Deflates In an Uncertain Afternoon

By THE ASSOCIATED PRESS
459 words
10 April 2018
The New York Times
NYTF
Late Edition - Final
3
English

Stocks edged higher on Monday as investors let go of some of their fears about a possible trade war between the United States and China. But far bigger gains slipped away as the market suffered a steep afternoon decline.

Shares climbed in the first hours of trading, and at about 2 p.m. the **Dow Jonesindustrial average** was up 440 points. That put the market on track to make up almost all the ground it lost during a big sell-off on Friday. But stocks have repeatedly changed course as investors have tried to guess the outcome of the United States-China trade dispute, and they did so again Monday afternoon.

Health care companies posted strong gains, and technology companies like Microsoft and Apple regained some of their recent losses. Banks' shares rose along with interest rates. But industrial and retail companies finished with losses, and smaller companies fared worse than larger ones did.

''Every day the market wakes up and it struggles with whether it should pay attention to noise or pay attention to fundamentals,'' said Marina Severinovsky, an investment strategist at Schroders. She said stocks had done well recently when investors could get their minds off the trade disputes because the global economy and the American economy were still growing.

When companies start to report their first-quarter results this week, she added, the results are likely to be good.

The **Standard & Poor's 500**-**stockindex** gained 8.69 points, or 0.3 percent, to 2,613.16. The **S**.**&P**. **500** fell 1.4 percent last week, with large losses Monday and Friday and strong gains in between.

The **Dow Jonesindustrial average** rose 46.34 points, or 0.2 percent, to 23,979.10. The **Nasdaq composite** index jumped 35.23 points, or 0.5 percent, to 6,950.34.

Most of the stocks on the New York Stock Exchange finished lower on Monday.

The Swiss drug maker Novartis agreed to buy AveXis for $8.7 billion, or $218 a share, as it aims to become a leader in the treatment of neurodegenerative diseases. AveXis climbed $94.55, or 81.6 percent, to $210.46, and Novartis added 87 cents, or 1.1 percent, to $81.07.

The agribusiness company Monsanto jumped $7.29, or 6.2 percent, to $125.15 after The Wall Street Journal reported that the Department of Justice will approve its sale to the German conglomerate Bayer.

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

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

Document NYTF000020180410ee4a00059

The New York Times

National Desk; SECTA
For Bannon, Tariffs Are Test of Trump's Beliefs

By MARK LANDLER
1,193 words
10 April 2018
The New York Times
NYTF
Late Edition - Final
14
English

WASHINGTON -- To Stephen K. Bannon, the political strategist who helped get President Trump elected but no longer speaks to him, the next few weeks will present his former client with the ultimate litmus test.

If Mr. Trump stands firm on $150 billion worth of tariffs he has threatened to impose on China, Mr. Bannon said, he will fulfill the promise of his nationalist presidential campaign. If he retreats, because of either a hemorrhaging **stock market** or a rebellious Republican Party, he will demonstrate that the Trump movement was not much of a movement after all.

''This is going to be a bumpy ride,'' Mr. Bannon said in an interview Monday. ''I don't think he'll back off because of a couple of bad days in the **stock market** -- and I do think he'll have a couple of bad days.''

But Mr. Bannon said he worried about the lack of support for Mr. Trump's moves within the Republican establishment and about pressure from major party donors like Sheldon G. Adelson, the Las Vegas casino magnate who has huge investments in the Chinese territory of Macao.

''The donor class and the politicians, from Paul Ryan to Mitch McConnell, have thrown in completely with the 'we don't want a trade war' crowd,'' he said. ''My fear is 'What does the money want to do?'''

Mr. Trump's moves have already scrambled the political map, winning him improbable Democratic allies like Senator Sherrod Brown of Ohio, who said he viewed the president's moves as ''trade enforcement'' rather than a trade war, and Senator Elizabeth Warren of Massachusetts, who on a visit to China last week dismissed years of trade negotiations with Beijing as a ''happy-face story that never fit with the facts.''

With characteristic bravado, Mr. Bannon sees the China showdown as the key to a political realignment in the United States. ''The new politics is not left versus right,'' he said. ''It is globalist versus nationalist.''

So far, Mr. Trump has sent mixed signals about how far he is willing to press the case against China. On Monday, he vowed to punish Beijing for decades of predatory trade practices, but expressed personal warmth for China's president, Xi Jinping. Over the weekend, he predicted China would take down trade barriers and agree to protect America's intellectual property, even as the Chinese ruled out any talks in the current charged atmosphere.

Where others see inconsistency, Mr. Bannon sees the culmination of three decades of take-no-prisoners trade rhetoric by Mr. Trump. Politicians and scholars may fault his bombastic style, but Mr. Bannon said the president had moved the debate on China, which had been stuck in a cycle of accommodation since China was admitted to the World Trade Organization in 2001.

''For as much as Trump is mocked and ridiculed, he has played a forcing function in this discussion,'' Mr. Bannon said. ''Many of the elites, and many of the institutions, have become more much hawkish about China. There are very few cheerleaders anymore.''

''It is Trump and his collection of nationalists who have brought this to the forefront,'' he added.

Mr. Bannon was the standard-bearer for the nationalists during the 2016 campaign and as the president's chief strategist before he was ejected from the White House last summer. Though he initially stayed in Mr. Trump's good graces -- talking to him regularly -- the president turned sharply against him after the publication of ''Fire and

Fury," Michael Wolff's account of the White House, in which Mr. Bannon is quoted disparaging the president, his daughter Ivanka and his son-in-law, Jared Kushner.

"When he was fired," the president said in January, "he not only lost his job, he lost his mind."

In exile, Mr. Bannon has sought to restyle himself as a kingmaker in Republican politics, backing nationalist candidates in congressional races around the country. But he was dealt a stinging setback in Alabama, after his scandal-scarred protégé, Roy S. Moore, was defeated in a special election for the Senate by the Democrat, Doug Jones.

While Mr. Bannon and Mr. Trump have yet to repair their rift, the president's moves against China represent a policy victory for his excommunicated aide. During his final weeks in the White House, Mr. Bannon kept a whiteboard in his office, on which he had scrawled a calendar for trade actions against China, the European Union and others.

The rollout was delayed for a few months after other advisers, including Treasury Secretary Steven Mnuchin and Gary D. Cohn, the director of the national economic council, persuaded Mr. Trump that he should not impose tariffs at the same time he was pushing a tax-cut bill, because it would antagonize Republicans on Capitol Hill.

Later, Mr. Cohn and Mr. Mnuchin warned the president that protectionist moves would pummel the **stock market**, which Mr. Trump views as a barometer of his success. That was true last week, when the market plunged over fears of a trade war with China. But Mr. Trump's more conciliatory tone over the weekend fueled a modest rebound on Monday.

Mr. Bannon blamed the news media and Wall Street for fanning fears of a trade war, even as he conceded that the tariffs would drive up the price of some consumer goods in the United States and that China's retaliation against soybean imports could hurt American farmers.

"The American consumer is going to pay 3 percent more for their products at Walmart," he said, adding, "Everything is about the American consumer, but what about the American worker?"

Although Mr. Bannon is gone from the White House, officials there still share his views, not least Peter Navarro, the director of trade and industrial policy. An economist whose books include "Death by China," Mr. Navarro is the intellectual driver of the trade policy.

For Mr. Bannon, the trade dispute is part of a larger narrative about how China has systematically exploited the United States, building up its middle class on the backs of American workers by exporting the overcapacity in its steel and other industries. China, he said, posed a far greater threat to the United States than Japan, the Soviet Union or any other historic rival.

"For 20 years, we've not confronted the most significant threat this country has faced," he said. "This is the first time in our history where we really have a competitor with an economy that could be vastly larger than ours."

China, moreover, has dedicated itself to dominating next-generation industries like artificial intelligence and robotics. It is waging economic and information warfare against the United States -- a step short of actual war, though he said that was now more likely than in 2016, when he predicted, "We're going to war in the South China Sea in five to 10 years."

"This is far greater than trade; this is far deeper than tariffs," Mr. Bannon said of the coming confrontation with China. "This is about a confrontation, on a global scale, between two systems."

Document NYTF000020180410ee4a0004l

THE WALL STREET JOURNAL.
U.S. EDITION

Business News: China's Xi Vows More Access to Industries

By Lingling Wei
253 words
10 April 2018
The Wall Street Journal
J
B3
English

BOAO, China -- Chinese President Xi Jinping promised foreign companies greater access to China's financial and manufacturing sectors, pledging Beijing's commitment to further economic liberalization amid rising trade tensions with the U.S.

In a speech that officials had billed as a major address, Mr. Xi said Tuesday that plans are under way to accelerate access to the insurance sector, expand the permitted business scope for foreign financial institutions and reduce tariffs on imported automobiles and ownership limits for foreign car companies.

Throughout his 40-minute address, Mr. Xi never mentioned the trade friction with the U.S. or President Donald Trump. His remarks seemed designed to offer some policy initiatives, if not concessions, while drawing a contrast with Mr. Trump's "America First" agenda and portraying China as a steady global partner committed to the international trade order.

"In a world aspiring for peace and development, the Cold War and zero-sum mentality look even more out of place," Mr. Xi told the Boao Forum, a government-backed gathering of business and political leaders on the tropical island of Hainan.

"Putting oneself on a pedestal or trying to immunize oneself from adverse developments will get nowhere," he said.

Washington and Beijing's trade spat has become a source of **financial-market** turbulence in recent weeks and raised concern about an outright trade war that could drag down the global economy.

Document J000000020180410ee4a0002c

THE WALL STREET JOURNAL.

Markets

Why Should Markets Care About a Paltry $150 Billion Trade War? Direct effect of tariffs isn't that significant—but there are two big threats, and one unquantifiable risk

By James Mackintosh
765 words
9 April 2018
12:38 PM
The Wall Street Journal Online
WSJO
English

Sometimes it is worth asking stupid questions. Here is one: Why should we care about President Donald Trump 's threatened 25% tariffs on $150 billion in trade with China?

"Duh, tariffs are bad," would be the response from anyone convinced of the benefits of trade—and that is almost everyone who has studied economics—as well as anyone who has read anything about the Great Depression.

Yet the actual direct impacts of the tariffs are easily manageable, both for the U.S. and China, because $150 billion just isn't that much. Even including earlier tariffs on solar panels, washing machines, steel and aluminum, this year's tariffs will apply to less than 7% of U.S. imports. On top of that, the U.S. isn't nearly as reliant on trade as many smaller, more open economies.

Stock markets haven't taken the tit-for-tat tariff announcements well, but aren't down all that much. So what is the problem?

There are two big threats, and one unquantifiable risk. First, that the tariffs confirm Mr. Trump's longstanding protectionist instincts, and so are just the start of a descent into a global trade war big enough to trash the economy. Second, that the tariffs spook markets, which are still assuming that the trade threats are part of the president's "art of the deal" and will be negotiated down. Impossible to measure is the danger that the trade threats prove to be the straw that breaks the back of a global economy already showing plenty of signs of strain .

The direct effect of the tariffs, even assuming they come fully into force, isn't that significant. Brian Coulton, chief economist at Fitch Ratings , thinks they amount to a hit of 0.3% of China's economy, not much in the context of Beijing's target of 6.5% expansion this year. The effect in the U.S. is smaller, although growth there is lower too.

To put the trade frictions in context, Goldman Sachs economists calculate that in total they will add 1.6 percentage points to U.S. effective tariffs, calculated as customs duties divided by total imports, pushing them up to 3.1%. They think that will knock less than 0.1 percentage point from growth even with full Chinese retaliation. It is hardly a repeat of the disastrous 1930 Smoot-Hawley tariffs, which led to effective tariffs of just under 20%, with duties at a 100-year high of 59%.

Still, even significant tariffs wouldn't have that much direct impact on the U.S. economy. Goldman calculates that a 10% across-the-board import tariff, six times the size of the total measures so far, would only knock 0.2% off U.S. GDP, assuming the rest of the world retaliated. Inflation would rise by a bit more than 0.2 percentage point, too.

Mr. Coulton examined a true trade-war scenario last year, assuming 35% tariffs were imposed on Mexico, China, South Korea and Taiwan, and they retaliated in full. The effect would be messy for Americans, with a 1.3 percentage-point lower growth rate due almost entirely to falling stock prices.

Stocks are important because they play such a big role in U.S. portfolios. Threaten their value, and consumer and business confidence crumbles—hitting the economy and pushing stocks down even more. For three weeks equity markets have been trying to price in the trade dangers, and the **S&P 500** has lost about 4%, worsened by worries about technology companies . If shareholders start to believe a serious trade war is imminent, stocks could fall far further and hurt the economy, even if Mr. Trump ultimately doesn't follow through.

Finally, the trade threats come at a bad time for the economy. Confidence in global synchronized growth helped push shares up to new highs at the end of January, but since then economic data in much of the world has been disappointing. U.S. shoppers have proved less resilient than hoped, and the Atlanta Federal Reserve's first-quarter growth estimate is below 2.5%, from a high above 5% before the **stock market** correction began. There is no way to know how threats of a trade war will interact with the complex global economy, but they can't help. Duh, indeed.

Write to James Mackintosh at James.Mackintosh@wsj.com

Document WSJO000020180409ee49003s5

THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Quarterly Analysis --- Why Emerging Markets Are Still Worth the Trouble --- Yes, the two-year rally gives some investors pause, but a 5% to 10% exposure makes sense for the long term

By Dan Weil
1,212 words
9 April 2018
The Wall Street Journal
J
R1
English

After a torrid two-year rally in emerging-markets stocks and bonds, the gut reaction of investors might be to pull back. After all, rising U.S. interest rates and a possible trade war, combined with the run-up of the past two years, would seem to work against the investments moving forward.

But many investment strategists say that long-term investors, including those tending to their 401(k)s, should fight their guts. They recommend against reducing your holdings in the stocks and bonds of such countries, which include such growing but still-riskier economies as China, South Korea, Taiwan, India and Brazil.

Their bottom line: It's still generally wise to have 5% to 10% of investment assets constantly allocated to such markets.

"There are a lot of moving parts" to interest rates and trade, says Alex Bryan, director of passive-strategy research at investment-information firm Morningstar . "It's hard to predict how they will unfold. You shouldn't time the market based on events." The best strategy, he says, is to maintain a diversified portfolio -- and emerging-markets investments can play an important role in that respect.

The past two years have been excellent for emerging markets. The MSCI Emerging Markets **Stock Index** soared 44% during that period, while the Bloomberg Barclays Emerging Market Local Currency Government Bond Index climbed 15%.

Some experts worry that the good times will end as the U.S. Federal Reserve continues to raise interest rates and trade conflicts brew. The argument is that higher rates in the U.S. and other developed nations make their investments, particularly bonds, more attractive than those in emerging markets.

In addition, rising U.S. rates can push the dollar higher, making shares of foreign stock and bond funds worth less in dollar terms.

Still, research shows that in the previous four cycles when the Fed increased rates, emerging-markets stocks outperformed the MSCI All Country World Index in three of them, says Michael Sheldon, chief investment officer at RDM Financial Group in Westport, Conn.

The idea that rising U.S. rates hurt emerging markets applied more in the late 1990s, "when developing economies were in some sort of disarray," says Karim Ahamed , investment strategist at HPM Partners in Chicago. "But that has changed since the financial crisis. Over time, a lot of these economies have straightened out." Now, many emerging-markets economies have lower debt-to-GDP ratios than the U.S. and Japan, Mr. Ahamed says.

Developing nations benefit from younger populations than their developed brethren, a rapidly growing middle class and a shift away from manufacturing toward more consumer-based economies. Emerging markets now account for 40% of world GDP, and economists expect that percentage to rise rapidly.

In any case, some say emerging markets will suffer less than developed markets as rates increase. "Developed stocks markets could actually be more vulnerable," says Jack Ablin, chief investment officer at Cresset Wealth Advisors in Chicago. That is because it is mainly central banks in developed economies that are increasing rates, which can damp a country's economic growth, thereby depressing corporate earnings.

In addition, despite the rising-rate environment, U.S. rates remain well below historical averages, Mr. Sheldon notes. So the ascent of U.S. rates might not have a major impact on emerging markets.

"If rates rise more slowly than expected, it might not hurt emerging-market stocks at all," Morningstar 's Mr. Bryan says. "I wouldn't make a tactical adjustment [to emerging-markets allocations] based on interest rates." Fed officials have indicated they expect to raise rates another two or three times this year.

When it comes to potential trade tussles, the argument is that emerging markets would endure the most pain because many developing economies are dependent on exports. But Mr. Ahamed points out that the dependency has lessened as many of these nations begin to shift their emphasis to internal consumption. And in any case, at this point, it looks like trade spats will have a more bilateral focus, such as the U.S. vs. China, than world-wide, he says.

The tariffs announced by President Donald Trump in March apply only to steel and aluminum, Mr. Bryan notes.

"It's unclear whether they will be extended beyond that and how countries will respond," he says. "It's hard to forecast their impact on emerging markets."

Investors shouldn't base their allocations on uncertain developments, many expert say. "It's noise," Mr. Bryan says. "The best course is to be diversified and maintain a long-term strategic allocation."

As for stock valuations, now is actually a good time to build an exposure to emerging markets, because they look relatively cheap despite the run-up, strategists say. Emerging markets have a forward price-to-earnings ratio of 12, compared with 17 for the U.S. and 16 for the world as a whole, according to MSCI and J.P. Morgan .

"Emerging-market stocks are now priced attractively," Mr. Bryan says.

Emerging-markets stocks account for 8% of world **stock-market** capitalization, which is largely why he and others in general recommend a 5% to 10% equity allocation for emerging markets.

Two funds Mr. Bryan recommends are iShares Core MSCI Emerging Markets ETF (IEMG) and iShares Edge MSCI Min Vol Emerging Markets ETF (EEMV). Both are well diversified.

The first has an annual expense ratio of only 0.14 percentage point and holds stocks of all sizes. The second is designed to be more risk-averse; it excludes small-capitalization stocks and generally seeks to reduce **volatility**.

On the bond front, Mr. Ahamed finds emerging markets attractive, too. Yields there are higher than in developed markets. For example, Vanguard Emerging Markets Government Bond ETF (VWOB) yields 4.7%, compared with 2.73% for Vanguard Long-Term Treasury ETF (VGLT).

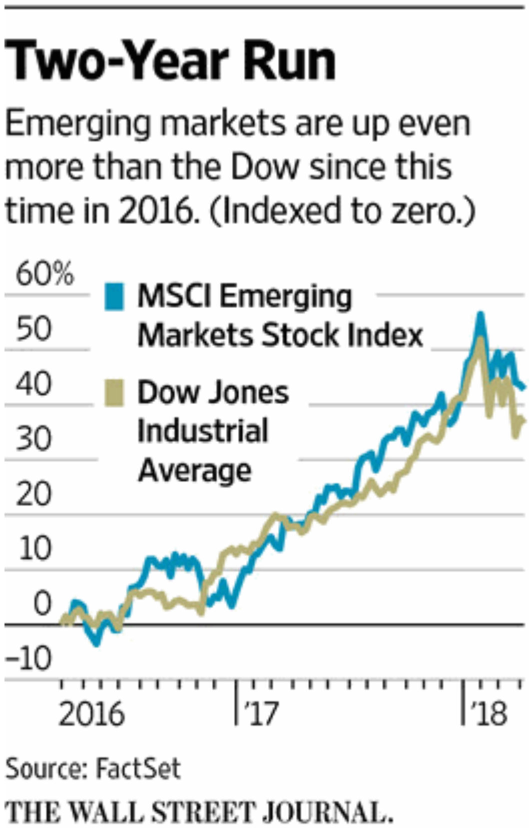
The solid fiscal health of many emerging markets also buoys their bonds, Mr. Ahamed says. And many emerging-markets central banks have the capacity to cut interest rates if their economies slump. That would boost their **bond prices**, benefiting bondholders.

Mr. Ablin agrees with Mr. Ahamed that emerging-markets bonds are attractive, but he doesn't recommend a constant exposure to them like he does to emerging-markets stocks. That's because he invests in bonds for safety, and emerging-markets bonds generally aren't as stable as those in the U.S.

"I use bonds as a source of a specific cash flow at a specific date," Mr. Ablin says. "From that perspective, it's still uncertain whether emerging-market bonds deserve a seat at the table."

His base case is zero allocation to emerging-markets bonds, but at times like now when they're attractive, he recommends that 5% to 10% of a bond portfolio be allocated to emerging markets. "If the emerging-market bond market deteriorates relative to U.S. bond markets," Mr. Ablin says, he will reduce the allocation again.

Mr. Weil is a writer in West Palm Beach, Fla. He can be reached at reports@wsj.com.



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THE WALL STREET JOURNAL.

Markets

Why Emerging Markets Are Still Worth the Trouble; Yes, the two-year rally, rising interest rates and trade turmoil give investors pause. But exposure to emerging markets still makes sense.

By Dan Weil
1,261 words
8 April 2018
10:15 PM
The Wall Street Journal Online
WSJO
English

After a torrid two-year rally in emerging-markets stocks and bonds, the gut reaction of investors might be to pull back. After all, rising U.S. interest rates and a possible trade war, combined with the run-up of the past two years, would seem to work against the investments moving forward.

But many investment strategists say that long-term investors, including those tending to their 401(k)s, should fight their guts. They recommend against reducing your holdings in the stocks and bonds of such countries, which include such growing but still-riskier economies as China, South Korea, Taiwan, India and Brazil.

Their bottom line: It's still generally wise to have 5% to 10% of investment assets constantly allocated to such markets.

"There are a lot of moving parts" to interest rates and trade, says Alex Bryan, director of passive-strategy research at investment-information firm Morningstar . "It's hard to predict how they will unfold. You shouldn't time the market based on events." The best strategy, he says, is to maintain a diversified portfolio—and emerging-markets investments can play an important role in that respect.

The past two years have been excellent for emerging markets. The MSCI Emerging Markets **Stock Index** soared 44% during that period, while the Bloomberg Barclays Emerging Market Local Currency Government Bond Index climbed 15%.

Some experts worry that the good times will end as the U.S. Federal Reserve continues to raise interest rates and trade conflicts brew. The argument is that higher rates in the U.S. and other developed nations make their investments, particularly bonds, more attractive than those in emerging markets.

In addition, rising U.S. rates can push the dollar higher, making shares of foreign stock and bond funds worth less in dollar terms.

What history says

Still, research shows that in the previous four cycles when the Fed increased rates, emerging-markets stocks outperformed the MSCI All Country World Index in three of them, says Michael Sheldon, chief investment officer at RDM Financial Group in Westport, Conn.

The idea that rising U.S. rates hurt emerging markets applied more in the late 1990s, "when developing economies were in some sort of disarray," says Karim Ahamed , investment strategist at HPM Partners in Chicago. "But that has changed since the financial crisis. Over time, a lot of these economies have straightened out." Now, many emerging-markets economies have lower debt-to-GDP ratios than the U.S. and Japan, Mr. Ahamed says.

Developing nations benefit from younger populations than their developed brethren, a rapidly growing middle class and a shift away from manufacturing toward more consumer-based economies. Emerging markets now account for 40% of world GDP, and economists expect that percentage to rise rapidly.

In any case, some say emerging markets will suffer less than developed markets as rates increase. "Developed stocks markets could actually be more vulnerable," says Jack Ablin, chief investment officer at Cresset Wealth

Advisors in Chicago. That is because it is mainly central banks in developed economies that are increasing rates, which can damp a country's economic growth, thereby depressing corporate earnings.

In addition, despite the rising-rate environment, U.S. rates remain well below historical averages, Mr. Sheldon notes. So the ascent of U.S. rates might not have a major impact on emerging markets.

"If rates rise more slowly than expected, it might not hurt emerging-market stocks at all," Morningstar 's Mr. Bryan says. "I wouldn't make a tactical adjustment [to emerging-markets allocations] based on interest rates." Fed officials have indicated they expect to raise rates another two or three times this year.

When it comes to potential trade tussles, the argument is that emerging markets would endure the most pain because many developing economies are dependent on exports. But Mr. Ahamed points out that the dependency has lessened as many of these nations begin to shift their emphasis to internal consumption. And in any case, at this point, it looks like trade spats will have a more bilateral focus, such as the U.S. vs. China, than world-wide, he says.

The tariffs announced by President Donald Trump in March apply only to steel and aluminum, Mr. Bryan notes.

"It's unclear whether they will be extended beyond that and how countries will respond," he says. "It's hard to forecast their impact on emerging markets."

Investors shouldn't base their allocations on uncertain developments, many expert say. "It's noise," Mr. Bryan says. "The best course is to be diversified and maintain a long-term strategic allocation."

Still looking cheap?

As for stock valuations, now is actually a good time to build an exposure to emerging markets, because they look relatively cheap despite the run-up, strategists say. Emerging markets have a forward price-to-earnings ratio of 12, compared with 17 for the U.S. and 16 for the world as a whole, according to MSCI and J.P. Morgan .

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Bond yields beckon

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THE WALL STREET JOURNAL.

Markets

What Volatile Market? Growth-Fund Managers Strut; Virtus KAR Small-Cap Growth Fund won the latest quarterly Wall Street Journal contest with a 40.8% return

By Suzanne McGee
1,367 words
8 April 2018
10:14 PM
The Wall Street Journal Online
WSJO
English

The first three months of 2018 were a **volatile** period, culminating in the **S&P 500**'s first quarterly loss since mid-2015.

But behind the scenes, some disciplined mutual-fund managers who focus on "growth" stocks—those powered by corporate-earnings potential—continue to rack up gains. In fact, they are dominating, led by the $2.5 billion Virtus KAR Small-Cap Growth Fund (PXSGX), which has won The Wall Street Journal's latest Winners' Circle contest of the best-performing U.S.-stock fund managers. It returned 40.8% in the 12 months ended March 30 (drubbing the 19.9% gain for small-cap growth funds overall, as tracked by Lipper).

The Virtus KAR fund and other growth-stock funds have focused on the "micro" part of their job—looking for companies with solid fundamentals—while ignoring "macro" issues, such as rising interest rates, the chances of a trade war with China, or the question of whether valuations of market darlings such as Facebook and Netflix are sustainable.

"A lot of people have underperformed because they have made too big a deal about macro factors, from the Federal Reserve to Trump," says Doug Foreman, chief investment officer of Kayne Anderson Rudnick, which manages the Virtus KAR small-cap fund. "They have missed the improvements in corporate America: the stuff that companies have invented, the way companies have deployed capital and so on. All of which translates into great growth."

Mr. Foreman and his colleagues haven't made that error, which is why Todd Beiley, manager of the Virtus KAR fund, is our contest winner. Equally impressive was that the fund posted a 2.2% gain during the final four weeks of that period, when many other top performers on the Winners' Circle list posted more-lackluster figures—or even losses.

Contest rules

Although our contest is quarterly, its goal is to identify the actively managed, diversified U.S.-stock fund—with at least $50 million in assets and a record of more than three years—with the best 12-month performance. Index funds and exchange-traded funds don't qualify because they aren't actively managed; we also disqualify leveraged funds, since they don't measure a manager's stock-picking prowess.

While we don't factor in fees (our goal is to identify skilled fund managers) anyone looking for funds to add to their portfolio likely will want to consider the impact of management and sales fees, as well as the sustainability of returns, before making any investment decisions.

For the period ended March 30, every top-performing mutual fund once again featured "growth" in its name. To some observers, as the market enters the 10th year of a remarkably long-lived **bull market**, it may feel astonishing that there is any growth remaining to be squeezed out of U.S. stocks, especially given the lofty valuations that many well-known growth stocks command and the fact that growth stocks already have outperformed.

Indeed, 77% of growth-stock mutual funds outperformed their benchmarks in the first quarter of 2018, a record since Bank of America Merrill Lynch began tracking this data in 2009, when only 9% succeeded in beating the relevant Russell 1000 Growth index.

"Growth outperformed by 17 percentage points last year," notes Jill Carey Hall, a U.S. equity strategist at Bank of America Merrill Lynch.

Given that the most important determinant of whether growth or value leads the way is the corporate profit cycle, this seems counterintuitive, she adds: Profits look robust, and typically it is when that earnings growth looks scarce that investors are willing to pay a still-higher price for the growth stocks that promise to deliver it. "It hasn't been working that way now; profits growth is picking up and will do better still in the coming quarters, and growth investing is still doing well," she says.

Primecap Takes No. 2 Spot

Based on some of the stocks in the portfolios of the funds occupying top positions in our Winners' Circle competition, many managers are taking a broader approach to what represents "growth" than the traditional internet technology and biotechnology firms. That includes second-ranked fund Primecap Odyssey Aggressive Growth (POAGX), with a 37.6% return. While its top holding is a classic biopharmaceutical enterprise, Nektar Therapeutics, the fund's portfolio also includes Delta Air Lines and JetBlue Airways—not traditional fare for growth investors in recent decades.

Morgan Stanley Investment Management had two of the top six funds on the Winners' Circle list: Morgan Stanley Multi Cap Growth (CPOBX), with a gain of 37.2%, and Morgan Stanley Institutional Growth (MSEQX), up 35.9%. Dennis Lynch, head of growth investing at Morgan Stanley, is reluctant to be rigid in his definition of what qualifies for inclusion in such funds. But by the end of 2017, he says, the funds' exposure to tech was lower than a year earlier. Both funds outperformed the vast majority of their peers.

Hunt for 'disruptive change'

Rather than assume that growth is to be found primarily in technology or biotech, Mr. Lynch takes an iconoclastic approach to finding companies he believes can deliver this sought-after feature over the long haul. His team includes two "disruptive change" researchers, whose mandate is to identify those businesses whose models will profit or suffer from tectonic shifts in the way American corporations function, spotlighting those with the most durable business models. Simply looking at whether a company is or has traditionally been labeled "value" or "growth," he adds, "limits the analysis by pushing everything into two somewhat-artificial buckets."

Indeed, today the Morgan Stanley growth portfolios include such companies as coffee retail chain Starbucks and Union Pacific, a freight-hauling railroad firm. The latter offers many characteristics that would appeal to value investors—attractive dividend yields and a price/earnings ratio that is at or below the market average. But it has been a beneficiary of the new tax law; analysts predict Union Pacific will post a big gain in first-quarter profits (from $1.32 a share last year to $1.67) when it reports its results for 2018 on April 26. The company, which also has raised dividends twice since late last year, is one of the 10 largest holdings of the Institutional Growth fund.

Mr. Beiley of the Virtus KAR small-cap fund also is drawn to some nontraditional sectors. While many see financial stocks as value holdings, he expects that Interactive Brokers, a low-cost, customer-friendly brokerage firm, will boost market share as its business environment continues to improve. The **stock price** has climbed to about $69 from the fund's cost basis of $37.

Mr. Beiley can allocate, at most, 20% of his fund's assets to non-U.S. companies, some of which contributed significantly to the fund's returns. China's Autohome—operator of the country's major automotive-focused website, ranging from dealer links to independent car reviews—led the way, after being a big loser in 2016. After trading as low as $20 in 2016, the stock rebounded to close 2017 at around $65, and now $88.

The kind of stocks Mr. Beiley and his team seek out sound remarkably like value-priced growth stocks, or value stocks with growth potential. "Our preferred situation is to find a company with a good underlying business that is facing challenges in the near term, and whose **stock price** doesn't accurately reflect its long-term potential," he says.

Entering the 10th year of a **bull market**, with valuations climbing along with the nerves and unease, that may be an entirely new category: safe growth.

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

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Document WSJO000020180409ee49000p2

THE WALL STREET JOURNAL.

Markets

NYSE Opens Doors to Stocks From Rival Exchanges, Ending Decades-Old Policy; The change that took effect Monday allows Nasdaq-listed securities and U.S. exchange-traded funds to be traded on the NYSE's flagship exchange

By Alexander Osipovich
639 words
9 April 2018
09:47 AM
The Wall Street Journal Online
WSJO
English

The New York Stock Exchange has ended a decades-old restriction that prevented stocks listed on rival exchanges from being bought and sold on its historic trading floor in lower Manhattan.

The change took effect on Monday as part of a long-awaited upgrade of the NYSE's systems. Now, Nasdaq-listed securities such as Apple Inc. or Kraft-Heinz Co., as well as any U.S. exchange-traded fund, can be traded on the NYSE's flagship exchange for the first time.

That expands the number of securities that can potentially be traded at the Big Board to all 8,600 stocks and ETFs listed in the U.S. Until now, trading at the venerable exchange was limited to the roughly 3,150 securities listed on the NYSE, effectively making it a gated community for the shares of firms that met the exchange's listing standards and were willing to pay the NYSE's listing fees.

But that restriction made less sense as markets went electronic and dozens of rival trading platforms emerged, assisted by regulations that encouraged greater competition in the exchange business. That eroded the NYSE's status as the go-to marketplace for buying and selling large-cap stocks. Until this week, out of the 12 U.S. stock exchanges in operation, the NYSE's flagship exchange was the only one that limited trading to its own listed securities.

"That is a 180-degree turnaround for the NYSE," said James Angel, an associate professor of finance at Georgetown University.

Investors are unlikely to notice much difference as a result of Monday's change. But the move could potentially lead to an uptick in the NYSE's market share, analysts say.

The Big Board and its two smaller sister exchanges handled 22.6% of U.S. equities trading volume in February, according to research firm Tabb Group. That is bigger than the NYSE's two largest rivals—Nasdaq and Cboe Global Markets Inc.—but it is much reduced from the nearly 40% market share that the NYSE group of exchanges enjoyed a decade ago.

The NYSE, owned by Intercontinental Exchange Inc., has touted Monday's changes as bringing the benefits of floor trading to more investors. The Big Board is unique among U.S. stock exchanges in that it still runs an old-fashioned trading floor, alongside an electronic marketplace.

Now, investors seeking to buy or sell non-NYSE securities will have the option of sending those orders to a floor broker at the NYSE, who can attempt to execute the order at the exchange.

It is unclear how popular that will be. Still, some floor brokers are cautiously optimistic. "It's potentially an opportunity to expand business," said Joe Gawronski, president of Rosenblatt Securities, a New York brokerage firm with a large presence on the NYSE floor.

Proponents of the NYSE's model say human traders on the floor can facilitate trades that wouldn't get done on a purely electronic market. That is because large buyers and sellers might be reluctant to signal their intentions electronically, for fear of setting off algorithms that would instantly cause prices to move in an unfavorable direction. Those large investors might feel more comfortable using trusted human brokers to look for the other side of a trade.

Still, markets have shifted overwhelmingly to electronic trading in the past few decades, eliminating the need for many jobs on the NYSE floor. Its workaday population is in the hundreds today, down from around 5,000 in the early 2000s.

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Document WSJO000020180409ee49002jp

THE WALL STREET JOURNAL.

Markets
U.S. Government Bonds Weaken as Sentiment Over Trade Improves; Yields rose ahead of government's sale of $64 billion of notes and bonds this week

By Daniel Kruger
343 words
9 April 2018
05:02 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

The Congressional Budget Office released data on the deficit Monday. An earlier version of this story misstated the release date as Friday. (April 9, 2018)

U.S. government**bond prices** fell Monday as investor concerns about the risks of a trade war between the U.S. and China cooled.

The yield on the benchmark **10**-**year Treasury** note rose for the fourth time in the past five trading sessions, settling at 2.786% from 2.779% on Friday. Yields rise as **bond prices** fall.

Stock prices rebounded from a sharp decline Friday, helping send bonds lower after Trump administration officials on Sunday softened some of the rhetoric after threatening to impose new tariffs on China, noting the penalties aren't imminent and there is time to work out a deal.

"We're reacting to general risk sentiment," said Gennadiy Goldberg, a strategist at TD Securities. "You've got stocks retracing a good chunk of what they lost, and that's just nudging rates a little higher."

Yields also rose ahead of the government's sale of $64 billion of notes and bonds this week. Some investors have said the growing supply of debt could pressure **bond prices**. The Congressional Budget Office said Monday that the U.S. budget deficit will rise to $804 billion in 2018, and exceed $1 trillion a year starting in 2020.

Investors also are looking ahead to key data being released on Wednesday, including the Labor Department's scheduled update on the consumer-price index. Investors will scrutinize that data to see whether wage gains are helping lead to faster inflation, which threatens the value of government bonds by eroding the purchasing power of their fixed payments.

The Federal Reserve also releases the minutes of its March meeting that same day. After last week's worse-than-expected employment report, which showed the U.S. added only 103,000 jobs in March, analysts said some investors may discount any discussion by Fed officials about the economy overheating.

Write to Daniel Kruger at Daniel.Kruger@wsj.com

Document WSJO000020180409ee49003pe

THE WALL STREET JOURNAL.

Markets

U.S. Sanctions Take a Toll on Russian Markets; Russia's MICEX index fell 8% as ruble falls 4%; Rusal shares finish down 50%

By James Marson and Scott Patterson
883 words
9 April 2018
04:38 PM
The Wall Street Journal Online
WSJO
English

MOSCOW—Russian markets convulsed in the wake of new U.S. sanctions, as the ruble tumbled and domestic and foreign investors dumped Russian stocks.

Shares in United Co. Rusal PLC, the giant Russian aluminum maker, lost half of their value on Monday, after the U.S. hit the company and its main owner, Oleg Deripaska, with sanctions on Friday. The damage spread across a broad range of Russian assets, leaving the country's main MICEX **stock index** down more than 8% and the ruble off 4% against the U.S. dollar, amid uncertainty over which other companies could be hit by potential further sanctions.

"Now, no one in the top 100 list [of wealthiest Russians] can be sure they won't be subject to sanctions," said Timothy Ash, an analyst at BlueBay Asset Management in London.

The Russian government scrambled to respond Monday, with Prime Minister Dmitry Medvedev ordering ministers at a government meeting to work out measures to support companies that have been targeted by sanctions, without giving details. He called the sanctions inadmissible and illegitimate.

The measures could hit Russian economic growth, already forecast to be weak this year, as banks will be even more cautious about lending to Russian companies, Mr. Ash said. However, analysts from Renaissance Capital said the impact on growth should be limited by the fact that many companies have reduced external debt in recent years.

Many investors were surprised by the severity of the sanctions, which targeted senior Russian government officials as well as some of President Vladimir Putin's closest business allies and the companies they own.

The measures have also coincided with harsher rhetoric from U.S. President Donald Trump toward Russia, after a suspected chemical-weapons attack by Syrian President Bashar al-Assad, a Moscow ally, killed dozens of civilians in the Middle Eastern country.

"The thinking was that Trump would do as little as possible on Russia," said Elina Ribakova, head of EMEA research at Deutsche Bank in London.

Now, the perception is that the recent actions have been coordinated with European allies, in the wake of a nerve-agent attack against a former Russian spy in England that the U.K. government blames on Russia. "Things could be ratcheted up further," Ms. Ribakova said.

Hardest hit Monday was Rusal. Its shares finished down 50% in Hong Kong, its main listing, after it said in a filing Monday that U.S. sanctions "may result in technical defaults in relation to certain credit obligations" and that it was evaluating the impact of any such defaults on the company's financial position.

The specter of disruptions hit global aluminum markets, which jumped 4.8% in London trading. London commodities broker SP Angel estimates Rusal's primary aluminum output last year accounted for about 6% of global production and 14% of production excluding China.

Rusal was one of 12 companies, owned by seven Russian tycoons, that the U.S. government sanctioned Friday over what Treasury Secretary Steven Mnuchin called Russia's "malign activity" around the world, including military interventions in Ukraine and Syria and cyberattacks. A Kremlin spokesman on Monday called the measures unlawful and said that the government was analyzing them and preparing a response.

Mr. Deripaska, Rusal's main owner, was also specifically named in U.S. sanctions Friday. Mr. Deripaska on Friday called the measures against him "baseless, ridiculous and absurd," a representative told Russian news agencies.

En+ Group PLC, a London-listed company that is majority owned by Mr. Derispaska and holds a 48% stake in Rusal, as well as power companies in Russia, said it was "highly likely" that the sanctions would hurt its business. En+ shares fell 42% on Monday after a brief trading suspension.

Western firms that have partnered with Russian firms now on the sanctions list were also assessing new risks. Swiss engineer Sulzer AG said it had agreed to buy shares from its main owner, Renova Holdings, which appeared on the sanctions list along with its chairman Viktor Vekselberg, in order to comply with the sanctions. Sulzer shares fell 16% in Swiss trading.

Swiss-based mining and trading giant Glencore PLC holds a nearly 9% stake in Rusal. Glencore Chief Executive Ivan Glasenberg has been a Rusal board member since 2007. It is unclear if the sanctions directly affect that shareholding. Glencore declined to comment. The company's shares fell 3.4% in London trading.

The new U.S. restrictions make it all but impossible for Rusal and other sanctions firms to do business in dollars, analysts said, raising questions about their banking and trading relations.

The U.S. government said that non-U.S. citizens may face sanctions for "facilitating significant transactions" for sanctioned individuals or entities. That could make activities as simple as exchanging currencies more expensive for Rusal, given the international scope of its operations and the fact that sales are priced in U.S. dollars, said Edward Sterck, an analyst at BMO Capital Markets.

Ira Iosebashvili contributed to this article.

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Document WSJO000020180409ee49002be

Business Day
Russian Markets Reel After U.S. Imposes New Sanctions

By Matt Phillips
818 words
9 April 2018
04:52 PM
NYTimes.com Feed
NYTFEED
English

Russia paid a price in the **financial markets** on Monday for its standoff with the West.

Investors dumped Russian stocks, bonds and the ruble in the face of new American sanctions and signs of cracks in the relationship between President Trump and Vladimir V. Putin, Russia's president.

The sell-off left Russian stocks down more than 8 percent and sharply raised borrowing costs for some of the country's most important companies. The ruble dropped more than 4 percent against the dollar, and the price of government bonds fell.

The combined effect is that life will be at least a bit more expensive for Russian companies and consumers.

It was one of the worst days for Russia's markets since its 2014 annexation of Crimea, and the rout underscored a simple fact: While Mr. Putin has been able to reassert his country as a force to be reckoned with on the world political stage, it is economically isolated and faces risks to its long-term prosperity.

"We're still dealing with an economy that is run by an authoritarian regime that is very dependent on global oil and **oil prices**," said Jacob Kirkegaard, a senior fellow at the Peterson Institute for International Economics. "There's a lot of downside, and most of it is geopolitical."

Of course, none of this is a grave threat to the Russian economy, or to Mr. Putin, as long as **oil prices** — up roughly 25 percent over the last year — remain relatively high.

Since Russia's military involvement in Ukraine four years ago, relations with the West have corroded to their worst since the Cold War.

Late last month, the United States joined with European Union members to expel scores of Russian diplomats in a coordinated response to the poisoning of a former Kremlin spy in England. Britain blamed Moscow for the attack, which potentially exposed more than a hundred people to a nerve agent in the city of Salisbury.

On Friday, the United States imposed sanctions on seven of Russia's richest men as well as 17 government officials, taking aim at the oligarchs who dominate the economy. The sanctions were a response to a series of aggressions, including interference in the 2016 presidential election.

Then on Sunday, after a deadly chemical attack, Mr. Trump took a rare swipe at Mr. Putin for his support of President Bashar al-Assad of Syria.

"Many dead, including women and children, in mindless CHEMICAL attack in Syria," Mr. Trump wrote on Twitter. "President Putin, Russia and Iran are responsible for backing Animal Assad."

A tweet might appear minor, but it signaled to investors that Russia is likely to remain at risk of further sanctions.

"Anyone who had hopes that sanctions might be lifted, it's not happening," said William Jackson, the senior emerging markets economist at Capital Economics.

Despite Moscow's rancorous relationship with the United States and Europe, investors have tiptoed back into Russian stocks and bonds over the last year, as the economy proved resilient to the raft of sanctions in recent years.

Inflation, which surged after the sharp drop in the ruble in 2014, has declined. After shrinking in 2015 and 2016, the Russian economy grew a modest 1.5 percent last year, thanks to rising global prices for oil. (The oil and gas sector accounts for an estimated 25 percent of the gross domestic product, according to Goldman Sachs.)

The new round of sanctions jeopardizes those gains.

Companies targeted by the latest round of American sanctions suffered some of the sharpest drops Monday. The shares of United Company Rusal, one of the world's largest aluminum producers, fell more than 20 percent. The company was included in the Treasury Department's sanctions.

The stock sell-off spread to large Russian banks, with Sberbank tumbling 17 percent and VTB 9 percent.

The widespread nature of the rout — battering companies not directly controlled by the Kremlin and roiling the normally resilient bond markets — is a sign of how nervous investors suddenly are about Russia's prospects, especially the possibility of sanctions targeting a wider range of people and companies.

"It is very hard to evaluate who is going to be included on the list in the future, if this happens again," said Vladimir Tikhomirov, chief economist at BCS Global Markets in Moscow. "Russia country risk has increased quite substantially."

Andrew E. Kramer in Moscow contributed reporting.

* With New Sanctions, Senate Forces Trump's Hand on Russia

* Trump and Western Allies Expel Scores of Russians in Sweeping Rebuke Over U.K. Poisoning

* Trump Administration Imposes New Sanctions on Putin Cronies

United Company Rusal headquarters in Moscow. Shares in Rusal, one of the world's largest aluminum producers, fell more than 20 percent on Monday after the United States included it in sanctions. | Vasily Maximov/Agence France-Presse — Getty Images

Document NYTFEED020180409ee4900795

WSJ PRO CENTRAL BANKING

Economy

Transcript: Audience Q&A With San Francisco Fed President John Williams; Questions ranged from potential trade wars to cryptocurrencies and the Fed's balance sheet

6,140 words
9 April 2018
04:56 PM
WSJ Pro Central Banking
RSTPROCB
English

San Francisco Fed President John Williams answered audience questions Friday, April 6, 2018 following his speech to the World Affairs Council of Sonoma. He discussed trade, monetary policy tools, federal government debt, cryptocurrencies and other topics. Here is a transcript of the exchange, lightly edited for length and clarity.

Q: Any input on this potential trade war that's seeming to bubble up?

JOHN C. WILLIAMS: Obviously, this is something -- trade is a really critical part of the U.S. economy. It's a critical part of California's economy -- I mean, the West Coast, especially for agriculture and other industries.

So my view on this is that so far the kinds of things that have been happening about specific actions, you know, they don't add up to a huge effect on the economy. Obviously, the affected industries are, that are directly impacted by the tariffs, the retaliation. So, so far, we're tracking this carefully, analyzing it. This hasn't changed my view of the economy.

What I -- what keeps me up at night is what you said, trade war, and idea that there's a continuing escalation of further and further moves away from free trade or away from opening an economy like that. And I think that could have some pretty negative repercussions if that were to happen.

One is our -- the U.S. economy -- well, actually, the global economy -- is built on very complex and international supply chains. Nothing is truly made -- virtually nothing is truly made in just one place. Parts are produced in one place, assembled in another, packaged and advertised in another. For a global economy built on trading with each other, if we were to try to unwind all of that, it would be extremely disruptive and very costly to consumers, both in the United States and around the world. So I think the potential of this getting out of hand would be a negative both for economic growth, but also would create higher inflation because we know when you cut off trade competition — (inaudible).

So right now my view is that so far what's happened hasn't changed the big picture, but in the end this is one of the risks I potentially see, if this really did — (inaudible).

Q: I'm very, very happy as a member of the top quartile of our economy to see how things are proceeding right now. I also am hearing things about the bottom quartile of our economy. And so I wonder if you would comment on what you see happening in that bottom quartile and what you think our policy should be with regard to that.

MR. WILLIAMS: So that's a terrific question. And, you know, we have been focused at the Fed, naturally, to get our country back to work after the recession and the crisis, and we've seen a huge improvement on that. But even in an economy with a 4% unemployment rate, for people who have—whether disadvantaged groups, people who have struggled even in the best of times, we still see high unemployment, low wages, and lack of economic opportunity.

So I think from my perspective I would make, I guess, three comments. One is a strong labor market does tend to help all groups. We do see unemployment rates for minorities and for other groups come down really quickly in a strong economy. We see wages for lower-income workers pick up even stronger in a strong economy. So, with my forecast of, you know, very low unemployment and good growth, I actually think that will help a lot of people beyond what the big picture says, but also help those who have been left behind.

That said, that only goes so far. And I think this is a time, with a strong economy and a good outlook, that we should really focus on an effort to invest in all of our communities in terms of education, obviously infrastructure, and really think about job -- you know, economic development brings higher-paying jobs, more stable jobs to -- across all segments of our society.

(Audio break.)

And so those -- I tend to focus on what can be done, you know, in partnership between the business community, nonprofits, government to help, you know, generate economic development, more education, more early-childhood education, a lot of these things. These are the things that really make a difference. We know from research early-childhood -- early-childhood education has one of the highest returns of any investment for people in how much they make when they're 30, 40, and 50. So I think if I were to make one plea to everybody is don't sit there and say let's -- you know, what will the federal government do, but really have all those groups thinking hard about what we as -- you know, in our communities and in our states can do to help, basically, invest in our future.

Q: My question has to do with the $21 trillion in debt that the government has. Could you talk about that, what your concerns are, and where you see that going in the future?

MR. WILLIAMS: Two of the three are not going to happen. (Laughter.)

So that's a -- it's a really important question. So this is the issue of, you know, the federal government, by anybody's measure, is on an unsustainable path in terms of deficits and debt accumulation over the next 30-40 years. This is not a secret. The Congressional Budget Office—you know, the independent experts -- have identified -- you know, study this carefully. And they've studied this for decades, so this is an issue that's gotten -- been around a long time. It needs to be addressed. It's gotten a little bit worse as fiscal stimulus comes in and makes the deficit go somewhat bigger for the next five to 10 years. But the underlying problem was there already.

And so the concerns that I have are not so much some kind of crisis or something. The U.S. is still -- the financial system and the economy is extraordinarily strong. I'm not worried about markets sending -- reacting to this. It's more about how do we make sure that we have solutions for Medicare, Social Security, and other government programs, and get us somehow back on a sustainable path where -- that over the long haul the debt-to- (gross domestic product) ratio — (inaudible)--statistic. Like, something about our fiscal position is in a sustainable place where it's not growing decade after decade.

I am an optimist. I grew up in California. You can't help but feel that there are solutions. (Laughter.) You know, it seems like we do wait until the last minute to find these solutions. But, you know, I think if you look at the Congressional Budget Office and other entities and organizations, there are solutions we -- could be made to deal with Social Security and Medicare, financing of the programs, and there are other things that can be done to get us on a better basis. And we just need kind of the political will to have that happen.

I go back to 1983. Social Security was literally getting to the point where they were running out of money. And they put together -- you know, President Reagan put together the Greenspan Commission, and within a short period of time the solutions were found to that. And so we will, you know, find some ways to get to that relatively soon.

What's interesting at this point in time is this is a strong U.S. economy. This is a low unemployment rate. This is an economy that's doing really well. And yet, even in that situation, we're basically looking at growing deficits relative to the economy. And that's just a -- you know, you would hope that as the economy is strong that this issue gets smaller.

Q: Your optimism is very much appreciated. We needed it. However, there is a question about the strengths of the policy tools that you have at your fingertips. How long will it take to restore the monetary policy arsenal, which has been badly depleted in fighting the '08 recession, so it can effectively deal with black swan events? And a subsidiary question: How much can you realistically expect in the form of help through fiscal policy under current conditions, considering that normally the countercyclical policy — (inaudible)--it's the fiscal policy that takes the lead and the monetary policy does the fine-tuning?

MR. WILLIAMS: I was trying to be an optimist, OK, so. (Laughter.) These are great, great questions.

So let me talk a little bit about the arsenal for those of you who aren't following monetary policy all the time. Basically, in 2007 to '09, and then continuing, the Federal Reserve not only lowered interest rates essentially to zero, but we massively expanded our purchases of Treasury bonds, Treasury securities, and mortgage-backed securities, with the goal -- by multiple trillions of dollars -- with the goal of lowering interest rates, making it more affordable to buy a house or for businesses to invest. So we not only took our what we call conventional monetary policy, which is interest rates, pushed them down as low as we felt comfortable doing to close to zero, but we also basically used every tool we had in order to do something with the economy. So that's a fact. I agree with the way you described it.

Now, we are pulling back on both of those, getting them back to more normal. And exactly, over the next few years I expect we'll be, as you said, getting back to a position where we can then respond to the next whatever event it is, a recession or whatever happens. We want to be prepared for that.

So if you just look at our own forecasts or projections, they show interest rates getting to what we think of as around normal levels in about two years. So it's going to take about two years to get the short-term interest rates back to normal, based on our expectations. The balance sheet—this 4 ½--what used to be $4 ½ trillion holdings of Treasury securities and mortgage-backed securities -- that's going to take probably more like three years to get back down to what we think of as a more normal level. So you're right, it's going to take a few years -- two to three years -- to get monetary policy back to positioned in kind of a neutral way to prepare ourselves for whatever may come later.

In terms of thinking about fiscal policy, this is, again, another really good point, that when you think about is monetary policy prepared -- are we positioned -- ready for the next thing that might happen one way or the other, we do normally expect fiscal policy to come in -- meaning tax cuts or more spending -- during a recession to help give the economy an extra boost. And going back to the previous question about the deficits and debt-to-GDP, I think it's hard to imagine that in that next recession, whenever that may be, our situation will mean the economy needs that extra stimulus, that fiscal policy will be really there to provide a significant boost. And this is one of the costs of having a high deficit in the economy, in a strong economy, because -- and high debt in a strong economy -- because when you have a weak economy it's going to be harder for fiscal policy to play that role.

So these two issues, you know, even -- the first one is we're going to get back to a neutral setting in the next few years, so I think we'll have our tools ready. Fiscal policy won't be there.

But there's a third piece that you didn't mention, but is part of this conversation, is that globally we're seeing an economy that's growing more slowly than the past. Remember I talked about the slow labor force growth, the slower productivity? This is not just in the U.S. This is happening in Asia, the United States, in Europe, around the world. And one of the implications of a globally slower -- a slower-growing global economy is that interest rates are likely to be -- the new normal for interest rates are likely to be much lower in the future than they were, say, back in the '70s, '80s, and '90s.

And that gets back to your point about how much ammunition or tools or however you want to use the metaphor, is that we're probably going to be in a situation where interest rates are -- even when we get back to normal, maybe around 3% for short-term interest rates, something like that; our balance sheet will be back to normal; fiscal policy won't be there; but we won't have a lot of powerful tools in that situation. We only have 3%, say. The typical estimate of the short-term interest rate will be 3% five years from now. That's not a lot of room to cut interest rates without going negative. The balance sheet I think we'll be able to use again. But without fiscal policy, I think we do face some significant challenges preparing for that next recession.

This is one of the reasons I and a number of my colleagues have been calling for a serious discussion and analysis and rethinking of what's the best policy approach for the Federal Reserve and other central banks to handle when the next recession happens. If we can't count on fiscal policy, if the new normal for interest rates is low, how should we prepare for that situation? So a number of us at the Fed have been calling for this discussion. I think that will happen. I'm not sure where we'll end up about what the new framework or how we should approach that. But I think it's really important today, when the economy is strong, for us here in the U.S., in the European Central Bank, and around the world, for all of us to be thinking not just about how we're doing today, but what's the best way to prepare for that next event when it does happen.

Q: Following up, your liquidation of the balance sheet was going to be the third part of the question. It's going to take the next three years. So it's not just going to be runoff, it's going to be sales from the balance sheet. What kind of effect do you see that having at the long end of the restructure.

And also, the implications for the cost of financing the federal deficit, which has been short term right now. And long term, as rates go back up, are we going to see a larger deficit just from servicing the U.S. debt of the federal government?

MR. WILLIAMS: So there's two parts to this question, both very relevant. One is the normal -- called normalization of the balance sheet, and how that will proceed and how that looks. And then what is this -- what do higher interest rates in the future mean for this basic question of fiscal sustainability and fiscal policy and the cost of financing the debt.

So on the first question, I have to do a little bit of Fed balance sheet. By the way, when I took -- I shouldn't admit this, but when I was a macroeconomist they taught us the central bank balance sheet—this was back when I was an undergraduate at Cal -- and they explained how this balance sheet worked. And I said, well, that's not going to show up on the final exam. I mean, they'll never ask us that. Well, now all we talk about is the Fed's balance sheet. (Laughter.) So I did do a little cramming on this.

So the balance sheet—to understand what's happened and what's likely to happen over the next three years, our forecast is not sales according to yield. Right now it's just rolling them off, securities. On the treasury side of the balance sheet, the bonds and those that we bought, they mature. And then as they mature we don't buy new ones. And that causes the balance sheet to go down. On the mortgage-backed securities, what's happening is people are making principal payments and selling their houses, paying off the mortgages, and that causes the balance of our assets to go down. And we're not reinvesting that.

The reason it will only take maybe three years to get back to normal is that the balance sheet will be larger in the future than it was in the past. When we entered the crisis, our balance sheet was around $850 billion, something like that. Today, it's a little over $4 trillion. But if you look at three years in the future, our balance sheet will probably be closer than $3 trillion, not the 850 million. And that's because what's on our other side of our balance sheet. And that's -- part of it is the currency.

Today around the world there's a -- so currency is a liability of the Federal Reserve system and the Federal Reserve banks. And there's about $1.6 trillion of U.S. currency in the world today. So that's our liability side. In addition, the amount of reserves we'll hold in the future will be much larger than the past, for various reasons. So my expectation is that over the next few years our balance sheet will gradually strengthen, not to the level it was, obviously, 10 years ago. But we won't necessarily be making sales to get it to shrink. It will just be the not reinvesting — (inaudible).

So what's it mean for interest rates? Well, it means two things. One, is interest rates will go up. I mean, we are pulling out of this market. That reduces the demand. We'll be undoing the balance -- the stimulus that we did back in the recession. And we look at our estimates, and they suggest that long-term interest rates, as we unwind our balance sheet, the effect of that might be something like a half a percentage point higher long-term interest rates just from that. As we pull back our demand, as other investors compete for these, the prices will be somewhat lower, the yields will be a little bit higher. And as we move short-term interest rates back to normal, of course, that will mean higher interest rates too. But again, something in this kind of -- around 3% of the short-term interest rate and still much lower than we've had historically.

Well, what does it mean for the federal fiscal situation as we move interest rates up? Obviously, the cost of financing these debts goes up. And the problem of balancing the budget in a way, at the federal level, is made harder. And we've been talking about this for as long as I can remember, that very low interest rates were a temporary situation. The federal government and others should not sit around thinking, well, you can borrow for free, because interest rates are going to go back up.

And so, obviously, that's going to be one of the things that makes this sustainability issue hard. As interest rates get back up to the new normal, that's just going to cost the federal government more money to refinance -- to be able to finance the debt and to think harder about the budget in that way. So I think this is something that's true. I think it's all in the Congressional Budget Office projections. And it's another reason why, as interest rates go back up, we need to have federal policy somehow get our -- you know, the deficits to a sustainable place.

Q: I have—sorry -- OK. I have two questions. One of them is, there's lots of pronouncements that come out of the White House. And I'm wondering how independent or dependent the Fed is on those pronouncements and how they affect it. And the second question is about China, who owns a lot of U.S. debt, and how you foresee that progressing in the future.

MR. WILLIAMS: So the first question -- I'm glad you asked. This is a really important question. So the Federal Reserve is an independent agency. So for those of you who get into this kind of thing, and you look at the -- I was asked about this recently. So this announcement that I was named to be the President and CEO of the Federal Reserve Bank of New York was a decision made by the board of directors of the Federal Reserve Bank of New York, which are not government officials. They're private sector people from nonprofits and community leaders and business leaders. And then I had to be approved by the Board of Governors, which, again, is an independent agency. That's Jay Powell and the other two governors. So my nomination, whether for this job -- my current job or for my next job -- had--there was no political intervention in that in terms of the administration, Congress, or anything. That doesn't have any role in that.

So thinking about monetary policy, we have every six weeks a meeting of all of us, discussing the economy of monetary policy. Takes place over a day and a half in Washington, D.C., right on Constitution Avenue, right in the middle of the Beltway, in a city that only lives for one thing, and that's politics. When we're in that room, believe it or not, it is the nerdiest, geekiest discussion — (laughter)--of the things that I was talking about, GDP and (employment cost index) and (average hourly earnings) and all the statistics and numbers and models and things. And that's the way we need to keep it. We stay away from politics. Obviously, the questions you've all been asking about, trade and deficits, those affect the economy. So we'll talk about them. What do we think the effects of, you know, various action -- whether the tax cuts -- I mean, how will that affect the economy. It's not about Republican or Democrat or do I like it or not. It's really about how does that affect the economy, what's it mean for the outlook, what's it mean for monetary policy to achieve our employment and price stability goals.

And this is something -- one of the reasons I've been at the Fed over 20—over 20 years, why I love the Federal Reserve. We've managed somehow and I think—to defend our independence, staying away from whether it's the administration -- whatever administration it is—Congress, and conducting the policies the best that we can. So that's the way I live. That's the way I experience the Fed. And I think it's really important to keep it that way.

In terms of China, just switching gears, I mean, China does own an enormous amount of U.S. Treasury debt. They've invested that for a reason. It's not because of how -- the generosity of their hearts and they want to help pay our bills. (Laughter.) No, in fact, they've been doing it to maintain basically the ability to have lots of resources -- if you will, kind of a rainy-day fund -- in case of a global, you know, crisis or something. So holding those securities serves their own purposes. But it's also the way they have historically, in the past, managed their economy, their exchange rate, and their financial system.

So the reason they bought all these securities, the reason they hold all of them, is really to meet their own domestic political and economic goals. And so when people ask me, well, if we have—you know, disputes with China, what's the odds that they'll suddenly unload their Treasury holdings on the market? Well, you know, I can't predict the future about that, but there would be two huge costs to China if they did that. They would take huge losses on that. If you unload a lot of assets into the market, suddenly you're a huge holder of it. That will drive the price down and you will take losses. But the second is, it would interfere with their goals that they're trying to do around their currency, around their economy.

So, although as long as I can remember people have asked this question -- well, what happens if Chinese -- you know, China has us at an advantage because it owns a bunch of these securities or so much of our debt. At the same time, they're kind of -- they're trapped too, because they're holding them for reasons that help them achieve their goals. So I -- again, I don't want to be -- get into, like, predicting what will happen or not happen, but the idea that China will suddenly try to get away from holding U.S. government securities and that could impact the economy seems pretty unlikely.

We ran this experiment. They were actually talking before the euro crisis -- China talked about diversifying their portfolio, getting out of dollars, getting more into euro-denominated bonds, Japanese bonds, things like that, and I think they made some efforts in that direction. But then when the euro crisis hit, the financial crisis hit, what was the lesson of that? What's the safest asset in the world in a crisis? Well, it's the U.S. dollar and it's U.S. government securities. So all those movements heard about 10 years ago -- let's get out from the dollar, let's move away from the dollar -–– those kind of have ended, given the experience of the last 10 years.

Q: John, at the New York Fed you're going to have a much bigger voice at the table. And you've talked about the long end of the yield curve going up. And I'm wondering, my premise is that housing is still a driver of the economy, and yet my son and others in the millennials are having more trouble getting their first house. And yet, most of us will have had a break somewhere along the line of housing, one of the big drivers of the economy. Is that a concern as you switch hats?

MR. WILLIAMS: So I agree with the idea that housing is still a big part of the economy. It's obviously a very sensitive part of the economy. When the -- when the financial crisis hit, obviously, it hit housing really hard. The housing crash was the source of the problem. But also, interest rates affect housing a lot. I mean, that's a big part of the monetary transmission mechanism. That's the dry textbook language of how we affect the economy.

So my view is that interest rates are going to be -- in this new normal of slower global growth and demographics and other factors are actually going to be quite a bit lower than we saw in the past. Like, you know, I don't want to predict asset prices, but given the (federal-funds) rate of around 3, 2 ¾ or 3%, long-term rates will -––it will have some premium, but apparently smaller than the past. So I still think that long-term interest rates, mortgage rates are going to be lower than they were when I first bought a house, when most of us were buying houses. So I think that from that point of view it won't be that challenging.

I think the big challenge right now is the demographic movement to cities, which is creating these huge, you know, price increases and housing cost increases. Big parts of our country today housing costs are, you know, either stagnant are falling, but the other rest of the country they're going through the roof. So the problem that you have in my -- well, the 12th Federal Reserve district is affordability. It's not so much interest rates. It's the price of land. It's the price of housing.

And, you know, just to be clear, I mean, the restrictions on housing construction in most of the communities of the West Coast are one source of that problem. It's hard to -- it's hard to get permission to build, and that creates an affordability issue, you know, not just for -- you know, for all kinds of people, whether you're at the lower income, the median income, or others. So I think those are the issues that are probably more foremost and kind of my concerns around that.

It is interesting. Housing construction today -- 10 years after the beginning of the recession with the recovery and everything, housing construction in the United States still is way below what we expect it to be. I think some of it is probably, you know, this huge down payment issue with the high cost of housing and regulatory issues that require more of a down payment. Some of it's, I think, generational, too -- people waiting maybe a little longer to buy houses.

But it is—if you would ask me if I know how many cylinders you have in an electric car, I don't know. (Laughter.) But if you were to say how many volts of whatever is going through our car, the housing is the one that's still not at full speed.

Q: Interest rates have been really low for a long time, so it's been easy to have business models that don't actually make money except or unless money is — (inaudible).

MR. WILLIAMS: So this is -- you know, the question was really did the long period, the very long period of very low interest rates, distort and weigh investment decisions that we're now going to see kind of an after-effect of that? And I think yes, and I think that's economics. If you have very low interest rates, then there's probably some marginal investment decisions that don't really pencil out in a more normal rate environment. I think that that's kind of just the reality of how the economy works.

My concern on this is actually a little bit more of that people have got into their heads that low interest rates are going to be around forever and that they continue to act that way. And that shows up especially in the asset prices. If you look at commercial real estate, residential real estate, **stock market**, a lot of these assets really are kind of priced for a world where interest rates stay very low. And that's kind of maybe what -- the thing that I'm thinking more about in terms of looking ahead. As we move interest rates back to normal, as we normalize the balance sheet, are people still kind of investing as if, you know, we're going to be around zero interest rates? And what kind of risks is that creating for the financial system and for the economy?

Right now, I don't feel like this is in the -- you know, we do these heat maps, of course, of the financial system. And we can kind of think of this as more of a yellow zone, not the red zone, like, the housing boom, you know (inaudible). But it's definitely an area I've been watching.

I mean, I do believe in aspects of behavioral finance, that people, you know, their emotions kind of take over and they start getting -- you know, making decisions based on hope rather than, like, a hard number.

Q: What about bitcoin?

MR. WILLIAMS: OK, there we go. (Laughter.) How many people in this room are investing in bitcoin? Good. (Laughter.)

OK, so bitcoin is kind of a -— it's fascinating. I'm going to separate it out into two parts.

So one is the technology. So a lot of people where I work on Market Street and there's a lot of people in San Francisco. And in San Francisco, there are a lot of people -- really smart people trying to figure out how to take this basic idea of blockchain or — (inaudible)--these ideas of using technology to transfer information in a way that's cheaper, easier, and more secure to solve some very, you know, standard problems of recordkeeping and verification and things like that. So the technology, I think, has potential in different areas. And people are doing research on that and they're studying it, they're developing things. And I -- and that's really fascinating to watch. It could affect payments. It could affect lots of other things.

But let me talk about bitcoin, which is a completely separate thing, or cryptocurrencies, this idea that you want to -- that people want to create a private currency that you would use for transactions and stored value. So let me go back again to my, you know, monetary economic or moneymaking class. And, you know, the thing that they teach you is that, you know, for money to be useful, you wanted it as a medium of exchange that you could use easily to pay payments and things like that. So bitcoin clearly is not—or cryptocurrencies, I should say, clearly don't have that feature yet.

There are—- one of the problems they have is that the value moves -- is extremely **volatile**, changes dramatically. Another problem is, is that, you know, we've had, unfortunately, fraud and other behavior of people hacking into this where the money or the coins were stolen. So there's this -- you know, at least at this point, there's a lot of issues that make it hard to think of this as a regular medium of exchange, where if you go to get a pizza or a cup of coffee that this makes sense.

And it gets into the stored value issue, too, of just the idea of, you know, so you got -- you got paid on Thursday and — (inaudible)--a week from now, that you want to know that you have, you know, a thousand dollars in your account, that it's basically a thousand dollars a week later. And the problem with bitcoin, again, or some of these cryptocurrencies, is they weren't designed to provide that. They're basically commodity or assets that move in price a lot.

I think there's a more fundamental issue, and that is—goes back to 1913, when the Federal Reserve was created. If you look at the Federal Reserve back then, one of the things they talked about was having an elastic currency, to have a store -- a supply of money and credit to the economy that changed as the economy moved, whether it's the seasons of the year -- think back when we were an agricultural economy or the cycles it would go through. And the idea of a lot of these private-sector cryptocurrencies is to have some kind of fixed amount or some kind of thing that you have to mine it through, some kind of algorithm, which is just the exact opposite of an elastic currency where the supply of currency changes in a way that's consistent with what's happening in the economy and consistent with a healthy, steady growth of the economy.

And I know people will be greedy. I am a central banker, I have my own view on this. But I don't—I think it just doesn't pass these basic tests of what you would want in a currency, at least at this point in time. And especially from a macro point of view, which is, you know, my job is to -- you know, part of my job in 2018 is just the same as it would have been in 1913, which is to provide a supply of currency, a supply of liquidity and credit in the economy, consistent with a strong economy with strong employment and stable prices.

Document RSTPROCB20180409ee49000xd

THE WALL STREET JOURNAL.

Markets

Fund Investors Sent $80 Billion Overseas as U.S. Market Showed Wear; Mutual fund flow data show that investors and strategists see opportunities abroad, and in bond funds

By William Power
558 words
8 April 2018
10:13 PM
The Wall Street Journal Online
WSJO
English

U.S. investors have their passports out.

The U.S. **bull market**, now more than nine years old, continues to show signs of being in its late stages. Of course, American stocks have been resilient as indexes have hit a series of records, and could continue to rise. But just in case, investors and strategists are making sure they have overseas exposure.

The foreign fixation is reflected in the latest mutual-fund flow data. In the first quarter, investors pulled a net $52.13 billion from long-term mutual funds and exchange-traded funds focused on U.S. stocks while adding $80.02 billion to international-stock funds, based on Investment Company Institute estimates. Investors also are taking comfort in fixed-income investments, putting a net $74.30 billion in bond funds.

The investing trends are a continuation of 2017's flows.

But as has often been the case in recent years, overseas investing hasn't necessarily paid off in terms of performance.

In the quarter, both U.S. and overseas funds lost ground. The average diversified U.S.-stock fund's total return was minus 0.4%, according to Thomson Reuters Lipper data, while international stocks similarly lost 0.6%.

Bond funds fell. Funds focused on intermediate-maturity, investment-grade debt (the most common type of bond fund) had a negative total return of 1.4%.

Volatility is back with a vengeance, and as stock investors realize the U.S. **bull market** could be in its late stage, they "are starting to realize the valuations they've achieved in recent years are quite optimistic. So small disappointments have a big effect in this market," says Wouter Sturkenboom, senior investment strategist at Russell Investments in New York.

Corporate earnings continue to be strong, thanks in part to the new tax law, and that has benefited growth-stock funds. Most categories of growth-stock funds had gains in the quarter of about 3% amid all of the red for most other types of funds.

"Yes, there are higher earnings expectations because tax cuts have given you a sugar high, but you're paying quite dearly for those earnings in terms of the multiples attached to them," says Mr. Sturkenboom. "That is not the case in Europe, which has less of an inflation and interest-rate risk right now, and better valuations." He has been advising a tilt away from the U.S. and into Europe, emerging markets and Japan.

Overall, it is a time for caution, not panic, about U.S. stocks, many strategists say.

"We don't think the whole structure is rolling over just yet," says Mr. Sturkenboom. "That being said, investors are on the lookout for disappointments." And they're doing some world traveling in the process.

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

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Document WSJO000020180409ee49000p1

WSJ PRO CENTRAL BANKING

Economy
Transcript: Q&A With San Francisco Fed President John Williams; Williams took reporters' questions in Santa Rosa, Calif., where he discussed trade, the New York Fed, bank culture and diversity

3,532 words
9 April 2018
12:45 PM
WSJ Pro Central Banking
RSTPROCB
English

San Francisco Fed President John Williams took reporters' questions after a speech in Santa Rosa, Calif., on Friday. He discussed trade, the New York Fed, bank culture, communications and diversity, among other topics. Here is a transcript of the exchange, lightly edited for length and clarity.

Q: How much do you see (the amount of banking reserves) increasing?

JOHN C. WILLIAMS: Oh, I don't see that increasing relative to today. I see it shrinking relative to today. It's relative to where it was, say, in 2007.

So bank reserves back then were probably, you know, in the order of tens of billions of dollars. We haven't made a formal decision at the (Federal Open Market Committee) around how much reserves will be the normal amount. If you look at some analysis that's out there in the public from New York Fed and some of my colleagues around the Federal Reserve, I think the expectation would be that we're going to hold more reserves than that small amount and operate in a world where there's at least, you know, hundreds of billions of dollars in reserves. And then you add to that the fact that currency, which is already today over 1 ½ trillion, will be growing probably something between 5 to 7 percent a year over the next several years. So that gets you to a more sizable balance sheet than we have today.

I don't have a particular view on how big—no, I'm sorry, a more sizable balance sheet than we had 10 years ago. I don't have a particular view on what that number will be, but that was really the point I was making.

Q: All right. Given the fact that I've heard there's $9 trillion in index funds and (exchange-traded funds) out there—which are more **volatile**, easier to, you know, get out of than other types of securities—do you think raising rates is going to force a run on that, a selloff?

MR. WILLIAMS: I don't see any—I don't really have concern about the kind of rate increases that, you know, I see us doing over the next few years having—kind of effecting a huge movement in asset prices in that—in that way. First of all, it's—you know, it's been well-telegraphed. People understand that we're going to be raising interest rates or likely to raise interest rates in the next couple years. They understand the reason why a strong economy and higher inflation is moving us that way. And I think that, you know, as long as we act in a—in a way that's, you know, systematic and kind of responding to the data, I wouldn't expect there to be a big, you know, surprise element in what we're doing in monetary policy. So I don't expect markets to be surprised by that.

Now, of course, there could be other things that happen that create a reaction. But I think monetary policy is less likely—(inaudible).

Q: Do you have any ideas about what you're going to do at the New York Fed? Is there any way you want to put a stamp on the institution now that you're going to be leading it? I mean, it is, you know, first among equals among the reserve banks. So what do you want to do at the institution?

MR. WILLIAMS: My first comment on that is, I have enormous respect for the institution of the Federal Reserve Bank of New York and the people who work there. I've worked closely with many of them over the years in my role as president of the San Francisco Fed and more generally. And I stood in awe of their accomplishments during the crisis period—their hard work, innovative ideas and policies that they put through—and then ever since then through our unconventional policies and as we've normalized the balance sheet. So I have enormous respect for it and for the work and dedication of the people of the New York Fed.

You know, as a new president and CEO, obviously, I'm going to spend time getting to know people who I don't know as well, understanding more fully everything about the institution, and really be listening to what I hear from the people who work there and thinking carefully about that. So I'm not going in with any particular preconceived notion of what I'm—you know, in terms of the stamp that I'm trying to put on. But I do look to see—not only to take the institution, which is already—you know, has such an illustrious past and great accomplishments, and hope to keep it on the path of being a really strong, great institution for the country.

Q: How do you envision your relationship with (Fed Chairman Jerome) Powell will be like in terms of, you're very strong on the macroeconomic side. He's considered to be, from a finance background, and you kind of have a complementary skill set in a way. I mean, how do you see this working?

MR. WILLIAMS: Sounds like a good answer. (Laughs.) No, I've worked—I have been fortunate to work with Chairman Powell over the years. Since he joined the board, he and I have worked closely together. We've discussed lots of issues over the years. I have great respect for him, and he's doing a terrific job already as chairman. And I think I expect that we're going to have a fantastic working relationship. He's intellectually a very curious person and very open-minded, and he's really a great— (inaudible). I'm looking forward to that in my new role.

Q: So you spoke about how a trade war, if it happens, could be disruptive. So two questions on that.

I mean, you know, all of this—talk about this huge amount of tariffs. I mean, aren't we like—are we in the first inning or the eighth inning? I mean, where are we? That's probably not the right—I tried to do your sports thing and I probably—

MR. WILLIAMS: Well, I think, you know, again, it's hard to know on that. I mean, the way you've even posed it is that sometimes there will be an announcement that we're going to put in these tariffs, and then there's further consideration and negotiation, and you know, kind of a shift in terms of how it's actually implemented. And then, you know, similar to the agreement that was recently reached around South Korea, I think there was a lot of announcements and proclamations, but in the end an agreement was made that I don't think is all that disruptive. I'm not opining of what my views on it are; I just don't think it meets that kind of test. So really it's not about kind of the announcements or the talk; it's really what actually happens.

And, you know, one of the important issues is, you know, (the North American Free Trade Agreement's) being discussed and negotiated, and what actually comes out of that. There's been some positives signs that, you know, maybe compromises that, you know, wouldn't be all that disruptive. And so I think that's what harder to see, is the headlines tend to be—in the—in the media tend to be—you know, sounds like provocative, like a trade war, but the actual actions, at least, haven't been as big.

But, you know, obviously, I would stick with what I said. If it did get to the point where we're really seeing significant pullback from, you know, trade and openness in our economy, I think that would have pretty negative effects, both in terms of productivity and in terms of, you know, macroeconomic issues like the inflation ones.

Q: But just to push back on that a little bit, I mean, if they are exporting to us multiple times what we're exporting to them, don't they have a lot more to lose?

MR. WILLIAMS: Well, you know, this is—I think both sides have something to lose from, you know, interfering with trade. Now, there are—you know, clearly, this is a topic that came up a lot in the media, that there's—you know, when you run a big trade deficit, it's the other countries that, you know, have more to lose.

But my concern here is not who loses more or what—you know, what happens specifically. It's that if this path goes to one where all of us are getting to be pulling away from being open, I think that those implications would be negative. I haven't seen, you know, that kind of change yet.

Q: So, obviously, at the New York Fed you're going to have sort of a louder voice in some of these policy issues. Do you think you're going to continue to talk about the state of monetary policy rethink and needing to rethink the inflation target? Or is that something that you'll sort of not focus on for a while as you're trying to shift to a new bank?

MR. WILLIAMS: You know, I think this is—the issue of the framework issue, the one that came up, you know, I talked a little bit about, thinking about how do we best prepare for the next downturn or recession or whatever in terms of achieving our maximum employment an price stability, I still think that's a huge—a huge issue. My views on that haven't changed, and I will continue to advocate loudly—more loudly about the importance of the issue, about us thinking hard about it, having great conversations and analysis, and hopefully trying to find, you know, possible approaches that would be more effective in the future.

You know, it's not just me. Let's be clear. I mean, a number of my colleagues have spoken publicly about this issue, and a number of academics have also, and other people outside the Fed have brought this up. So I'm hoping—I'm still strongly encouraged that we move along that path, and I'm definitely not going to stop talking about something that I think of as really important because of taking this new role.

Q: Back to California. You've had seven years to take a look at our economy here. I do a lot of work with the farm and agriculture groups, and they're telling me that they're really petrified because one-third of our soybeans go to China. And they're just saying, you know, given all the agriculture that we export out of here, that could be quite a hit. What have you—have you looked at that issue, our agricultural exports?

MR. WILLIAMS: Sure. And, you know, I think this is—exactly kind of gets back to this question of how these, you know, trade discussions happen.

You know, this has been—you know, this is not new, right? These kind of disputes pop up, and what typically happens is both sides will try to narrowly focus their tariffs or their restrictions on certain industries because that creates the greatest pain. And, obviously, our agricultural exports, which is a very important part of our regional economy, is at risk there.

This is also why—one of the reasons I, you know, hope that we move away relatively quickly from having—actually implementing these things to kind of finding some agreement or moving forward from there. But this is—you know, this is one of the costs, if you will, of trying to unravel trade or putting trade tariffs and things, because they tend to hit, you know, certain areas of the economy much harder than others, and that carries with a cost.

Now, you know, we'll see what actually happens with this, because as we've seen with steel, you know, over time things change. It definitely is something we're paying close attention to.

Q: Economists that I have been talking to about the housing crisis—we had this real tremendous crisis here. Homes around Santa Rosa are—they're rebuilt at a million and a half, and you bought it at 600 to 800. It's just really hurting people. If you consider the—what the economists I've talked to are blaming is the fact that the bank reserves being so high, the banks don't have that money to lend out.

MR. WILLIAMS: So I don't agree with that, so let me tell you why. So, you know, banks, you know, are—in general, the U.S. banking system is, you know, very well-capitalized. There's lots of liquidity, lots of ability to lend. Interest rates are still relatively low. So I don't think there's a shortage—when I talk to bankers and others and businesspeople regularly, I don't—I don't think it's a shortage of funds or a shortage of availability of credit that is holding things back, and I don't think it's the cost of credit, really, either. There are issues about affordability, issues of availability of land for construction and things.

So this issue of reserves in the banking system I don't really think is the issue. I think credit is available. Cost of credit is low. I think other things are—(inaudible).

Q: (New York Fed President William) Dudley had a lot of things to say about banking culture and his concerns about banking culture. Where do you stand on that issue? I mean, do you share—he had some very strong things to say about them. Do you share his concerns?

MR. WILLIAMS: Yes, I do. In fact, I will be participating in the banking culture conference on June 18th, my first day at the Federal Reserve Bank of New York.

So I do. I give him a lot of credit for leading on this issue, important set of issues. And you know, I think we see this in institutions that have gotten in trouble or have had, you know, unfortunate events there, that culture is an important part of that narrative.

I think it's actually true of all organizations. I don't think it's—you know, obviously, culture is not—and incentives and all the things that come with that are not unique to banking. I think we see this in a lot of organizations. But it's definitely something that I will continue to—hopefully we'll talk about, you know, and engage on these—on these issues.

Q: Did you learn anything from the Wells Fargo experience?

MR. WILLIAMS: Well, I don't want to go into the details of Wells Fargo. But I will say that if you were to, you know, think about how important incentives/culture are, about how people behave in an organization, about how—you know, and changes the decisions and actions of, you know, employees and managers and leaders, I think you can see that in that case study. You can see it in many other case studies, too. So, you know, I would just say it's just another reminder that bank regulation and supervision is not only about the kind of numbers and profits and losses and assets and liabilities; it's also about, you know, incentives, management, risk management, leadership, and all of those other things.

I think once I called this the soft side of supervision, but it's actually what bank supervision is. It's really about making sure that the organizations are not only meeting the laws and following the laws and regulations, but are actually well-managed in that they know what's happening and are controlling what's happening in their organizations, which is a lot more than just numbers and spreadsheets.

Q: You were given a lot of credit by the New York Fed for increasing diversity at the senior level at the San Francisco Fed. Are we going to see those numbers in the New York Fed? Is that going to be a big part of your push to bring in more women and minorities to senior levels? Is that a big problem there?

MR. WILLIAMS: So I feel very strongly that the way that you change this discussion and a way around the lack of diversity at the leadership positions of the Fed is—one way you do that is you develop a diverse set of leaders, both in the organization, obviously outside the organization as well, who you mentor, you sponsor, you develop into the future leaders of the organization. We worked hard at that. I worked hard at that. In my seven years at the San Francisco Fed, I feel we've made progress. There's still a lot of progress to go. But the fact is, is the Federal Reserve at the senior-most ranks is—falls short of the diversity that we should have. And the way I have worked on this is by investing in our people, developing our people, programs that were pushing for the development of, you know, a pipeline of future leaders. I think we have had success in the San Francisco Fed, and I'm looking forward to seeing progress and success in the New York Fed. So this is a very important part of what I hope to accomplish in the leadership of the bank.

Q: Bill Dudley almost never does press scrums. Are you planning on continuing that tradition, or will you do scrums?

MR. WILLIAMS: I love being with you all. This is like my favorite part of my day. (Laughter.)

Q: Kind of like the president, a weekly radio broadcast? (Laughter.)

MR. WILLIAMS: OK, so I actually don't know that. But, you know, I am—OK, and I'm not commenting on any—you know, anything that President Dudley does, obviously. I'm just, you know, speaking for myself because that's all I can do, and all I really understand is how I think about this.

I view—to me, you know, the transparency, the openness is a really important part of, you know, how I view—how I've come to the Fed. I also know that you all attend the events and you don't get an opportunity to ask questions because the people the groups are asking the questions. So, you know, just out of a sense of fairness and openness, I like these opportunities to meet with you and, obviously, conduct interviews with people on a one-on-one basis and all the other things that I normally do.

I also just personally like on the record. I think on the record is just a cleaner—you know, most of the time cleaner way to do this. And that comes with some warts because I will make silly jokes or goofy statements you all will repeat, but it's OK because it's just part of—

Q: But will you tweet?

MR. WILLIAMS: What?

Q: Will you tweet?

MR. WILLIAMS: I will not tweet. (Laughter.) I think it's—but you know, I do—you know, the San Francisco Fed, other Feds, other organizations have gone to social media. You know, I'm sure we'll continue to do that. One of the things I like is the use of technology to get to audiences that we couldn't normally do and you know—and, you know, using the—you know, when you go into high schools and colleges and things, really trying to bring in a broader set of groups that we're—that I'm personally engaging with.

I mean, that is one thing I'll just say in my last seconds here in this interview, is that, you know, I've done—as you know, I've done a lot of engagement with communities across the 12th District, meeting with various people in the community development sphere and, you know, colleges, high schools, and other groups. And that's something that I know that Bill Dudley's done in his district I'm going to continue to do. And to me it's really an important part of making sure that—obviously, I will talk to business leaders and community leaders and everyone, but also getting out and talking to a broader spectrum of the community, and also especially in these areas that are economically disadvantaged areas, where our community development work is really important, and making sure I see and engage with those folks so that I, you know, have a full picture of what's happening.

Document RSTPROCB20180409ee49000rt

THE WALL STREET JOURNAL.

Heard on the Street
Markets
Novartis's $9 Billion Bet Is Worth the Risk; Blockbuster acquisition of gene therapy company is a risk the group can afford to take

By Charley Grant
345 words
9 April 2018
10:35 AM
The Wall Street Journal Online
WSJO
English

Spending nearly $9 billion on a drug company that doesn't yet generate revenue isn't as risky as it seems.

Novartis announced it plans to do just that on Monday. The Swiss pharma giant has agreed to buy U.S. gene therapy specialist AveXis for $8.7 billion in cash, or an 88% premium to Friday's closing **stock price**. The purchase price, along with the fact that AveXis won't contribute to earnings until 2020, if everything goes right, is bound to cause grumbling that Novartis overpaid.

But the deal underscores a reality for the pharmaceuticals industry: A promising pipeline is the most valuable asset a drug company can offer its shareholders. Failing to develop a strong enough lineup of experimental drugs leads to weak stock performance, as investors anticipate eventual generic competition to drugs already on the market.

Adding AveXis to the fold certainly helps Novartis on that front. At a medical meeting last year, a presentation on early-stage data for patients with spinal muscular atrophy generated spontaneous applause from physicians in the audience, hardly a common occurrence in such a setting. Novartis believes that AveXis products could eventually treat several rare diseases and generate billions of dollars in annual sales, which would justify today's hefty price tag.

Novartis certainly has the financial strength to take the risk. Net debt of $19 billion is less than two times last year's free cash flow, and the company announced last month that it plans to sell its stake in a consumer health care joint venture with GlaxoSmithKline for $13 billion. The company could take a similar risk on promising drug candidates in the future, if it chose to divest other assets, such as its eye-care unit.

With little financial risk and lots of potential upside from the deal, Novartis investors shouldn't be grumbling.

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Document WSJO000020180409ee49002uu

THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Quarterly Analysis --- Fundamentals of Investing: Insider Selling Flashes a Bearish Signal --- A closer look at a model based on transactions by offciers, directors

By Mark Hulbert
887 words
9 April 2018
The Wall Street Journal
J
R6
English

Corporate officers and directors are more **bearish** about their own companies' stock than they have been in many years.

That is the conclusion reached by Nejat Seyhun, a finance professor at the University of Michigan who studies corporate insiders. He estimates that, based on the recent behavior of company officers and directors, the **stock market** in 12 months' time will have fallen 5% from the end of March.

Insiders presumably know more about their firms' prospects than do outsiders, which is why it makes sense to pay attention when they buy and sell their companies' stock. They are required to report those transactions to the Securities and Exchange Commission.

The legal definition of insiders also includes investors who own more than 10% of a company's shares outstanding. But Dr. Seyhun says his research has found that transactions by these very large shareholders aren't reliably predictive of movements in a company's stock.

This creates a challenge for those who focus on insider data, since the typical transaction undertaken by the largest shareholders is far larger than those of an officer or director. Data that reflect the transactions of all legally defined insiders, therefore, tend to be dominated by the transactions of these largest shareholders.

For this reason, Dr. Seyhun focuses only on transactions undertaken by officers and directors.

The indicator he has found to have the most predictive value is the percentage of companies at which officers and directors over the trailing six-month period have bought more than they have sold. At the end of March, Dr. Seyhun calculates this percentage to be 12.7%.

He is quick to point out that the current figure needs to be put in context.

That's because the percentage of companies where officers and directors have bought more than sold over the previous six months has almost always been below 50% in recent decades, in large part because an ever-increasing percentage of officer and director compensation has come in the form of equity grants. Insiders often sell these shares for reasons having nothing to do with their beliefs about their companies' prospects -- such as getting cash for living expenses.

The 10-year average for this figure is 26%, according to Dr. Seyhun. So the current reading, while low, isn't necessarily a strong sell signal. The 12-month decline of 5% in the **stock market** expected by Dr. Seyhun is the forecast of an econometric model he has devised that translates each month's insider buying percentage into a 12-month forecast.

If the **stock market** were to decline 5% in one year from its level at the end of March, that would bring it close to 20% below its January 2018 all-time high, and therefore on the brink of satisfying the semiofficial criterion of a **bear market**.

To be sure, Dr. Seyhun's model isn't perfect. But, he says, its track record is "highly statistically significant." As the accompanying chart shows, it was particularly **bullish** near the market's bottom during the recent global financial crisis, and then began a steady decline as the subsequent **bull market** roared ahead. It finally turned significantly **bearish** at the beginning of last year and is now issuing one of its most **bearish** forecasts in many years.

Note that Dr. Seyhun's model forecasts the overall **stock market**, and that some individual stocks will do well even during a broad market decline. In this regard, he notes that insiders of small-cap companies are, on balance, far less **bearish** than those of midcap or large-cap companies. Investors following the insiders' lead who nevertheless want to maintain their equity exposure would therefore shift their portfolios away from midcap and large-cap stocks toward small-caps.

An example of a small-cap company with strong insider buying is Prospect Capital, a closed-end investment company that invests in closely held and microcap companies. According to the March 26 issue of the Vickers Weekly Insider Report, published by Argus Research, this company has one of its highest ratings for recent insider activity.

"CEO John Barry has been an avid purchaser in 2018 to date," Vickers says. "Thus far in March alone, he has added a total of 472,905 shares. While that is impressive, it is actually a slowing from the 864,425 shares he acquired in February."

Facebook Inc. is an example of a large-cap company with heavy insider selling. The selling recently has been led by Mark Zuckerberg, the company's chief executive. Vickers notes that Mr. Zuckerberg has sold more than six million shares over the past two years.

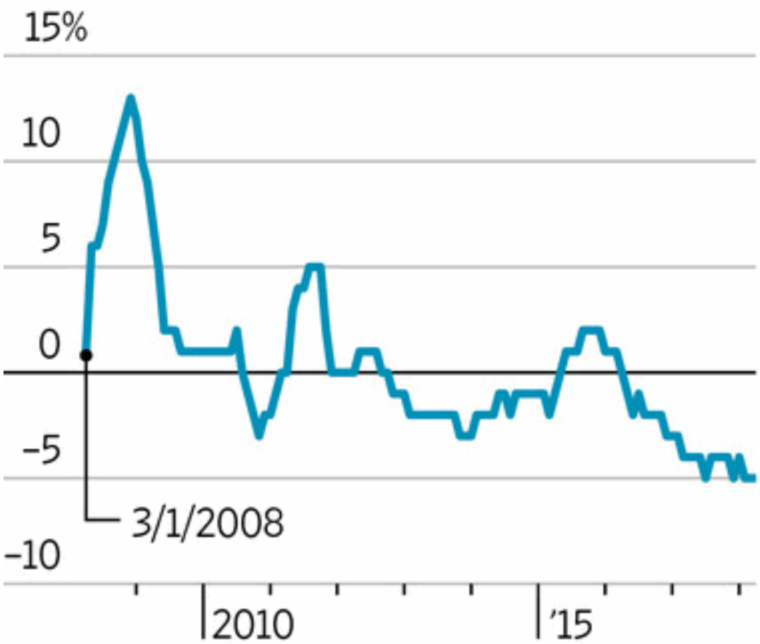
Vanessa Chan, Facebook's director of corporate and financial communications, says Mr. Zuckerberg's stock sales have been done according to a predetermined schedule.

Still, the picture painted of Facebook by the insider data would be far more **bullish** if the company's insiders were heavily buying its shares rather than selling.

Mr. Hulbert is the founder of the Hulbert Financial Digest and a senior columnist for MarketWatch. He can be reached at reports@wsj.com.

Inside Information

Projected 12-month return based on the transactions undertaken by company officers and directors



Source: Nejat Seyhun at the University of Michigan
THE WALL STREET JOURNAL.

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Document J000000020180409ee490001z

THE WALL STREET JOURNAL.
U.S. EDITION

Technology
Investors Stand By Tech Despite Rout

By Akane Otani and Lisa Beilfuss
606 words
9 April 2018
The Wall Street Journal
J
B4
English

When the rout in technology heavyweights like Facebook Inc., Amazon.com Inc. and Alphabet Inc. spilled over into the broader market in late March, many feared that individual investors would flee for the exits, exacerbating the declines.

Instead, Alex Boucher, a 22-year-old college student in Westfield, Mass., added to his position in chip maker Nvidia Corp., seeing a chance to pick up the pricey stock at a discount.

San Jose, Calif.-based contractor Michael Chu, 34, shrugged off a $2,700 loss in his tech-heavy index-fund holdings, betting the technology selloff was "just one of those downturns that will pick back up."

And in Dallas, portfolio manager Craig Hodges took only two phone calls from clients on a day when the **Dow Jones Industrial Average** fell nearly 500 points, a pittance compared with the 10 to 15 investors he would hear from daily at the peak of the 2008 financial crisis.

It isn't that investors aren't worried about the **stock market**: Roughly 37% of individual investors expect stocks to fall over the next six months, according to an American Association of Individual Investors survey, the highest share since September. And it isn't that individuals don't own technology shares, either: As investors have loaded up on index funds, many are more exposed to the tech sector than ever.

Instead, interviews with individuals and financial advisers around the U.S. show that many are largely riding out the market's turmoil -- citing the belief that technology stars will be able to weather the latest controversies hitting the industry, the sense that the market has fallen so far that they ought to wait out the recent wave of selling, and the difficulty of timing prior market peaks and troughs.

Despite the recent declines, trading activity has been relatively orderly, with volumes at discount broker Charles Schwab Corp. 36% lower than what they were during the peak of the February selloff, and none of the brokerages appearing to suffer a repeat of February's outages and slowdowns.

"I don't think there's a sense of panic," said JJ Kinahan, chief market strategist at TD Ameritrade.

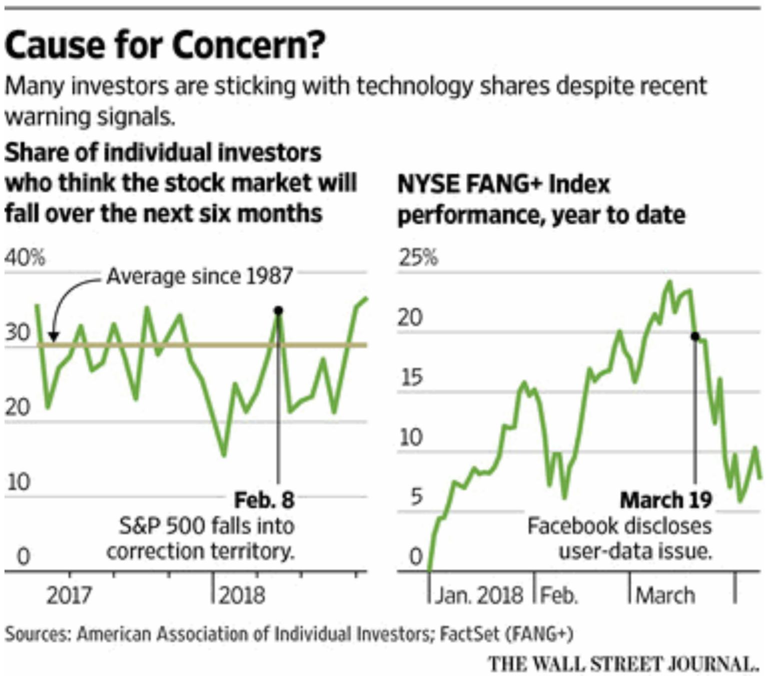
One possible reason is that as large, one-day stock swings have become more common, they have also become less unnerving to investors. The **S&P 500** has closed up or down at least 1% on 26 occasions so far this year, blowing past last year's tally of eight.

Many individuals are also skeptical that the controversy recently hitting a number of technology giants will ultimately lead to tighter regulations that could affect the firms' profits.

"President Trump tweets directed at companies such as Boeing haven't had any negative actions against them, so I think this is all talk," Mr. Boucher, the college student, said of President Donald Trump's recent tweets blasting Amazon.

Tech stocks in the **S&P 500** have fallen 6.5% in the past month, after powering the broad index higher for more than a year. The NYSE FANG+ index, which tracks 10 global tech heavyweights, including Facebook, Amazon, Apple Inc., Netflix Inc. and Google parent Alphabet, has dropped more than 10% over the same period.

Some market observers note many investors have been conditioned to step in and buy assets whenever prices drop. That is because no decline, including the tech-bubble burst or the financial crisis, has lasted forever. They worry that mentality could point to an underlying complacency that will end with a big selloff.



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Document J000000020180409ee490000b

THE WALL STREET JOURNAL.
U.S. EDITION

Cracks Appear in Global Growth Story --- 'Nothing to write home about' in this current recovery, one economist says

By Ben Eisen, Michael Wursthorn and Daniel Kruger
967 words
9 April 2018
The Wall Street Journal
J
B1
English

Stock-market investors, already grappling with the tech rout and the threat of a trade war, are starting to reassess a fundamental premise of the powerful rally -- that world-wide economic growth is on the verge of blasting out of a long period of weakness.

The world's major economies started to pick up steam together last year, in a break from years of sluggish postcrisis growth in which the U.S. often seemed like the lone bright spot. Global output expanded by 3.7% in 2017, up half a point from 2016, according to International Monetary Fund estimates. The return of higher growth abroad gave investors hope that the long bull run could keep going, even as U.S. economic expansion entered its later stages.

But recently, the global economic comeback has been in a bit of a rut. In the U.S., gauges of manufacturing and services activity have been pulling back. Retail sales have fallen for three straight months, construction spending decelerated at the start of the year, and auto sales have largely plateaued. On Friday, government data showed a sharp slowdown in U.S. jobs creation last month, reversing some of the labor market's recent momentum.

"There's really nothing to write home about in this recovery," said Lindsey Piegza, chief economist at Stifel Nicolaus & Co. "There were always these signs that we were struggling to tread water and maintain the more moderate current pace of growth."

Investor confidence has been flagging alongside the Trump administration's increasingly protectionist bent and China's vow to retaliate, raising concerns that a trade spat will undermine growth.

The Dow Jones Industrial Average stumbled 2.3% on Friday after trade-war fears flared up again. The blue-chip index was down 0.7% for the week ending April 6 and down more than 10% from its Jan. 26 high.

Other financial markets also have started to reflect a more pessimistic view of the economy. The differential between short- and long-term U.S. Treasury yields, which tends to grow and shrink alongside the economy's prospects, was recently at its smallest in more than a decade. Copper, a commodity that also tends to move alongside the growth outlook, has dropped 6.9% so far this year. Big industrial stocks like Caterpillar Inc. and Boeing Co. have fallen harder than the broader market recently, reflecting both trade fears and signs of slower growth.

In Germany, industrial output took an unexpected 1.6% tumble in February, a reading that Citigroup Inc. economists called a "shocker" on Friday. Business and economic sentiment surveys in the euro bloc's largest economy have pointed to worsening growth expectations. Meanwhile, years of monetary stimulus in Japan have led to only a modest pickup in growth.

Manufacturing activity was down in March from the previous month in 21 of 30 countries, led by declines in Asia and Europe, according to Bespoke Investment Group. Though there is little fear of an imminent global recession, the less-than-stellar numbers are forcing investors to consider that the global growth surge may be turning into a synchronized stall.

"There was nothing ever automatic about a pickup in synchronous growth," said Mohamed El-Erian, chief economic adviser at Allianz.

Citigroup's global surprise index tipped below zero on Friday for the first time since August, indicating that economic data in aggregate are missing economist forecasts rather than beating them. And some are reducing their forecasts: JPMorgan Chase & Co. economists on Thursday cut their global growth outlook for the first three months of the year by 0.1 percentage point to 3.3%.

For U.S. investors, much of the economic outlook hinges on trade. A trade war could have massive repercussions, such as posing new challenges for production of American goods or sparking decline in foreign demand. Even a prolonged threat could cause some companies to hold off on investment until they have more clarity.

"We were just getting to the point where businesses had confidence to spend," said Mark Freeman, chief investment officer at Dallas-based money manager Westwood Holdings Group. Now he is worried that uncertainty around trade could delay those plans.

Still, many investors remain **bullish** on global growth, and U.S. corporate profits are still strong. In the first three months of the year, firms in the **S&P 500** are forecast to have earnings growth of 17%, even after notching fourth-quarter profit growth at the fastest pace since the second half of 2011, according to FactSet.

"The economic backdrop is still very positive," said Craig Hodges, portfolio manager for Hodges Funds. "The **volatility** has created opportunities. There were a lot of stocks that needed to come back."

Even if economic growth moderates, that isn't necessarily a bad sign for stocks. Major U.S. indexes have managed to reach scores of record highs during the current **bull market**, based partly on the premise that the economy is neither too hot to risk overheating nor too cold to fall into a recession.

But questions about global growth come when investors are already on edge about central banks' withdrawal of monetary stimulus. Additionally, the U.S. government has been ramping up borrowing to fund a widening budget deficit and a $1.5 trillion tax overhaul, recently drawing concern from credit raters. As the Treasury borrows more and the Fed trims, less money will be available for stocks and other risky assets, economists say.

"We have seen the peak in terms of financial conditions," said John Fath, a managing partner at BTG Pactual.

Jon Sindreu contributed to this article.

Document J000000020180409ee4900013

THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Quarterly Analysis --- Winner's Circle: What Volatility? Growth-Fund Managers Strut

By Suzanne McGee
1,011 words
9 April 2018
The Wall Street Journal
J
R1
English

The first three months of 2018 were a **volatile** period, culminating in the **S&P 500**'s first quarterly loss since mid-2015.

But behind the scenes, some disciplined mutual-fund managers who focus on "growth" stocks -- those powered by corporate-earnings potential -- continue to rack up gains. In fact, they are dominating, led by the $2.5 billion Virtus KAR Small-Cap Growth Fund (PXSGX), which has won The Wall Street Journal's latest Winners' Circle contest of the best-performing U.S.-stock fund managers. It returned 40.8% in the 12 months ended March 30 (drubbing the 19.9% gain for small-cap growth funds overall, as tracked by Lipper).

The Virtus KAR fund and other growth-stock funds have focused on the "micro" part of their job -- looking for companies with solid fundamentals -- while ignoring "macro" issues, such as rising interest rates, the chances of a trade war with China, or the question of whether valuations of market darlings such as Facebook and Netflix are sustainable.

"A lot of people have underperformed because they have made too big a deal about macro factors, from the Federal Reserve to Trump," says Doug Foreman, chief investment officer of Kayne Anderson Rudnick, which manages the Virtus KAR small-cap fund. "They have missed the improvements in corporate America: the stuff that companies have invented, the way companies have deployed capital and so on. All of which translates into great growth."

Mr. Foreman and his colleagues haven't made that error, which is why Todd Beiley, manager of the Virtus KAR fund, is our contest winner.

Although our contest is quarterly, its goal is to identify the actively managed, diversified U.S.-stock fund -- with at least $50 million in assets and a record of more than three years -- with the best 12-month performance. Index funds and exchange-traded funds don't qualify because they aren't actively managed; we also disqualify leveraged funds, since they don't measure a manager's stock-picking prowess.

While we don't factor in fees (our goal is to identify skilled fund managers) anyone looking for funds to add to their portfolio likely will want to consider the impact of management and sales fees, as well as the sustainability of returns, before making any investment decisions.

For the period ended March 30, every top-performing mutual fund once again featured growth in its name. Indeed, 77% of growth-stock mutual funds outperformed their benchmarks in the first quarter of 2018, a record since Bank of America Merrill Lynch began tracking this data in 2009, when only 9% succeeded in beating the relevant Russell 1000 Growth index.

However, many managers are taking a broader approach to what represents "growth" than the traditional internet technology and biotechnology firms. That includes second-ranked fund Primecap Odyssey Aggressive Growth (POAGX), with a 37.6% return. While its top holding is a classic biopharmaceutical enterprise, Nektar Therapeutics, the fund's portfolio also includes Delta Air Lines and JetBlue Airways -- not traditional fare for growth investors in recent decades.

Morgan Stanley Investment Management had two of the top six funds on the Winners' Circle list: Morgan Stanley Multi Cap Growth(CPOBX), with a gain of 37.2%, and Morgan Stanley Institutional Growth (MSEQX), up 35.9%. Dennis Lynch, head of growth investing at Morgan Stanley, is reluctant to be rigid in his definition of what qualifies for inclusion in such funds. But by the end of 2017, he says, the funds' exposure to tech was lower than a year earlier.

Rather than assume that growth is to be found primarily in technology or biotech, Mr. Lynch takes an iconoclastic approach to finding companies. His team includes two "disruptive change" researchers, whose mandate is to identify those businesses whose models will profit or suffer from tectonic shifts in the way American corporations function.

Today the Morgan Stanley growth portfolios include such companies as Starbucks and Union Pacific. The latter offers many characteristics that would appeal to value investors -- attractive dividend yields and a price/earnings ratio that is at or below the market average. But it has been a beneficiary of the new tax law; analysts predict Union Pacific will post a big gain in first-quarter profits (from $1.32 a share last year to $1.67) when it reports on April 26. The company, which also has raised dividends twice since late last year, is one of the 10 largest holdings of the Institutional Growth fund.

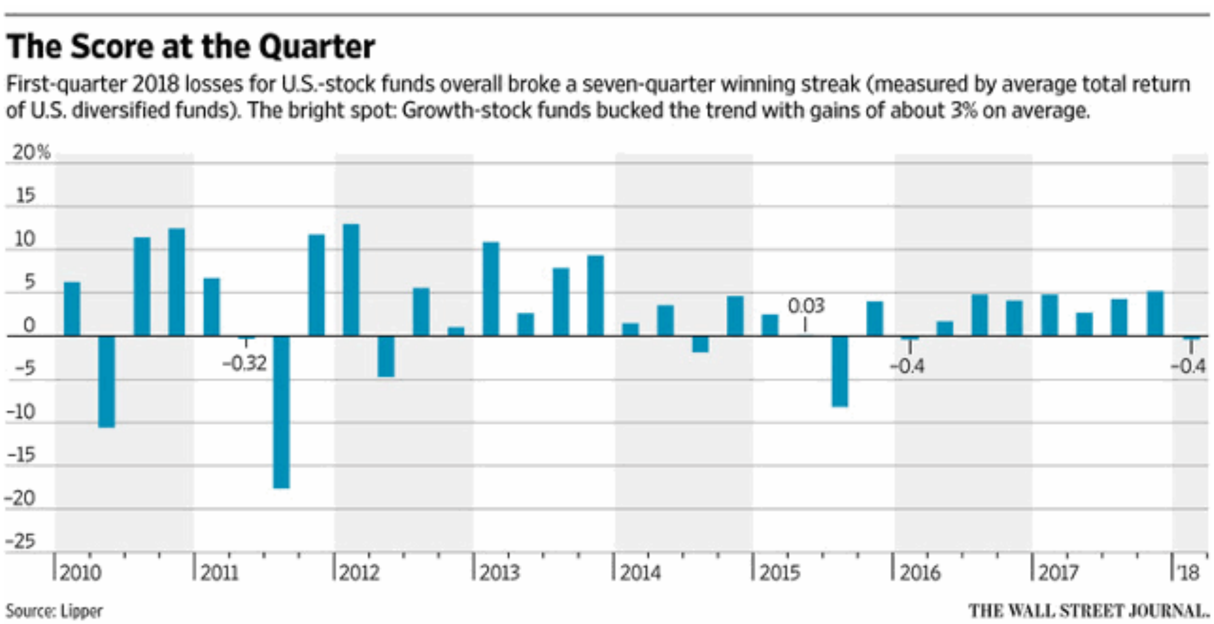
Mr. Beiley also is drawn to some nontraditional sectors. While many see financial stocks as value holdings, he expects that Interactive Brokers, a low-cost, customer-friendly brokerage firm, will boost market share as its business environment continues to improve. The **stock price** has climbed to about $69 from the fund's cost basis of $37.

Mr. Beiley can allocate, at most, 20% of his fund's assets to non-U.S. companies, some of which contributed significantly to the fund's returns. China's Autohome -- operator of the country's major automotive-focused website, ranging from dealer links to independent car reviews -- led the way, after being a big loser in 2016. After trading as low as $20 in 2016, the stock rebounded to close 2017 at around $65, and now $88.

The kind of stocks Mr. Beiley and his team seek out sound remarkably like value-priced growth stocks, or value stocks with growth potential. "Our preferred situation is to find a company with a good underlying business that is facing challenges in the near term, and whose **stock price** doesn't accurately reflect its long-term potential," he says.

Entering the 10th year of a **bull market**, with valuations climbing along with the nerves and unease, that may be an entirely new category: safe growth.

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



Document J000000020180409ee490001s

The New York Times

Express; SECT
Amid Fears of Trade War, Trump Predicts China Will Relent

By JACEY FORTIN; Ana Swanson contributed reporting.
541 words
9 April 2018
The New York Times
NYTF
The New York Times on the Web
English

Amid fears of an escalating trade war between the United States and China, President Trump tweeted Sunday morning that he and President Xi Jinping of China will "always be friends, no matter what happens with our dispute on trade."

"China will take down its Trade Barriers because it is the right thing to do," he added. "Taxes will become Reciprocal & a deal will be made on Intellectual Property. Great future for both countries!"

A White House spokeswoman on Sunday said the reciprocal "taxes" mentioned in the tweet referred to "tariff levels and also to reciprocal trade more generally."

It was unclear whether the president was suggesting that progress had been made in solving the trade dispute between the world's two biggest economies. Fears of an escalation intensified last week amid a series of tit-for-tat tariff announcements by the two countries.

Neither side backed down, and the **stock market** tumbled on Thursday and Friday after Mr. Trump threatened another round of tariffs on Chinese products.

"We will not start a war -- however, if someone starts a war, we will definitely fight back," Gao Feng, China's commerce ministry spokesman, said at a news conference in Beijing on Friday, the same day that United States Treasury Secretary Steven Mnuchin acknowledged the "potential of a trade war" in an interview with CNBC.

In a Sunday morning appearance on the CBS show "Face the Nation," Mr. Mnuchin did not comment on whether discussions with China had advanced.

"I don't expect there will be a trade war. It could be, but I don't expect it at all," he said. "But the president is willing to make sure we have free and fair trade, as you've seen his tweet already this morning."

Larry Kudlow, Mr. Trump's new economic adviser, said on "Fox News Sunday" that he did not think there was "any trade war in sight."

But he added that the president was not bluffing. "The whole world knows China has been violating trade laws for many years, and President Trump is the guy calling them on it. And he's right to do so," Mr. Kudlow said.

Trade between the United States and China is valued at nearly $650 billion a year, with the United States importing far more than it exports. American administration officials have accused China of using unfair trade practices as well as employing coercive tactics to gain access to American intellectual property.

The tariffs proposed by Mr. Trump seem designed to protect American consumers but could hurt businesses that depend on products and materials from China, while a trade war would threaten farmers who export their goods.

Mr. Trump has argued that the short-term risks of a trade war escalation are outweighed by the long-term benefits of a more balanced trade relationship with China.

The dueling tariff proposals began last month, when Mr. Trump announced a plan to tax steel and aluminum from China and other countries. Since then, he has threatened to impose tariffs on other products, such as electronics. China has made similar threats about American cars, wine, soybeans and other exports.

Document NYTF000020180409ee490005j

THE WALL STREET JOURNAL.

Markets

A Newly Powerful Fund Manager (Whom You'll Rarely Hear About); Meet Michelle Louie, co-manager of the staggering $367.5 billion Vanguard 500 Index Fund

By Ryan Vlastelica
1,049 words
8 April 2018
10:08 PM
The Wall Street Journal Online
WSJO
English

Michelle Louie late last year was appointed to co-manage a mammoth stock fund that is one of the most important in the U.S. financial system.

But you won't see her sounding off on where the market is headed. The portfolio manager, despite overseeing hundreds of billions of dollars in assets, won't say whether she believes the **stock market** to be overvalued or inexpensive. During the recent testimony of Federal Reserve Chairman Jerome Powell, she paid only cursory attention. When markets plummeted in March on issues ranging from trade-policy uncertainty to Facebook Inc.'s user-data scandal, it was just another day at the office.

It's not that Ms. Louie doesn't have opinions on these issues. It's that they don't matter to someone running an index fund—even one with a staggering $367.5 billion in assets.

"My personal views don't come into things; they can't," she says. "It may be interesting to note if the market moves in a way that's unexpected, but it doesn't change anything about what I do."

Historic index fund

Since November Ms. Louie has been co-manager of Vanguard 500 Index Fund (VFIAX), a product that attempts to track the **S&P 500**, and that represents ground zero for the passive-investing revolution. Vanguard's was the first index fund launched in the U.S., in 1976, and its eventual success—both in terms of its assets and its function as a proof of concept for passive strategies—sparked a long-term exodus from actively managed funds, run by stock pickers. It upended the market by never seeking to beat it.

The size of the fund, its centrality to the trend of passive investing, and its history of trouncing the competition by simply tracking the market, would seem to make Ms. Louie one of the star managers of the **stock market**, along with Donald Butler, the other co-manager. (The two oversee all share classes, including the related exchange-traded fund, under the trading symbol VOO.) Moreover, when Warren Buffett declared victory in a decadelong bet that a basket of hedge funds would deliver worse results than "the performance of an unmanaged **S&P 500 index** fund charging only token fees," it was Vanguard's product he had based his bet on.

Vanguard isn't a firm that elevates its employees to star-manager status. Much of the work of index-fund management is automated. Still, index fund managers play incredibly important roles. Vanguard portfolio managers often act as traders to maximize efficiencies, giving them some control over their funds' operations, if not the underlying investments. Also, unlike active managers, who rely on their stock-picking skills to beat their benchmark indexes, managers of passive index funds often must adjust their holdings for a near-daily barrage of dividends, corporate actions, and cash flowing in or out of the fund, while at the same minimizing trading and execution costs,while always, first and foremost, hewing to the benchmark index as closely as possible.

Not so passive

"Index-fund managers are the underappreciated rock stars of finance. There's a perception that all they do is watch a spreadsheet and push one button, but nothing could be further from the truth," says Dave Nadig, an expert on indexing who helped design some of the first exchange-traded funds and is currently chief executive of ETF.com.

"There are hundreds of reasons why an index might not match its net asset value at any given moment, but an index manager is judged on how well they do at all times," he says. "If managing an active fund is like being the captain of an ocean liner, managing a passive one is like being in charge of a moonshot each and every day. Get the trajectory wrong and you get fired."

While passive investing has come under fire by those who charge that simply tracking the market removes fundamentals from consideration, thereby skewing valuations, it is notable that such failures are basically nonexistent. In interviews with a number of indexing and market-structure experts, none could think of a single time when a passive fund notablyor disastrously failed to track its benchmark. (The closest was in 2015, when during a session with extreme **volatility**, a number of passive ETFs were knocked off their net asset values. However, this issue was seen as related to stock exchanges, and not the structure of passive products.)

Because passive managers are always fully invested and agnostic about market direction, the process doesn't change even as market conditions do. This means they focus on different things than other managers would. When Mr. Powell spoke, for example, Ms. Louie followed the testimony because of the impact it might have on liquidity and execution, not because of what he might reveal about central-bank policy.

"The job is like flying an airplane, where most of the time things are on autopilot, although if something comes up, the manager is there to provide any type of oversight that needs to take place, and to ensure that orders get executed in an efficient manner," says Alex Bryan, director of passive strategies research at Morningstar Inc. "As passive grows its market share, this kind of work is going to become ever more important."

That importance isn't lost on Ms. Louie, who also co-manages nine other funds. "I was pleasantly surprised, when I started here, by how humble everyone is given the amount of money we manage. But we really don't think about it as being stars so much as working together as stewards for our client's money."

Besides, she says, "I never thought I could beat the market."

Mr. Vlastelica is a markets reporter at MarketWatch in New York. Email him at rvlastelica@marketwatch.com.

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Document WSJO000020180409ee49000jh

THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Quarterly Analysis --- Surprising Cry From an Index Firm: 'Go Active'

By Bailey McCann
577 words
9 April 2018
The Wall Street Journal
J
R7
English

As the bull market gets older, some investment firms -- including indexing powerhouse State Street Corp. -- are expressing renewed appreciation for actively managed funds.

Why? After years of gains in both stocks and bonds, investment managers are preparing for bumpier markets, where portfolio returns could become harder to achieve with long-only directional bets.

"Our headline for 2018 is 'go active,' which may surprise some people because State Street is most well-known as an index shop," says Lori Heinel, deputy global chief investment officer at State Street Global Advisors. For Ms. Heinel, the persistence of the stock rally indicates that it may be time to take profits and consider moving some money into funds whose managers can deploy strategies designed to manage volatility and offer downside protection.

Ms. Heinel says changes to U.S. tax law add to her "go active" thesis, in part because there could be some unintended consequences for stocks. "There will be more opportunity for managers to look at the implications of the tax law and how companies are likely to react. That sets up a stronger stock-picking environment," she says.

What is the right amount of exposure to active funds? That depends on an investor's portfolio, risk tolerance and goals, she and others say.

Critics have long pointed out that actively managed funds often come with high fees and long periods of underperformance. In recent years, investors have turned toward index funds and ETFs, especially in the U.S., where 36% of fund assets are now passively managed, up from 17% a decade ago, according to Morningstar Inc.

But being all in on either passive or active is too binary, says Andy Schuler, senior vice president and investment director at PNC Wealth Management, especially when the market may be about to shift.

"People often relegate active management to the discussion of managers, but it's also how you make decisions at the portfolio level about allocations and exposures in response to changes in the market, so that you stay on track to meet your goals," he says.

Dave Goodsell, executive director of Natixis Investment Managers' Center for Investor Insight, says there is a perception that passive funds are innately less risky, but that isn't always the case.

He notes that individual investors often "struggle with periods of volatility. They may be surprised to see how their passive portfolios react without an understanding of their exposures," he says.

Jae Yoon, CIO at New York Life Investment Management, agrees that it may be time to take profits, even if it looks like the stock rally will continue. "If anything, passive strategies themselves are the crowded trade," he says. "If everyone is in passive, then regardless of the valuations of companies, you're in a momentum trade," he says. "That trade will eventually be unwound."

What's more, Mr. Yoon says late-cycle correlations between stocks and bonds can cause traditional portfolio diversification to fail. Active funds typically have more flexibility to respond to that.

New geopolitical risks, including recent U.S. tariff policy, also could add speed bumps to markets. That, too, could create opportunities for active management, says Ric Mayfield, a managing director at SunTrust Advisory Services.

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

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Document J000000020180409ee490001u

THE WALL STREET JOURNAL.

Markets

Americans Face Highest Pump Prices in Years; Continuing production cuts by major exporters have sent gas prices higher

By Stephanie Yang
758 words
8 April 2018
10:00 AM
The Wall Street Journal Online
WSJO
English

Americans are spending more at the pump than they have in years. Prices could rise even higher just as drivers hit the road for family vacations.

"This summer, in terms of average gas prices, will likely be the highest since 2014," said Patrick DeHaan, petroleum analyst at GasBuddy, a fuel-tracking app. "There's been very little question about that."

Crude prices have jumped thanks to continuing production cuts by major exporters. As a result, gasoline is also becoming more expensive. According to the U.S. Energy Information Administration, average regular retail gas prices reached $2.70 a gallon last week—the highest level since 2015.

While higher fuel prices could herald an end to the glut that has plagued the energy market since 2014, they also threaten to dampen demand and hit consumers in their pocketbooks.

Since the Organization of the Petroleum Exporting Countries and other major oil producers, including Russia, agreed to collectively limit output two years ago, U.S. oil futures have risen about 40%, closing at $62.06 a barrel on Friday. Gasoline futures are up 8.6% this year.

"What we're seeing now at the pump is reflective of OPEC's decision in 2016 to cut back on oil production," said Mr. DeHaan.

Part of gasoline's price increase has also been seasonal, as refiners tend to process less crude oil into fuel during maintenance and are starting to transition to summer-grade gasoline, which is more expensive to make. Prices will likely climb further as the weather warms and driving picks up, according to energy analysts.

OPEC's production cuts have helped offset growing output from U.S. shale, which has repeatedly reached new record weekly highs this year. In January, U.S. crude stockpiles fell to the lowest level since 2015, and are below the five-year average, a closely watched measure of excess supply. Analysts expect global crude inventories to fall to their five-year average this year as well. Gasoline stockpiles have fallen for five consecutive weeks, according to EIA data ended March 30.

In recent months, the U.S. has also exported record amounts of gasoline, mostly to Latin and South America. In January, exports totaled more than 33 million barrels, near an all-time monthly high set in November.

"That's a big difference from a decade ago, or even a few years ago," said Tom Kloza, global head of energy analysis at the **Oil Price** Information Service. "We're kind of refiners to the entire Western Hemisphere right now."

Strong global demand has kept **oil prices** lifted, as synchronized economic expansion has contributed to increased fuel consumption.

In an April note, Goldman Sachs analysts said January oil demand exceeded expectations by 1 million barrels a day, mainly on the back of strong gasoline and distillate demand growth. According to the report, gasoline demand was up 2.8% compared with last January, despite several winter storms that could have crimped the need for gas.

But gas consumption could take a hit if economic growth slows, analysts said. Global markets have been rattled in recent weeks by tariffs lobbed back and forth between the U.S. and China, stoking concern that an escalation could lead to an all-out trade war between the two countries.

Higher gas prices also have the potential to dent U.S. demand, if consumers opt to drive less.

"The rise of the use of the word 'staycation' is probably going to happen this summer. You may start to see some people that are turned off to higher prices," said Mr. DeHaan.

Still, analysts are skeptical that the recent rally is enough to make a sizable impact on the U.S. economy. While gas prices will be higher than years prior, they are still a far cry from 2014, when average prices were as high as $3.70 a gallon.

"Employment rates are very favorable, incomes are rising," said Robert Campbell, an analyst at Energy Aspects. Gasoline prices "are not at the point where we think it starts to push demand over."

Write to Stephanie Yang at stephanie.yang@wsj.com

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THE WALL STREET JOURNAL.

Politics
Trump Officials Soften Tone on Trade Dispute With China; Administration plays down talk of a worsening conflict, saying no penalties are imminent

By Peter Nicholas
730 words
8 April 2018
01:24 PM
The Wall Street Journal Online
WSJO
English

WASHINGTON—After threatening to slap China with new tariffs, Trump administration officials on Sunday softened some of the rhetoric, noting that the penalties aren't imminent and there is ample time to work out a deal and step back from a possible trade war.

President Donald Trump on Thursday signaled an escalation in a trade dispute with China, warning that he might impose tariffs on an additional $100 billion of goods imported from China, apart from tariffs on $50 billion in imports he had announced earlier in the week.

China, in turn, cautioned that it would "hit back forcefully" if the U.S. carried out the threat.

The specter of rolling tariffs and retaliatory action by China rattled markets: the **Dow Jones Industrial Average** closed down 572 points, or 2.3%, on Friday.

In interviews on the Sunday talk shows, senior Trump administration officials played down talk of a looming trade war, a message that could help calm markets.

Appearing on CBS's "Face the Nation," Treasury Secretary Steven Mnuchin said, "I don't expect there will be a trade war" and that the U.S.'s intention is to "continue to have discussions with China."

He suggested, though, that if China doesn't agree to create conditions for "free and fair reciprocal trade," the U.S. is prepared to aggressively defend its interests.

Of the possibility of a trade war, Mr. Mnuchin said: "It could be," adding, "but I don't expect it at all."

On Friday, Mr. Mnuchin had said there was the "potential of a trade war" with the world's second-largest economy.

Lawrence Kudlow, having completed his first week on the job as Mr. Trump's National Economic Council director, emphasized that "nothing has happened so far."

"We're looking at future actions," he continued, in an appearance on "Fox News Sunday."

Mr. Kudlow said that the dispute could be resolved through negotiations with China.

"Maybe China will want to come around and talk in earnest. So far, it hasn't. I hope it does," he said.

During the 2016 campaign, Mr. Trump promised to address Chinese trade practices that he says are harming U.S. businesses and wiping out jobs. Though **financial markets** have reacted nervously, his supporters say the tariff threats fulfill that pledge.

Steve Bannon, his former White House strategist and campaign adviser, said in an interview: "The elites in America have bailed out the Chinese regime for 25 years. Trump is the first leader to confront this—the first leader of either party to have the backs of American workers."

Mr. Bannon was ousted last year, but other economic nationalists remain in high positions, including senior trade adviser Peter Navarro.

Mr. Navarro was asked Sunday if the administration was trying to have it "both ways," threatening tariffs while simultaneously assuring the public that the levies are merely a "negotiating ploy."

"Which is it?" asked NBC "Meet the Press" host Chuck Todd.

"It's both," Mr. Navarro replied.

He went on to say that "we're very clear-eyed about this. We're moving forward on a measured way with tariffs, with investment restrictions."

Mr. Trump has also installed advisers who are wary of tariffs and espouse more free-trade principles—notably Mr. Kudlow.

Meeting with reporters last week at the White House, Mr. Kudlow conceded, "I'm not a tariff guy."

At the same time, he said China's behavior warrants aggressive steps, citing the theft of U.S. intellectual property.

"Sometimes you have to use tariffs to bring countries to their senses," he said.

Tweeting on Sunday, Mr. Trump struck a hopeful note that China and the U.S. can reach an accord absent a trade war.

"President Xi and I will always be friends, no matter what happens with our dispute on trade" he wrote of his Chinese counterpart, Xi Jinping. "China will take down its Trade Barriers because it is the right thing to do. Taxes will become Reciprocal & a deal will be made on Intellectual Property. Great future for both countries!"

Write to Peter Nicholas at peter.nicholas@wsj.com

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THE WALL STREET JOURNAL.

Markets

Deutsche Bank, With New CEO, Signals a Humbler Future; Christian Sewing succeeds John Cryan atop German bank; Marcus Schenck to leave lender

By Jenny Strasburg
1,377 words
8 April 2018
07:19 PM
The Wall Street Journal Online
WSJO
English

Deutsche Bank AG replaced its British chief executive, John Cryan, with the senior German head of its retail bank, a switch that signals a less ambitious future after years of grim financial results and sputtering attempts to regain a spot among global investment-banking powerhouses.

Germany's biggest bank, struggling after a string of money-losing years, named as Mr. Cryan's replacement an executive steeped in auditing, risk control and retail banking. Mr. Cryan will leave at the end of this month, Deutsche Bank said.

New CEO Christian Sewing has spent more than 25 of his 47 years at the Frankfurt-based lender, starting as an apprentice banker and rising to the management board three years ago. He has held senior risk and audit roles in London, Tokyo and Toronto but has a low profile outside of Germany.

The departure of Mr. Cryan, a former investment banker, and the elevation of Mr. Sewing struck investors and executives at other banks as moving Deutsche Bank closer to a potential merger with another European bank, possibly in Germany. Such a possibility has long been discussed. A smaller, more regionally focused Deutsche Bank could make a match-up more pragmatic, bankers and investors said. Deutsche Bank didn't immediately comment.

The CEO change, which is effective immediately and came after a Sunday evening conference call of the bank's supervisory board, also presages a lower-profile Deutsche Bank, say people close to the firm. The bank has been one of the few remaining in Europe with ambitions to compete globally against the U.S.'s trading and investment-banking powerhouses.

It has vast global trading operations and a huge presence in complex derivatives and fixed-income securities. But regulators at the European Central Bank, as well as in the U.S., have become wary of its size and its weakened financial position. The ECB declined to comment.

Investors and current and former employees expect Deutsche Bank to further curtail its trading operations, once the cash cow of the investment bank, in moves described by people close to the lender as driven partially by pressure from European and U.S. banking regulators.

While investment banks broadly have struggled since the financial crisis from a mix of tighter regulation and muted client activity, the German bank has slumped worse than its counterparts. European banks including Deutsche Bank were slower than U.S. peers to repair their balance sheets in the years right after the 2008 meltdown. That hurt Deutsche Bank later when it had to dial back risk and raise capital. Also, Deutsche Bank still has a greater share of its revenue tied to **volatile** investment-bank and trading businesses than its peers.

Regulators have heard concerns about Deutsche Bank from other big banks that trade with it, according to people familiar with the matter. Among concerns voiced, the people say, is that although Deutsche Bank's capital cushion is stable after it raised billions of dollars in a share sale last year, a big market shock, unexpected legal fine or other crisis could set market confidence in Deutsche Bank back to where it was in late 2016 when counterparties pulled away, fearing a capital crisis.

Other European banks, lagging behind stronger U.S. rivals in profitability and share performance, also feel pressures. But Deutsche Bank has had an outsize share of internal turmoil, exacerbated by a prolonged restructuring and an executive suite divided over matters including bonuses and technology spending.

Tensions were bad enough in recent weeks that supervisory-board members have been bracing for the possibility of multiple executive departures, according to people familiar with private board deliberations.

Since January 2016, Mr. Sewing has overseen Deutsche Bank's private and commercial-banking division, which includes the lender's network of German retail branches.

Mr. Cryan had been an investment banker and a finance chief at the Swiss bank UBS AG. His high-profile predecessor, Anshu Jain, was a consummate banker who rose to power during Deutsche Bank's go-go precrisis years of high-leverage trading and huge profits.

Last year, Mr. Sewing was named one of two co-presidents reporting to the CEO he now replaces. The other co-president, Marcus Schenck, is leaving the bank.

Mr. Cryan, a Briton brought into the CEO role in mid-2015, has two years remaining on his contract. He said two weeks ago in a memo to employees that he was "absolutely committed" to serving the bank. That was in response to media reports that Deutsche Bank's chairman, Paul Achleitner, was shopping outside the bank for replacement CEO candidates.

As recently as last week, both of Deutsche Bank's investment-banking co-heads were in discussions with the bank about potentially leaving, the Journal previously reported. One has decided to: Mr. Schenck, until recently considered a potential candidate to one day become CEO, is departing effective next month. He told the supervisory board before Easter that he intended to leave, Deutsche Bank said in its statement.

The other, Garth Ritchie, will now oversee the investment bank as its sole chief, Deutsche Bank said Sunday evening. He and another executive, Karl von Rohr, were named presidents, replacing Messrs. Sewing and Schenck in those positions.

Deutsche Bank has sent mixed messages to investors and employees over the past few months. Mr. Achleitner has faced unrest among big investors he courted who have become alarmed at Deutsche Bank's share-price declines, people close to the bank and investors say.

Mr. Achleitner said in a statement that Mr. Cryan played "a critical role" at the bank, but that "following a comprehensive analysis we came to the conclusion that we need a new execution dynamic in the leadership of our bank." He said the supervisory board views Mr. Sewing as "a strong and disciplined leader," adding, "We trust in the great ability of this bank and its many talents."

Deutsche Bank stock is at €11.35 ($13.94), down 29% this year. The shares have lost more than half their value in less than three years.

Some of the people said Mr. Achleitner told investors and others, including some outside executives he approached to discuss the CEO role, that Deutsche Bank has the right strategy but hasn't executed it well enough. Mr. Achleitner has told financial executives that the market misunderstands Deutsche Bank, which he said mainly needs new energy in its executive ranks.

The message wasn't persuasive, said one person close to a major investor and other people Mr. Achleitner spoke with.

Some investors said they are aghast at how tumultuous the past few weeks have been, with tales of Deutsche Bank infighting and private CEO discussions spilling into the open. A lot of that focus has fallen on Mr. Achleitner.

"Mr. Achleitner will have to explain this decision much more fully, because [Mr. Cryan] is his hand-picked CEO," said Hans-Christoph Hirt, head of Hermes EOS, which advises shareholders holding just over 0.5% of Deutsche Bank shares.

Last week, banking analysts publicly disagreed with Mr. Achleitner's notion that Deutsche Bank's strategy is on track.

JPMorgan Chase & Co. analysts called for Deutsche Bank to shed U.S. corporate clients and shrink its trading business there. They said the lender had little hope of making enough money to justify its U.S. investment-banking ambitions.

Another analyst expressed frustration that Deutsche Bank wasn't accepting that its costs are too high compared to profits, with no easy way to fix the problem. "To get really excited about Deutsche shares we need to see a full strategic overhaul, rather than tinkering," wrote Stuart Graham of Autonomous Research, calling for "radical action."

Patricia Kowsmann contributed to this article.

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THE WALL STREET JOURNAL.

Markets

For Many Investors, the Tech Rout Is 'Nothing to Lose Sleep Over'; Some are calmly riding out the market's turmoil, while others see an opportunity to buy shares of technology stars

By Akane Otani and Lisa Beilfuss
991 words
8 April 2018
05:59 PM
The Wall Street Journal Online
WSJO
English

When the rout in technology heavyweights like Facebook Inc., Amazon.com Inc. and Alphabet Inc. spilled over into the broader market in late March, many feared that individual investors would flee for the exits, exacerbating the declines.

Instead, Alex Boucher, a 22-year-old college student in Westfield, Mass., added to his position in chip maker Nvidia Corp., seeing a chance to pick up the pricey stock at a discount.

San Jose, Calif.-based contractor Michael Chu, 34, shrugged off a $2,700 loss in his tech-heavy index-fund holdings, betting the technology selloff was "just one of those downturns that will pick back up."

And in Dallas, portfolio manager Craig Hodges took only two phone calls from clients on a day when the **Dow Jones Industrial Average** fell nearly 500 points, a pittance compared with the 10 to 15 investors he would hear from daily at the peak of the 2008 financial crisis.

It isn't that investors aren't worried about the **stock market**: Roughly 37% of individual investors expect stocks to fall over the next six months, according to an American Association of Individual Investors survey, the highest share since September. And it isn't that individuals don't own technology shares, either: As investors have loaded up on index funds, many are more exposed to the tech sector than ever.

Instead, interviews with individuals and financial advisers around the U.S. show that many are largely riding out the market's turmoil—citing the belief that technology stars will be able to weather the latest controversies hitting the industry, the sense that the market has fallen so far that they ought to wait out the recent wave of selling, and the difficulty of timing prior market peaks and troughs.

Despite the recent declines, trading activity has been relatively orderly, with volumes at discount broker Charles Schwab Corp. 36% lower than what they were during the peak of the February selloff, and none of the brokerages appearing to suffer a repeat of February's outages and slowdowns.

"I don't think there's a sense of panic," said JJ Kinahan, chief market strategist at TD Ameritrade.

One possible reason is that as large, one-day stock swings have become more common, they have also become less unnerving to investors. The **S&P 500** has closed up or down at least 1% on 26 occasions so far this year, blowing past last year's tally of eight.

Many individuals are also skeptical that the controversy recently hitting a number of technology giants will ultimately lead to tighter regulations that could affect the firms' profits.

"President Trump tweets directed at companies such as Boeing haven't had any negative actions against them, so I think this is all talk," Mr. Boucher, the college student, said of President Donald Trump's recent tweets blasting Amazon.

Tech stocks in the **S&P 500** have fallen 6.5% in the past month, after powering the broad index higher for more than a year. The NYSE FANG+ index, which tracks 10 global tech heavyweights, including Facebook, Amazon, Apple Inc., Netflix Inc. and Google parent Alphabet, has dropped more than 10% over the same period.

Some market observers note many investors have been conditioned to step in and buy assets whenever prices drop. That is because no decline, including the tech-bubble burst or the financial crisis, has lasted forever. They worry that mentality could point to an underlying complacency that will end with a big selloff.

"What happens in bull markets is that pullbacks become smaller and smaller," said Lee Caleshu, chief investment officer at Halite Partners in Columbus, Ohio. "That works until it doesn't." In particular, he said he is concerned about the concentration of technology stocks in the market, as well as the potential regulatory risks facing companies like Facebook, Amazon and Tesla Inc.

Many individuals have taken a more active hand in their portfolios as stock selling has intensified. At Charles Schwab, trading in the last week of March was the busiest since the week of Feb. 5, when the **S&P 500** slumped into correction territory, a slide of more than 10% from its all-time high.

Activity also picked up at TD Ameritrade Holding Corp. , which noticed names like Micron Technology Inc. and IntelCorp.—usually less popular than the FAANGs—ranking among the top five most-traded stocks some days as recent trade tensions spurred fears that semiconductor firms could get hit by retaliatory tariffs.

Floyd Saunders, a 68-year-old investor in Newton, Kan., was one of the sellers. Mr. Saunders said he sold all of the technology investments in his Stash online brokerage account—about 30% of his portfolio—at the beginning of March. "I'm waiting for things to settle down," he said. "I was exiting tech before the Facebook and Amazon stuff really blew up…when **volatility** settles back down, I'll get back in."

Still, Stash, which offers sector-specific funds and lets investors buy fractions of shares in individual stocks, said purchases in March of individual stocks and ETFs in the technology sector outpaced sales by 160%.

Louben Repke, a 27-year-old personal trainer in Annapolis, Md., said: "If I was actually down, I'd be more worried." After seeing his portfolio surge 30% last year, thanks to a global rally that lifted everything from U.S. stocks to bonds to commodities, he isn't fazed by the **stock market**'s recent 10% pullback.

"I have nothing to lose sleep over," Mr. Repke said. "I think we'll all be fine."

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Document WSJO000020180408ee48000e0

The New York Times

National Desk; SECTA
Farmers Tense And G.O.P. Torn Over Trade War

By SHERYL GAY STOLBERG and ANA SWANSON; Matt Phillips contributed reporting from New York.
1,784 words
8 April 2018
The New York Times
NYTF
Late Edition - Final
1
English

WASHINGTON -- As President Trump moves to fulfill one of the central promises of his campaign -- to get tough on an ascendant China -- he faces a potential rebellion from a core constituency: farmers and other agricultural producers who could suffer devastating losses in a trade war.

Mr. Trump's threat to impose tariffs on Chinese goods came with a presidential declaration that trade wars are good and easily won. But the action has injected damaging uncertainty into the economy as Republicans are already struggling to maintain their hold on the House and the Senate in a difficult election year.

While the battle for control of the House will be waged in large part in the suburbs, rural districts in Southern Illinois, Iowa, Arkansas and Missouri could prove important. And control of the Senate could come down to Republican efforts to unseat Democrats in North Dakota, Indiana, Missouri and Montana -- all states staring down the barrels of a trade war's guns.

With farmers angry and worried as China vows to retaliate, many Republicans find themselves torn between loyalty to a president who remains broadly popular in rural states and the demands of constituents, especially farmers, to oppose his tariffs.

In North Dakota, a major soybean-producing state, Representative Kevin Cramer, a Republican who is running for the Senate, sounded restrained this past week when he urged Mr. Trump to ''take a more measured approach'' to China. By Friday, he sounded panicked.

''I contacted @SecretarySonny to urge him to use every tool in the Farm Bill, including Commodity Credit Corp programs, to protect ag producers from effects resulting in potential trade actions against China,'' he wrote on Twitter, referring to Agriculture Secretary Sonny Perdue. ''Farmers must know the Admin has their back & I urge them to act swiftly.''

China's aggressive response to Mr. Trump's tariffs is aimed squarely at products produced in the American heartland, a region that helped send him to the White House. A trade war with China could be particularly devastating to rural economies, especially for pig farmers and soybean and corn growers. Nearly two-thirds of United States soybean exports go to China.

The tariffs have not yet gone into effect, and the administration is engaging in back-channel talks with the Chinese to try to resolve their differences.

In the meantime, Mr. Trump has been escalating his threats, and shows no sign of backing off. On Thursday night, he threatened to impose tariffs on an additional $100 billion in Chinese products.

Trump administration officials argue that the tariffs on Chinese goods, while not intended to help certain American industries, are necessary to prevent China from continuing to violate international trade rules. They say that less aggressive measures by past administrations failed, and that China has stolen American jobs and technology that are the key to future prosperity.

''It's not possible to have true gain without the pain,'' said Dan DiMicco, a trade adviser to Mr. Trump during the presidential campaign. ''The battle is worth the victory, and we will win.''

But farm-state Republicans like Mr. Cramer believe that their constituents could be a casualty, and they are begging the Department of Agriculture to intervene.

Mr. Trump has directed the department to implement a plan to help farmers cope with the damage from tariffs. But few details have been forthcoming about how such a program would work or how much it might cost. And it is not clear how much the Agriculture Department could do to remedy the damage done to key trading relations in a global economy.

The secretary of agriculture has some authority to help farmers by creating new programs that could draw on funds from the Treasury. For instance, the secretary could direct the Commodity Credit Corporation, a government-owned entity, to purchase soybeans to buoy farmers' revenues, said Kent Conrad, a former Democratic senator from North Dakota.

In the past, these powers have been used to provide relief from wildfires and other natural disasters, farm groups said. But such a program could be time-consuming and costly.

''All of that has serious consequences,'' Mr. Conrad said. ''It has costs to the government at a time when the deficits and debt have already soared, and we are going to have a trillion-dollar deficit.'' The federal budget deficit, despite the strong economy, reached $598 billion for the first half of the current fiscal year, the Congressional Budget Office said on Friday, $71 billion more than was recorded during the same period last year.

If the White House does end up subsidizing farmers, that may open trade conflicts on other fronts. Chad P. Bown, a senior fellow at the Peterson Institute for International Economics, said that such a measure could spark trade challenges from countries beyond China, which would object to unfair competition from American agriculture.

Patrick Delaney, a spokesman for the American Soybean Association, said his group was still focused on trying to prevent the tariffs from going into effect, rather than examining what kind of measures the administration might take to support farmers.

''It's a whole lot easier not to wreck the car in the first place than it is to think about what a repair might look like,'' he said.

Farmers have been among the most organized groups in lobbying the administration about its trade policy. But as trade tensions with China have escalated, farmers say these complaints appear to be falling on deaf ears. Many of them are now complaining to Congress.

For Republicans like Mr. Cramer, who is in a tough race against an incumbent Democrat, Senator Heidi Heitkamp, the president's threat to sharply escalate the administration's tariffs on Chinese imports -- and China's threat to retaliate against American farm products -- spells trouble in this year's midterm races. Mr. Cramer's aides did not respond to requests for comment.

''There's no question that it puts Republicans in a tough spot, because they've got to talk to their farmers and affected business owners about the negative impact of the tariff, which I'm sure they are hearing complaints about,'' said Scott Jennings, a Republican strategist in Kentucky. ''On the other hand, they've got constituents who probably think it's a good idea for the president to stand up to China.''

A number of Republicans are pushing back against the president. In Iowa, Representative David Young, who represents a district that Mr. Trump carried by just four percentage points, has publicly urged Mr. Trump to negotiate before imposing tariffs. His state is a major producer of soybean, grain and pork products, and farmers there are already seeing prices drop.

''I respect the president and what he's trying to do -- trying to level the playing field, trying to get those trade deficits down -- but it always comes at the cost of agriculture,'' Mr. Young said in an interview with NPR. ''And can we start just by sitting down at the table?''

Iowa's senators -- Joni Ernst and Charles E. Grassley, both Republicans -- have called on Mr. Trump to reconsider. In a statement, Ms. Ernst cited the ''real danger that increased tariffs on U.S. exports will harm Iowa producers and undermine the rural economy,'' and she said she had spoken directly with the president about it.

The clash with China began last month, when Mr. Trump imposed tariffs on foreign steel and aluminum, fulfilling a central promise of his campaign. China responded with tariffs on $3 billion worth of American products, including pork, fruit and other items.

Then, in late March, the president announced plans to impose tariffs on $50 billion worth of goods from China. Once again, China retaliated; this past week, it proposed its own tariff measure on $50 billion in American products, which, in turn, goaded Mr. Trump to propose the additional tariffs on Thursday night.

It remains to be seen if China will answer Mr. Trump's latest tariff threat with an escalation of its own.

In addition to soybean farmers, carmakers and Boeing would be hit hard by China's tariffs. Many American companies purchase products from Chinese factories, while others rely on the country's vast consumer market to sell their goods.

The trade spat with China also comes on the heels of Mr. Trump's decision to withdraw from the Trans-Pacific Partnership, a trade accord that was to rope in countries on both sides of the Pacific in an alliance against a rising Beijing. The administration is also renegotiating the North American Free Trade Agreement. Both were valuable deals for American farmers, and Mr. Trump's move to upend them had already set agricultural producers on edge.

Suffering has come quickly for the sector on the **stock market**. Investors dumped stocks linked to agriculture on Friday. Deere & Company and the fertilizer giant Mosaic dropped nearly 4 percent, while the fertilizer maker CF Industries fell by 4.5 percent.

While some farmers and lawmakers have expressed hope that Mr. Trump's threats are merely a negotiating tactic, administration officials insisted this past week that was not the case.

''There is the potential of a trade war,'' Steven Mnuchin, the Treasury secretary, said in an interview with CNBC. ''There is a level of risk that we could get into a trade war.''

Mr. Mnuchin said he was hopeful that talks with his Chinese counterparts could avert a damaging escalation of tit-for-tat tariffs, but he declined to elaborate on the status of talks and whether he thought an agreement could be reached.

The president's new economic adviser, Larry Kudlow, said Mr. Trump's threat to China was not a bluff.

''Trump is not just using tariffs as a negotiating card. He said that to me,'' Mr. Kudlow told reporters on Friday.

But the White House strategy to press China to reform its economic behavior seemed unclear. Mr. Kudlow said that the administration was holding back-channel talks with the Chinese, but that he would not characterize them as negotiations. He added that the United States was considering providing China with a list of the changes the United States would like to see, but that it had not yet done so.

''I cannot guarantee that, but it's something that is under discussion,'' Mr. Kudlow said.

Follow Sheryl Gay Stolberg and Ana Swanson on Twitter: @SherylNYT @AnaSwanson

Harvesting corn in rural Kansas. Pig farmers and soybean and corn growers will be especially affected if China retaliates on tariffs. (PHOTOGRAPH BY BO RADER/THE WICHITA EAGLE, VIA ASSOCIATED PRESS) (A16)

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THE WALL STREET JOURNAL.
U.S. EDITION

Job Market Stays Resilient

By Eric Morath
1,004 words
7 April 2018
The Wall Street Journal
J
A1
English

Corrections & Amplifications

Hyland Software has more than 3,000 employees on its staff. A Page One Article on Saturday about the U.S. jobs report for March said the firm has more than 2,000 employees.

(WSJ April 11, 2018)

(END)

WASHINGTON -- The U.S. economy continues to churn out jobs at a steady pace even as **financial markets** wobble over fears that a trade war between the nation and China could unsettle global growth.

Recent tit-for-tat trade measures by the two countries continued on Friday, with China saying it would "hit back forcefully" if the U.S. followed through with President Donald Trump's tariff threats. The war of words sent stocks tumbling, but the economy showed underlying signs of near-term resilience.

U.S. nonfarm payrolls rose a seasonally adjusted 103,000 in March after February's outsize increase of 326,000, the Labor Department said Friday. That extended a historic streak -- employers have added to payrolls for 90 straight months in the longest continuous jobs expansion on record. And it picked up of late: For the first three months of the year, hiring averaged 202,000 a month, up from 182,000 a month in 2017.

"Seventeen million jobs have been created in this expansion, and the monthly pace of job growth remains more than sufficient to employ new entrants to the labor force," Federal Reserve Chairman Jerome Powell said in remarks Friday in Chicago. "The labor market has been strong, and my colleagues and I . . . expect it to remain strong."

The Fed is expected to raise short-term interest rates at least two more times this year to prevent the economy from overheating.

There were few signs of such overheating in the latest report. The unemployment rate held at 4.1% for the sixth straight month, the lowest level since December 2000.

A tighter labor market should produce better wage growth as employers compete for scarce workers. While wages are rising faster than they did earlier in the expansion, they remain below long-run averages. Average hourly earnings for all private-sector workers rose 2.7% in March from a year earlier -- in line with annual gains in recent months.

Those raises have been skewing toward managers. The annual growth in wages for nonsupervisors was 2.4%, a pace that has held steady since December. Hourly wages haven't increased at better than a 3% annual rate in nearly a decade. The last time unemployment was this low, in late 2000, nonsupervisor wages rose 4.3% from the prior year.

Employers have been able to hold wage gains in check in part because they have expanded the pool of available labor, drawing in Americans who have been out of the labor market.

One of them was retired Army Col. Stephen Myers, 53 years old, who joined the civilian workforce for the first time in three decades this year when was hired as a district manager by Starbucks Corp., overseeing 13 stores in Washington state.

After taking some time off after his military retirement last June, Mr. Myers was drawn to Starbucks by the company's culture, the opportunity to work near his wife's job and extensive training.

"They've invested in me quite a bit," said the former battalion commander for a field artillery regiment, who admitted it was tricky to master the coffee chain's "flat white" drink during the 12-week training program he completed last week. He added, "The job affords me the work-life balance I was seeking."

A broad measure of unemployment and underemployment that includes Americans in part-time jobs who want full-time work, in addition to discouraged individuals who have stopped looking for work, fell last month. Known as the U-6, the rate was 8% in March, which is still higher than 6.9% in December 2000. Its elevated level suggests that slack remains in the labor market that could prevent wages from breaking out.

"You're really only starting to see employers broaden out their search and begin to invest in more training for workers," said Susan Helper, an economist at Case Western Reserve University. "We've not yet reached the levels of employer desperation we saw in 2000." She recalled stories of hiring agents standing outside prison gates nearly two decades ago, waiting for inmates to be released.

Friday's report showed manufacturers added 22,000 jobs in March. The sector has added better than 200,000 jobs since March 2017. That is one factor helping draw men back into the workforce.

AZEK Co., a Skokie, Ill., maker of building materials, added 75 manufacturing workers in the past year and wants to hire 50 more for its factory labor force of 810, Chief Executive Jesse Singh said. He said the company has been raising wages and hiring more full-time workers rather than temporary staff.

"Our demand, driven by U.S. remodeling and construction, continues to be solid," Mr. Singh said.

Employment also grew last month in mining, including oil-related jobs, and health care, but fell at construction firms after rising sharply in February, a sign that an unusually warm February, followed by a cool start to spring, could be affecting monthly numbers.

Hyland Software in Westlake, Ohio, added 137 workers to its staff of more than 2,000 in the past year, without raising wages much above the rate of inflation. It has done so by focusing recruitment on younger workers already in the region.

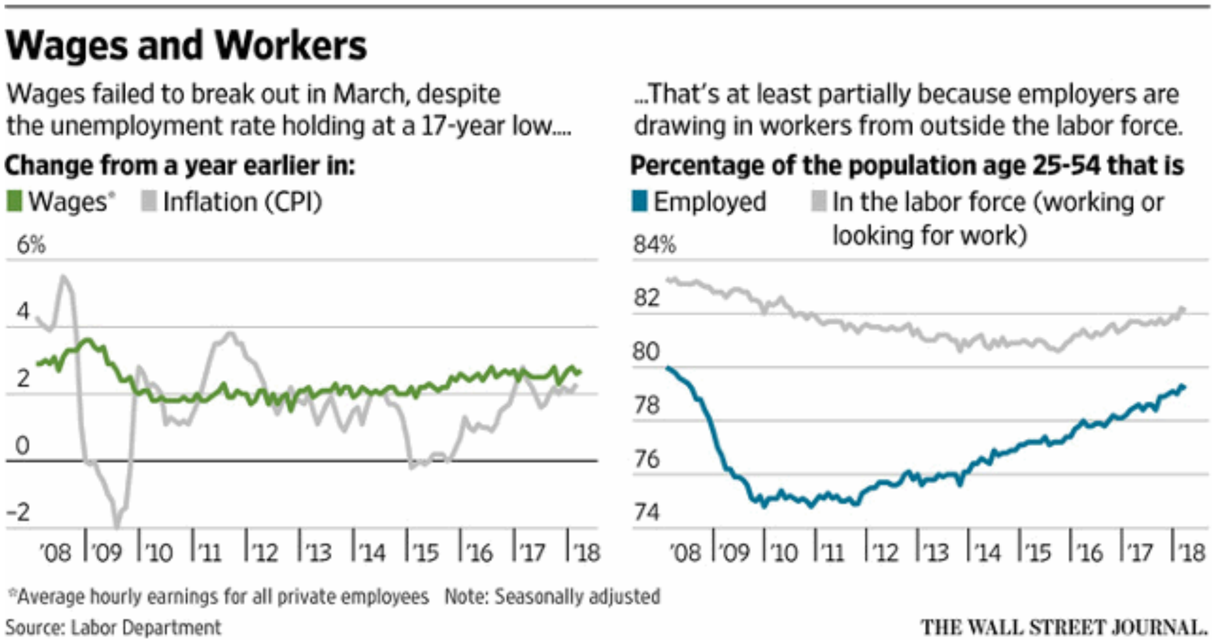
The firm last year hired 93% of the more than 100 interns it brought in from local colleges. CEO Bill Priemer said Hyland benefits from being an attractive, high-tech employer in the Cleveland region but doesn't attempt to compete with salaries offered by Silicon Valley firms.

"If you're building your life in northeast Ohio, we offer a huge amount of opportunity to grow," he said.

Mr. Priemer, who started with the company in the late 1990s, said the economy's current growth pace feels more sustainable.

"I feel like there is more running room in the economy in general, and certainly in software development," he said.

Andrew Tangel contributed to this article.



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Document J000000020180407ee4700031

THE WALL STREET JOURNAL.
U.S. EDITION

World News: China Set to Counter Tariffs

By Lingling Wei
656 words
7 April 2018
The Wall Street Journal
J
A9
English

BEIJING -- China said it would retaliate forcefully if the U.S. imposed newly threatened tariffs and ruled out negotiations while Washington is escalating the pressure on Beijing over trade.

President Donald Trump said late Thursday that he was considering penalties on an additional $100 billion in Chinese goods. Those penalties would come on top of proposed tariffs on $50 billion in imports from China that Washington unveiled last week. The Trump administration aims to rebalance trade that last year favored China by $375 billion.

At a briefing with reporters Friday night, Chinese Commerce Ministry spokesman Gao Feng called the U.S. move "extremely wrong" and acknowledged the two governments were now in a battle.

"China is fully prepared to hit back forcefully and without hesitation," Mr. Gao said. He said China has put in place "detailed countermeasures" and that those measures "don't exclude any options." Mr. Gao didn't elaborate.

He denied that Beijing and Washington were engaged in negotiations and said they haven't been "for a period of time," despite remarks by some U.S. officials that both sides were trying to resolve the dispute. "Under such circumstances, it's even more unlikely for the two sides to engage in any kind of negotiations," Mr. Gao said.

Beijing's apparent refusal to negotiate marks a new phase in weeks of rising tensions during which China largely reacted with measured calm to Trump administration moves and kept open the door for dialogue.

Economists said the Trump administration's latest action could leave the Chinese government facing options beyond tariffs to retaliate.

Beijing has responded in kind to the U.S. actions with penalties of a similar value. But if the Trump administration pursues tariffs on an additional $100 billion in goods, the new $150 billion total would exceed the roughly $130 billion in goods China imports from the U.S. That would force Beijing to seek other options.

Such measures, economists said, could include stepped-up regulation of American companies operating in China and using the threat of a trade war to rattle the U.S.'s larger and more important **financial markets**, compared with China's smaller, less globally connected ones.

"China shouldn't dance to the U.S.'s tune," said Mei Xinyu, a researcher with the government-backed China Academy of International Trade and Economic Cooperation. He pointed to the U.S. financial-services sector as one vulnerability.

Beyond the threats of trade penalties, China has actually imposed tariffs on $3 billion worth of American farm goods and other products, answering similar levies placed by the U.S. on Chinese steel and aluminum.

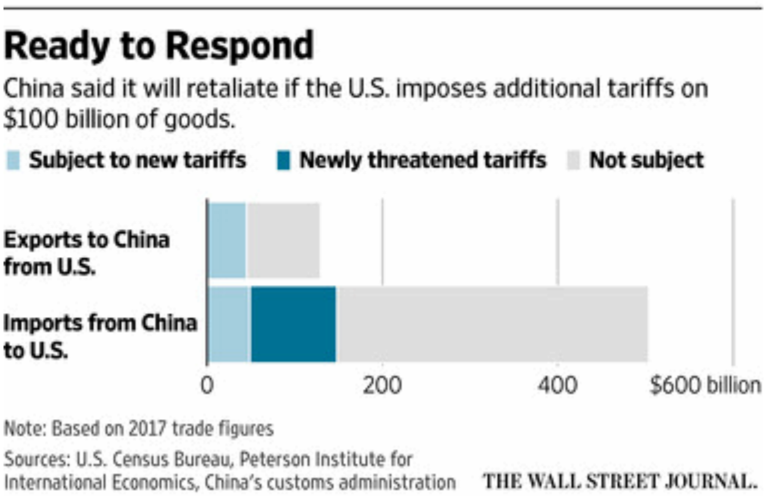
"There's every prospect that U.S. firms could be leaned on, face additional and aggravating regulation, or be sanctioned somehow," said George Magnus, an associate at the University of Oxford's China Center and a former chief economist for UBS. And going after American companies, he said, would further anger the White House and "pretty soon we're approaching meltdown."

Ha Jiming, a former economist with Goldman Sachs and now at China Finance 40 Forum, a Beijing think tank, said Beijing might have few options but to reduce holdings of U.S. Treasurys. That could raise borrowing costs for the U.S., but other economists have said it would also increase the value of the yuan, making Chinese exports less competitive.

Senior Chinese officials have offered assurances that Beijing will continue to follow market-based principles in managing its foreign-exchange stockpile. "China is a responsible investor in global capital markets," Chinese Vice Finance Minister Zhu Guangyao told reporters Wednesday.

Mr. Mei, the Chinese researcher, said China is considering other options because its response has to match the Trump administration's threats. "This is a bet on whose stance is tougher," he said.

Lin Zhu contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

The Man Behind Trump's China Fight --- U.S. Trade Rep. Robert Lighthizer argued the time had come for a confrontational approach

By Bob Davis
2,040 words
7 April 2018
The Wall Street Journal
J
A1
English

WASHINGTON -- President Donald Trump's tough policy on China trade took shape in a White House meeting last August, and at the center was an often-overlooked man.

Decades of quiet negotiations had gotten nowhere, U.S. Trade Representative Robert Lighthizer told senior White House advisers and cabinet officials gathered in the Roosevelt Room.

"China is tap, tap, tapping us along," he said, meaning it regularly promised policy changes but didn't deliver. He punctuated his talk with charts showing how the trade deficit with Beijing had widened.

U.S. Ambassador to China Terry Branstad, linked by videophone, asked for a chance to conduct another round of talks based on a rapport he was developing with the Chinese. He found little support. It was time to act, starting with a formal investigation of China for unfair trade practices, Mr. Lighthizer argued.

A few days later, Mr. Trump announced an investigation of alleged Chinese violations of U.S. intellectual-property rights -- headed by Mr. Lighthizer. It marked the start of the most dramatic and high-risk effort in decades to force the world's second largest economy to change its behavior, culminating this week in an order threatening tariffs on $50 billion of Chinese imports, a move that also had Mr. Lighthizer'simprinton it.

After China threatened tariffs on an equal amount of imports from the U.S., Mr. Trump on Thursday called that "unfair retaliation" and said he might put tariffs on a further $100 billion of Chinese imports. China's Commerce Ministry said on Friday Beijing was ready to "hit back forcefully."

Today, Mr. Lighthizer is exchanging letters with China's senior economic envoy on measures Beijing could take to head off a trade war. Negotiations are likely to stretch over many months -- an ambiguity that could rattle **financial markets** and lift prices on goods earmarked for tariffs.

"Trump and Lighthizer are like-minded," said William Reinsch, a former trade official now at the Center for Strategic and International Studies. "There is a negotiating strategy of bullying, intimidation, and threats to soften up [the adversary]. Then, maybe make a deal."

Mr. Lighthizer's brother, Jim Lighthizer, puts it another way. "His approach is direct; he doesn't spend a lot of time on nuance." Robert Lighthizer declined requests for comment.

Many U.S. businesses say they are fed up with what they view as unfair Chinese subsidies to local companies, and strong-arm tactics that make them hand over technology to Chinese partners. Still, they worry U.S. threats of tariffs could backfire and leave them vulnerable to retaliation.

Early in the Trump administration, Commerce Secretary Wilbur Ross was expected to lead China economic policy. His star dimmed when the president dismissed an early package of deals Mr. Ross negotiated with Beijing as little more than a repackaging of past offers, say White House officials. "Shut it down," Mr. Trump told Mr. Ross in July when he stripped Mr. Ross of his China role, according to senior administration officials.

Mr. Ross continues to work on China issues, including advising Mr. Lighthizer on which imports to target for tariffs, a Commerce official said.

Mr. Lighthizer managed to bridge a trade divide among Mr. Trump's warring factions.

To so-called nationalists like trade aide Peter Navarro, who was itching to take on China, Mr. Lighthizer was a China hawk. Mr. Navarro is mainly an idea man, who has seen his role as making sure the White House carries out the president's campaign pledge to stop China from "ripping us left and right." Mr. Lighthizer runs a trade agency, plots strategy and carries it out.

To so-called globalists such as former National Economic Council Director Gary Cohn, who worried about the impact of trade fights on markets, Mr. Lighthizer was the skilled attorney who understood how Washington worked.

To Mr. Trump, Mr. Lighthizer was a kindred spirit on trade -- and one who shuns the limelight. The two men, who have a similar chip-on-the-shoulder sense of humor, bonded. Mr. Lighthizer caught rides to his Florida home on Air Force One. Mr. Trump summons him regularly to the Oval Office to discuss trade matters, administration officials say.

"Lighthizer has everyone's trust," said Kevin Hassett, the White House chief economist.

Mr. Lighthizer's brother added: "Bob recognizes there's one king and he ain't it."

As an attorney at Skadden, Arps, Slate, Meagher and Flom LLP, he represented steel-industry clients who believed they'd been hurt by subsidized imported Chinese goods. In op-ed columns dating to 1997, Mr. Lighthizer opposed the entry of China into the World Trade Organization under the terms being negotiated.

Mr. Lighthizer's role is a change from recent administrations where China experts, such as Treasury Secretary Henry Paulson in the George W. Bush administration, handled the China economic portfolio. Mr. Lighthizer is a skilled international trade litigator, more in the mold of former U.S. Trade Representative Charlene Barshefsky.

By the time he took office in May, the administration was fighting over whether to impose tariffs on steel and aluminum imports globally. China policy was on the back burner.

While Mr. Lighthizer believed the metal glut was due to Chinese excess production, he thought a fight at that point would be self-defeating because the focus would be on U.S. tariffs, not Chinese trade and investment practices. Assessing tariffs on all steel exporters would paint the U.S. as a villain instead of China. Mr. Lighthizer worked quietly with Mr. Cohn and others to get the issueset aside in favor of other priorities.

U.S. trade representatives often regard themselves as lawyers for U.S. exporters, trying to open up new markets. Mr. Lighthizer saw things differently, viewing big U.S. companies as job outsourcers that sometimes had to be reined in.

At a September meeting with about 100 CEOs organized by the Business Roundtable, he said he understood they had to maximize profits, which sometimes meant exporting jobs. "My job is different," he told the group, according to participants. "My job is to represent the American workers. We're going to disagree."

Mr. Lighthizer, 70 years old, grew up in the Lake Erie port city of Ashtabula, Ohio, which was battered by imports. He sees himself as blue-collar even though he isa doctor's son who once raced around West Virginia in sports cars and has financial assets worth between $10 million and $38 million, according to government filings.

As with his boss, bluntness is his calling card. In the mid-1980s, as a U.S. Trade Representative official who negotiated with Japan, he once grew so frustrated he took a Japanese proposal, turned it into a paper airplane and floated it back at the Japanese negotiators as a joke. In Japan, he became known as "the missile man."

In a Senate hearing last month, when Democratic Sen. Maria Cantwell of Washington said his China plans could hurt U.S. aircraft makers, he dismissed her concerns as "nonsense."

As the U.S. moved toward confrontation with China last fall, after the August Roosevelt Room session, Mr. Lighthizer worked to make sure the administration was united. Previously, the U.S. had often balked at confronting China out of fear a fight would tank the global economy and make China less willing to help on national-security issues.

Defense chief Jim Mattis, though, backed a tough approach because he was concerned China was illicitly obtaining U.S. technology and could gain a military edge, say people familiar with his thinking. Others in the national-security agencies were tired of what they felt were unmet Chinese promises on Korea and other security issues.

Mr. Cohn was as fed up with Beijing as Mr. Lighthizer, say officials. As a president of Goldman, Mr. Cohn had lobbied to do business unimpeded in China and didn't get the approvals he sought.

At the end of February, China sent its chief economic envoy, Liu He, to Washington to try to restart negotiations. He found a frosty welcome. The Chinese embassy had requested 40 visas to bring a full entourage. He got just a handful. Mr. Liu also couldn't get any time with Mr. Trump, instead meeting with Mr. Lighthizer, Mr. Cohn and Treasury Secretary Steven Mnuchin. They delivered a simple message: The U.S. isn't going to get "tapped around."

The U.S. wanted substantial changes, which included cutting the tariff China imposes on auto imports from 25% to something closer to the U.S. tariff of 2.5%. The U.S. also wanted a $100 billion reduction of its $375 billion annual merchandise trade deficit with China. To punctuate those demands, the administration planned to threaten tariffs.

One more obstacle needed to be cleared away. President Trump, frustrated that the steel-tariff matter had been indefinitely delayed, was sympathetic to pitches by Messrs. Navarro and Ross that he should finally move on the issue. In early March, Mr. Trump said he would impose 25% tariffs on steel and 10% tariffs on aluminum from any exporting nation.

The international response threatened to drown out the China initiative as U.S. allies complained they were unfairly targeted.

On Tuesday evening, March 20, senior officials gathered again in the Roosevelt Room to decide how to proceed with the tariffs scheduled to go into effect in three days. Mr. Navarro, the trade adviser, argued tariffs should be imposed across the board as the president threatened, say officials. That would increase U.S. leverage with steel-exporting nations, which could be expected to offer concessions to avoid tariffs, he argued.

Mr. Lighthizer, aligned this time with Mr. Ross, pressed for an alternative course. Grant nearly all nations except China temporary exclusions from the tariffs, they proposed, according to participants, but then limit their exports through quotas. That would make the U.S. seem more reasonable in steel negotiations and help form a coalition against China.

The group produced a memo in which the different views were articulated. Mr. Trump backed Mr. Lighthizer's side.

With the steel issue defused, at least temporarily, Mr. Trump announced on March 22 the U.S. would threaten tariffs on Chinese imports. He thanked Mr. Lighthizer for his help and invited him to say a few words.

"This is an extremely important action," Mr. Lighthizer said, "very significant and very important for the future of the country, really, across industries."

Over coming months, the ability of the U.S. to maintain pressure on China will depend on factors including the reaction of markets, opposition by U.S. industries and farmers, and retaliation by China against U.S. companies. Chinese leaders say they are confident they would prevail in a trade war, say U.S. individuals who have met with them recently, and chalk up U.S. threats to Mr. Trump's midterm congressional electioneering.

Jorge Guajardo, a former Mexican ambassador to China and now a Washington consultant, has seen up close how Beijing can pressure companies and wear down governments. "The big question is, 'Will the U.S. blink?'" he said. "Or will they stay the course so China is forced to understand there is a new way of doing business."

Lingling Wei contributed to this article.

Road to U.S.-China

Standoff on Trade

1989: Tiananmen Square massacre; U.S.-Chinese relations sour.

1992: China under Deng Xiaoping recommits to market-based reforms.

1999: U.S. cuts a deal with China to back its entry into the World Trade Organization.

2000: U.S. grants China normalized trade relations.

2001: China enters the WTO.

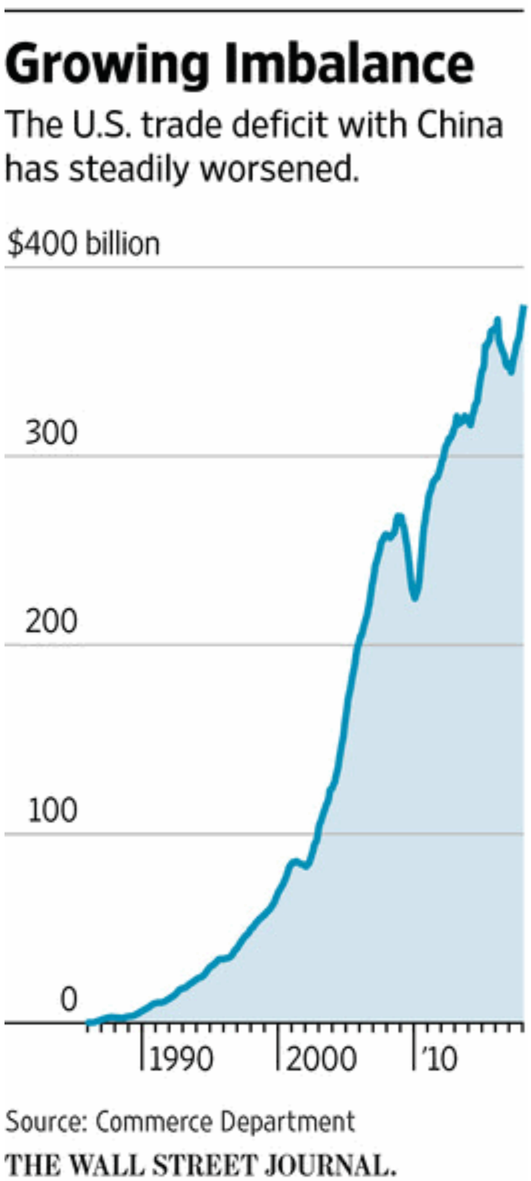
2006: The U.S. and China hold first Strategic Economic Dialogue (SED).

2009: SED talks broadened.

2013: Sunnylands summit between Presidents Barack Obama and Xi Jinping.

2017: President Donald Trump and Xi meet at Mar-a-Lago, start Comprehensive Economic Dialogue.

2018: U.S. imposes steel and aluminum tariffs; targets $50 billion of Chinese imports for tariffs. China threatens tariffs on similar amount of U.S. goods. Trump weighs tariffs on additional $100 billion of goods.



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Document J000000020180407ee470002u

THE WALL STREET JOURNAL.
U.S. EDITION

Reason for Optimism: Bearish Investors

By Riva Gold
928 words
7 April 2018
The Wall Street Journal
J
B12
English

Investor sentiment has quickly shifted from extremely optimistic to outright **bearish** -- an encouraging contrarian signal for those market participants who have long worried that Wall Street was overly **bullish**.

As concerns about trade and technology stocks heat up, investors are at their most pessimistic in more than seven months, according to the American Association of Individual Investors' most recent weekly sentiment survey, which measures participants' outlook for the **stock market** over the next six months. In January, survey participants were at their most **bullish** since late 2010.

The swift turnaround comes as investors pull money out of equity funds, **stock-market** valuations drop and an increasing number of put options are taken out on the **S&P 500** to protect against declines relative to call options that bet on gains. Meanwhile, the Cboe **Volatility** Index, known as Wall Street's "fear gauge," is up 95% for the year so far.

"There's more of an extreme fear reaction now," said Edmund Shing, global head of equity derivative strategy at BNP Paribas. "As a contrarian indicator, that makes me actually **bullish**," he said.

Investors often worry most when everybody else in the market gets very **bullish**, with many analysts noting that Wall Street optimism has often reached its highs right before big market falls.

When the mood among investors sours, many market participants think that it indicates selling pressure is bottoming out and that more money could enter the market, providing the potential for gains as long as the economy remains on track.

The **S&P 500** is down 2.6% so far this year, even as corporate-earnings expectations have climbed, share buybacks have risen and the economy has continued to grow.

Mr. Shing said signals from options markets, equity flows and sentiment gauges are collectively the most downbeat he has seen since shortly before the U.S. presidential election in November 2016. U.S. retail investors appear to be the biggest sellers of stocks, while institutional fund managers have largely bought more protection against further falls or shifted some money out of equities and into short-term debt, he added, based on his analysis of fund redemptions and options markets.

Investors have redeemed a net $25 billion from the popular SPDR **S&P 500** exchange-traded fund so far this year, according to FactSet. More broadly, U.S. equity funds overall haven't had net retail inflows for any week since 2017, according to fund-tracker EPFR Global.

Meanwhile, the National Association of Active Investment Managers Exposure Index, which tracks active money managers' average exposure to U.S. equity markets, fell to 55.57 this past week, down from an average of 71 in the first quarter of the year and an average of roughly 63 since mid-2006. It was as high as 121 in December.

To be sure, some metrics continue to suggest that sentiment is far from extremely **bearish**.

Options and derivatives on the **S&P 500** currently show that investors expect more **volatility** ahead, but not necessarily a huge decline for the index, said Randy Frederick, vice president of trading and derivatives at the Schwab Center for Financial Research.

"I'd expect the put-call ratio [on the **S&P 500**] to be a lot higher than it is now if there were concern of a much bigger downturn," he added.

Still, the moves mark a sharp turnaround from the mood in late 2017 and most of January, when investors poured record amounts of money into equity funds and the amount of cash squirreled away by institutional fund managers reached five-year lows, according to Bank of America Merrill Lynch's monthly survey.

Ed Keon, chief investment strategist at investment firm QMA, recalls speaking at an investor conference in January, when the market was already up 7% for 2018. "I remember saying the **S&P 500** expected return was 10% for the year, and people mocked me for being overly cautious," he said.

"Expectations have tempered a bit," Mr. Keon said.

Many investors think the caution is warranted, given rising interest rates, increasing concerns about a possible trade war between the U.S. and China and mounting pressure on the technology sector.

But some view the shift in investors' mood as a reassuring sign about the health of the market.

"With investor optimism lower now, it should be easier for equity markets to make further gains from here if global growth remains healthy," said Mike Bell, global market strategist at J.P. Morgan Asset Management.

The firm is maintaining its sizable allocation to U.S. and emerging-market equities despite the recent downturn. The exuberance is gone, and stocks have gotten cheaper, Mr. Bell said.

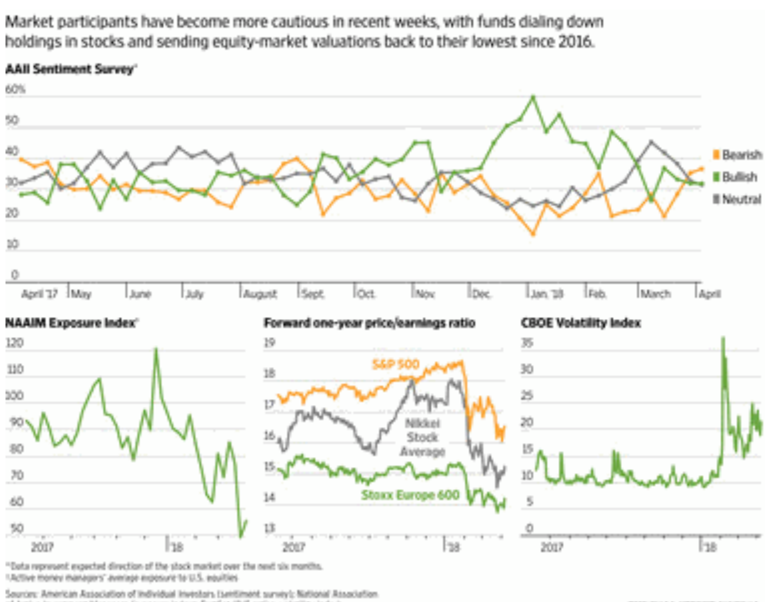
Equity valuations remain elevated compared with their historical averages, but they have come down.

The forward price/earnings ratio of the **S&P 500** has fallen to 16.5 -- its lowest since November 2016 -- from as high as 18.6 in late January.

The Stoxx Europe 600 and Japan's Nikkei Stock Average are also trading around their lowest forward P/E ratios since 2016.

"You've seen a correction that has taken valuations back to less stretched levels and taken sentiment back to less stretched levels," said John Stopford, head of multiasset income at Investec Asset Management.

After an unusual period of extreme bullishness, the market mentality is now back to "climbing a wall of worry," he said, a supportive factor in his belief that stocks have more room to climb.



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Document J000000020180407ee470001n

THE WALL STREET JOURNAL.
U.S. EDITION

Stocks Plummet Amid Escalating Trade Tensions

By Michael Wursthorn
937 words
7 April 2018
The Wall Street Journal
J
A1
English

Growing tensions between the U.S. and China exacerbated investors' fears of an all-out trade war between the world's largest economies, shaving 572 points off the **Dow Jones Industrial Average** on Friday as investors braced for more turbulence ahead.

All 11 major sectors of the **S&P 500 index** declined as investors broadly sold stocks, with the deepest declines among big industrial manufacturers like Boeing Co. and Caterpillar Inc. that stand to suffer from an escalation in protectionist trade policies.

Friday's session marked the **S&P 500**'s ninth 1% swing up or down in the past 11 trading days, a sign of stocks' uneasy footing and resurgent **volatility**.

Investors were already grappling with concerns that technology stocks won't generate the massive gains of previous years and that inflation is rising more quickly than expected. New data Friday showed that wages rose last month in line with gains of recent years.

But the issue of trade and how far the Trump administration is willing to go with its protectionist agenda has become a driving force behind the **stock market**'s gyrations for more than a month.

Those concerns deepened Friday after Chinese Commerce Ministry spokesman Gao Feng acknowledged the two governments were now in a battle and described President Donald Trump's consideration of penalties on an additional $100 billion in Chinese goods as "extremely wrong."

Investors worry the tit-for-tat responses between the U.S. and China could translate into more severe and farther-reaching sanctions that pressure American companies and raise prices for consumers.

Investors say an escalation could crimp the global economic growth engine that has acted as a key pillar for the latest leg of the **stock-market** rally.

Several Trump administration officials, including Larry Kudlow, head of the White House National Economic Council, Treasury Secretary Steven Mnuchin and White House press secretary Sarah Huckabee Sanders, tried to allay investors' concerns about a trade conflict to little avail.

Mr. Mnuchin, speaking on CNBC, said it would take time for the announced and potential U.S. tariffs to take effect, and meanwhile, "we'll continue to have discussions. But there is the potential of a trade war."

That last comment appeared to send the market sliding. The Dow fell as much as 767 points in the late afternoon before paring its decline to 572.46 points, or 2.3%, to 23932.76.

Ms. Sanders, meanwhile, said later Friday that, "this is something that China has created and President Trump is trying to fix it."

Federal Reserve Chairman Jerome Powell, who reiterated the central bank's intent to proceed with a slow, steady path of rising interest rates, added Friday that "tariffs can push up prices," but went on to say that it is too early to predict what would be the full economic impact of a trade war with China.

The growing uncertainty over a trade war and what that means for businesses across the country prompted the **stock market**'s most nervous investors to sell Friday, said Kenny Polcari, managing director at broker-dealer O'Neil Securities.

"It could get uglier over the weekend, and some are getting out because it could go either way," said Mr. Polcari.

He added that trading volumes were light, suggesting the selling is being driven more by smaller traders and investors rather than big money managers. "If [the administration] calms the rhetoric down over the weekend, then you'll likely see the market rally right back Monday," he said.

The **S&P 500** declined 58.37 points, or 2.2%, to 2604.47, while the **Nasdaq Composite** slid 161.44 points, or 2.3%, to 6915.11. For the week, the Dow dropped 0.7%, the **S&P 500** fell 1.4% and the **Nasdaq** declined 2.1%. The **S&P 500** is now off 2.6% for the year and down 9.3% from its late January peak.

Investors moved into assets that tend to hold up better during times of uncertainty, with so-called haven assets such as bonds and gold rising. "There's genuine fear that this thing with China is not going to go well," said Jeff Lancaster, a principal of Bingham Osborn & Scarborough, an advisory firm that manages $4.2 billion.

Shares of Boeing, which has been cited by analysts as a bellwether to gauge investors' reaction to trade-sensitive stocks, fell 3.1%. Heavy machinery manufacturers Caterpillar and Deere & Co. dropped 3.5% and 3.9%.

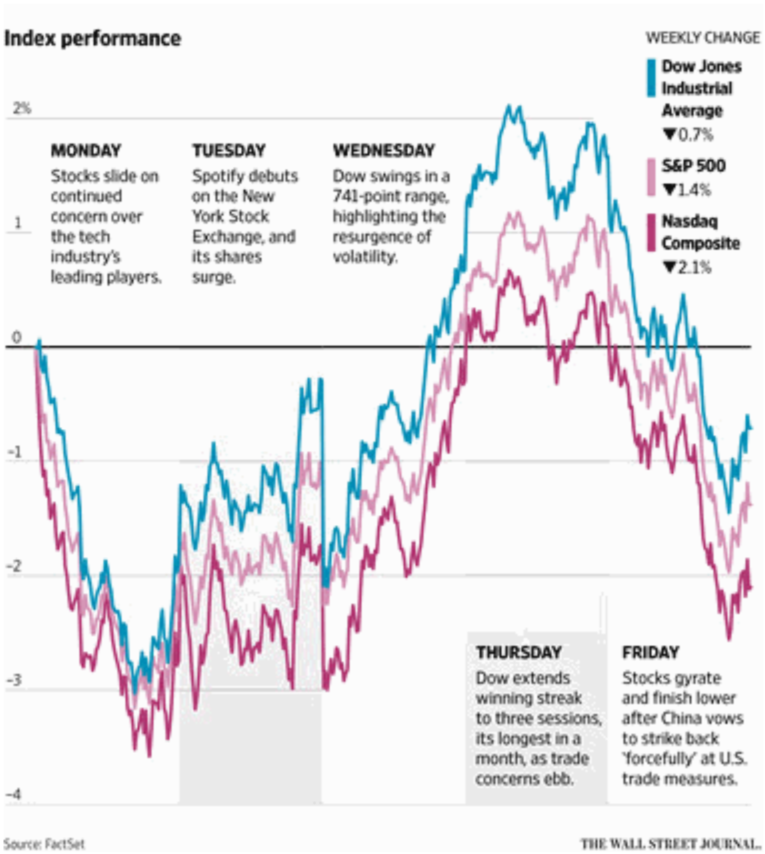
Financial firms also weighed heavily on major indexes after their stocks were hurt by stronger **bond prices**, which rose after the latest trade salvos. Higher **bond prices** and lower yields tend to narrow the gap between short- and long-dated Treasury notes and crimp lenders' profits.

Shares of Goldman Sachs Group fell 2.3%, while the KBW **Nasdaq** Bank Index of large U.S. lenders slid 2.7%.

The yield on the benchmark 10-year U.S. Treasury note fell to 2.779% from 2.830% on Thursday. Yields move inversely to prices.

Meanwhile, the latest jobs report showed that wages grew as expected from a year earlier, with average hourly earnings rising 2.7% in March. That eased worries among some investors that inflation had been growing faster than expected and that the Fed would hasten its pace of interest-rate hikes to keep the economy from overheating.

"This should help moderate investors' expectations for the [Federal Reserve] getting ahead of itself," said Doug Cote, Voya Investment Management's chief market strategist.



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Document J000000020180407ee4700030

The New York Times

EDITORIAL
Editorial Desk; SECTA
Mr. Trump's Trade Bombast

By THE EDITORIAL BOARD
994 words
7 April 2018
The New York Times
NYTF
Late Edition - Final
18
English

President Trump's recent threat to escalate his trade skirmish with China into a full-scale trade war is a foolish gambit with little historical precedent. It is also hard to take seriously, given how quickly Mr. Trump changes his mind and how rarely and clumsily he tends to follow through on tough talk.

Mr. Trump said on Thursday that he wants to slap tariffs on an additional $100 billion in Chinese imports in response to Beijing's plan to retaliate against an earlier American proposal that was aimed at $50 billion in Chinese goods. The president also said he was seeking ways to protect American farmers hurt by Chinese retaliation -- a move that could result in fresh trade fights with other countries as they seek to defend their farmers from subsidized American grain.

If you're confused or shocked by these announcements, you are not alone. Most experts say that a trade war between the world's two largest economies would hurt American businesses, farmers and workers whose profits and livelihoods depend in part on commerce with China. That's probably why the **Standard & Poor's 500-stockindex** fell more than 2 percent on Friday.

Historians say there is little precedent for Mr. Trump's direct and forceful targeting of China. The last time a president used trade policy to hurt specific nations was when Thomas Jefferson and Congress restricted trade with Britain and France in the early 1800s, said Douglas Irwin, an economics professor at Dartmouth College who recently published a history of American trade policy. Those trade battles ended up leading to the War of 1812. ''We haven't seen anything like this in centuries,'' he said.

Even the infamous Smoot-Hawley tariffs that Congress enacted in 1930 were put in place to protect struggling domestic industries and farmers, not to penalize specific countries. Of course, those tariffs did not quite work as intended, because other countries moved to shield their own economies by raising tariffs, too. Experts now believe those trade policies probably exacerbated the Great Depression.

Mr. Trump's bombast is so odd that it has scrambled the usual politics of trade. Many Republican lawmakers, including those who support him on most issues, have come out strongly against him on trade. For example, Pat Roberts, a senator from Kansas, said the impact of the president's threats against China was ''disconcerting,'' and Senator Charles Grassley of Iowa said American farmers and ranchers ''would bear the brunt of retaliation'' by China. At the same time, Mr. Trump has won praise from some Democrats, like Senator Sherrod Brown of Ohio, who are opposed to many other Trump policies.

The big question now is what Mr. Trump will actually do. Some officials -- like Larry Kudlow, the former cable-TV pundit who recently became the top economic adviser in the White House -- are trying to tamp down talk of a trade war, and say the administration is using the threat of tariffs to get China to the negotiating table. To Mr. Kudlow's way of thinking, the Trump strategy is similar to how President Ronald Reagan got Japan to voluntarily limit exports to the United States in the 1980s by threatening to impose steep tariffs.

There is a strong case to be made that the United States needs to do all it can to get Chinese officials to change economic policies that have hurt American businesses and workers. For example, officials in Beijing have forced foreign businesses to transfer technology to local joint-venture partners as a condition of doing business in China. China for many years also artificially depressed the value of its currency, the renminbi, against the dollar to make its clothes, electronics and other products more affordable to American consumers.

But it is hard to see this administration striking an effective and comprehensive deal with China. That's because Mr. Trump and his officials seem incapable of putting in the time and hard work required to hammer out such agreements with other countries or political adversaries. They have also displayed little of the finesse and diplomacy needed to strike international deals.

Consider, for example, the trade deal the administration struck with South Korea last month. Experts say that it will do little to increase American exports to that country and will only modestly reduce imports to the United States. A day after formally announcing that agreement, Mr. Trump said he might delay it in an effort to pressure North Korea to reach a deal on its nuclear weapons. That about-face would no doubt make other countries reluctant to reach an agreement with this president -- they could never be sure if a deal was a deal.

Or take the North American Free Trade Agreement, which the Trump administration has been renegotiating for months. American officials have apparently walked back from some of their most aggressive demands in recent talks, The Times recently reported. Those changes might make it easier to get agreements with Canada and Mexico. But they could leave many domestic groups disappointed with Mr. Trump -- as were many of the workers at Carrier whose jobs he claims to have saved early in his presidency but who were eventually laid off anyway. Some Democratic lawmakers, American labor unions and other groups that theoretically support Mr. Trump's tougher trade policies are worried that their priorities, like a provision requiring Mexico to improve labor rights for factory workers, will not be included in a new trade agreement.

Mr. Trump has dramatically raised the stakes on trade with his brash pronouncements about tariffs. But there's little cause to hope he and his team can deliver the big economic gains that they argue can come only from such a combative approach.

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DRAWING (DRAWING BY MICHAEL GEORGE HADDAD)

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The New York Times

Business/Financial Desk; SECTB
U.S.-China Trade Tensions Send Indexes Lower Again

By MATT PHILLIPS and ALEXANDRA STEVENSON; Carlos Tejada contributed reporting.
988 words
7 April 2018
The New York Times
NYTF
Late Edition - Final
5
English

Rising tensions between China and the United States pummeled stocks again on Friday, as investors began to take seriously the risk of a trade war between the world's two largest economies.

Markets began to slide at the start of trading after President Trump's threat on Thursday to heap fresh tariffs on China, and the sell-off gained steam as the day progressed. A new report on hiring that showed the pace of job growth slowing in March -- 103,000 jobs were added in the month -- did little to buoy investors.

Investors took little comfort in statements from the administration's top economic policymakers, Larry Kudlow, the director of the National Economic Council, and Steven Mnuchin, the Treasury secretary. Both men sought to tamp down the contentious back-and-forth between the two economic giants. On CNBC, Mr. Mnuchin emphasized that the United States was willing to negotiate with China, but he acknowledged that there was ''potential for a trade war.''

And investors found few bright spots in afternoon comments from Jerome H. Powell, the new chairman of the Federal Reserve. In a speech in Chicago, Mr. Powell gave little indication that he planned to deviate from the Fed's gradual path of lifting interest rates. He also suggested after his speech that he was unsure how the new tariffs imposed by the United States and China would affect the economy.

By the time markets closed, both the **Standard & Poor's 500-stockindex** and the **Dow Jonesindustrial average** had fallen more than 2 percent.

Mr. Trump, who had been a cheerleader for the rising **stock market**, acknowledged in a radio interview that was aired on Friday that the trade friction could take a toll on the market. The **S.&P. 500** is now down 2.6 percent for the year and more than 9 percent from its late January peak.

''I'm not saying there won't be a little pain,'' Mr. Trump said. He added: ''But we're going to have a much stronger country when we're finished.''

Mr. Powell's comments underscored the shaky position stock investors are in, buffeted almost daily by conflicting announcements from the White House and by tariff announcements from Beijing that have strained one of the world's most important economic relationships. A deep trade freeze between the two countries could chill global growth.

So far, though, there is little evidence of a slowdown. And without one, the Fed, as Mr. Powell suggested, will probably keeping raising rates, which traditionally is viewed as a drag on stocks.

The losses on Friday were especially heavy for American companies reliant on global trade. The aircraft maker Boeing tumbled 3 percent, and Caterpillar, which sells lots of construction and mining equipment in China, sank 3.5 percent.

With China tailoring its tariffs toward American agricultural products, investors also dumped stocks tied to the sector. The fertilizer giants CF Industries and Mosaic each fell more than 3 percent, as did Deere, the farm equipment maker.

The gloomy trading day in the United States followed a mixed day elsewhere.

Japan's Nikkei 225 closed down 0.4 percent, while Hong Kong's Hang Seng ended up 1 percent. Major European benchmarks like France's CAC-40, Germany's DAX and Britain's FTSE 100 were all lower. (Mainland Chinese markets were closed on Friday.)

On Thursday, Mr. Trump said he had instructed his top trade officials to determine whether additional tariffs on $100 billion worth of Chinese imports were warranted and, "if so, to identify the products upon which to impose such tariffs."

The comments were part of a roller-coaster week that has whipsawed investors.

"People have started to feel like this is a bit of the children's game. Somehow the markets haven't really gotten any actual sense of whether this will be true," said Vincent Chan, head of China equity research for Credit Suisse, the investment bank.

"Tariffs on $100 billion of Chinese products is a big thing, but the market thinks it's a bit of a childish move," he added. "The market doesn't know how to react."

On Monday, China announced tariffs on $3 billion in American goods in response to steel and aluminum tariffs that Washington imposed last month. Then on Tuesday, American officials detailed plans for tariffs on roughly $50 billion in Chinese goods. China responded hours later by announcing tariffs on a similar amount of American goods.

Should Mr. Trump impose more tariffs, the impact could be significant. Capital Economics, a research firm, estimated that doing so could shave up to half a percentage point from China's economic growth rate. A change of that size could be felt around the world, as China is a major force in global growth. Last year, its economy grew 6.9 percent.

The stomach-churning **volatility** in the **stock market** in recent months hasn't spread to other markets.

There has been no panicked rush to the safety of United States government bonds. And while companies are having to pay slightly more to borrow in the bond markets, the interest rates haven't risen to levels that could threaten the economy.

"We haven't really, in a way, seen anything that has us too worried yet," said Michael Feroli, chief United States economist at JPMorgan Chase.

Others aren't quite so confident.

In a note to clients on Friday, Barclays analysts cited the intensifying trade tensions as a reason for investors to move out of stocks and into the safety of bonds.

"At this juncture, we think it is wise for market participants to take a break from risk," they wrote.

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

Document NYTF000020180407ee470004u

The New York Times

Business/Financial Desk; SECT

U.S. Job Growth Eased in March; Unemployment Steady at 4.1%

By BEN CASSELMAN
1,040 words
7 April 2018
The New York Times
NYTF
The New York Times on the Web
English

The Labor Department released its official hiring and unemployment figures for March on Friday morning, providing the latest snapshot of the American economy.

The Numbers

â– 103,000 jobs were added last month. Wall Street economists had expected an increase of about 185,000, according to Bloomberg.

â– The unemployment rate was 4.1 percent for the sixth straight month.

â– Average earnings rose by 8 cents an hour and are up 2.7 percent over the past year.

â– The Labor Department revised its estimate of February's job growth upward, but January's figure was revised sharply downward. The net result was a loss of 50,000 jobs relative to prior estimates.

The Takeaway

February's report was a barnburner: Companies added jobs at the strongest pace since 2015, and the labor force gained hundreds of thousands of workers. The report for March wasn't as strong, but still extended a remarkable run in the job market.

March was the 90th consecutive month of job growth, by far the longest streak on record. Employers have added an average of just over 200,000 jobs per month so far in 2018, a pace that has held relatively steady for the past two years. The unemployment rate hasn't budged since October, but remains at its lowest level since 2000.

''The fundamentals still remain solid,'' said Dan North, chief economist for Euler Hermes North America.

The slowdown in March wasn't a surprise. February's job growth was probably inflated by a surge in hiring in construction and the retail sector that reflected unseasonably warm weather in much of the country. Both sectors slumped in March as winter storms blew through the eastern United States.

''We've had such unsustainably strong results in January and February that it was largely expected that we were due for some payback,'' said Ellen Zentner, chief United States economist for Morgan Stanley. ''The weak number in headline payrolls does not change the fact that trend job growth is strong.''

Waiting on Wages

The one dull spot in February's report was wage growth, which slowed from January. That figure was revised up slightly on Friday, and earnings rebounded further in March, rising 2.7 percent from a year earlier. Economists caution against reading too much into the month-to-month data on wages, which is **volatile** and prone to distortions.

The bigger picture is that wage growth remains weaker than most economists would expect when unemployment is so low. Economists have proposed a long list of possible explanations, from globalization to weak productivity growth. Most still expect employers to have to raise pay eventually to attract and retain workers. But so far, employers are resisting.

"It's a standoff, almost, on wages," said Jason Guggisberg, a vice president at the staffing firm Adecco. "Who's going to go first?"

The Manufacturing Picture

The manufacturing sector has posted solid job gains over the past year, and that growth continued in March, when American factories added 22,000 jobs. But mounting trade tensions with China could threaten the sector's rebound in the months ahead.

President Trump announced late Thursday that he would consider imposing tariffs on an additional $100 billion worth of Chinese products, escalating the rapid-fire exchange of trade actions by the two countries. It isn't yet clear what impact the tariffs could have on the economy. But the threat alone could disrupt some companies' plans, economists said.

"Whether trade tensions and threats come to fruition or not, even if there's not follow-through, the lingering uncertainty and the market **volatility** that it creates will start to permeate business decisions and household decisions," Ms. Zentner said. Already, she said, there are signs that upper-income households are becoming less confident, a sentiment that could affect consumer spending.

Wall Street and Washington

Investors and policymakers alike are watching the job market closely for signs that the economy could be starting to overheat. Markets tumbled after a report of unexpectedly strong wage growth in January led to fears of inflation, and the interest-rate hikes it could bring.

The market reaction to Friday's report was more muted. The uptick in wages was sufficient to suggest that the job market remains healthy, but probably not big enough to force the Federal Reserve to reconsider its policy of gradual rate increases, said Michelle Meyer, head of United States economics for Bank of America.

Indeed, in a speech in Chicago on Friday, the Fed chairman, Jerome H. Powell, suggested his view of the economy had changed little in recent weeks.

"The labor market remains strong, and my colleagues and I on the Federal Open Market Committee expect it to remain strong," Mr. Powell told the Economic Club of Chicago, according to prepared remarks released by the central bank. He added that he would be "looking for an additional pickup in wage growth as the labor market strengthens further."

Mr. Powell's prepared remarks made no mention of the looming threat of a trade war with China. But Ms. Meyer said the added uncertainty surrounding trade could tend to make policymakers more cautious.

"The risks have increased given some of the headlines around trade," Ms. Meyer said.

Seeking Workers

Perhaps the biggest surprise in the blockbuster report for February was the surge of workers into the labor force. That flood of new workers partly reversed in March, when the labor force shrank by 158,000 people. Beyond such monthly gyrations, however, the labor force has been growing gradually, an impressive feat given the ongoing retirement of the baby-boom generation.

With available workers increasingly scarce, companies are going to greater lengths to find potential employees. Some are hiring people with criminal records or loosening hiring requirements. Others are trying to entice people previously on the economy's sidelines, like at-home parents and recent retirees.

"I've had more conversations about retirees in the last month than I have in the last year," said Becky Frankiewicz, president of ManpowerGroup, a staffing firm. "That's an ideal population because they're still highly skilled and they're experienced."

Document NYTF000020180407ee470004n

The New York Times

Washington; SECT
Trump Aims New Threat at China as Mnuchin Warns of Trade War

By ANA SWANSON and EILEEN SULLIVAN; Alan Rappeport contributed reporting from Washington, and Alexandra Stevenson from Hong Kong.
1,373 words
7 April 2018
The New York Times
NYTF
The New York Times on the Web
English

WASHINGTON -- President Trump defended his pugnacious approach to trade policy on Friday and the Treasury secretary warned there could be a trade war with China, as Mr. Trump doubled down on a White House plan to punish Beijing by threatening to levy tariffs on an additional $100 billion in imports.

''There is the potential of a trade war,'' Steven Mnuchin said in an interview with CNBC. ''There is a level of risk that we could get into a trade war.''

Mr. Mnuchin said he was hopeful that negotiations with his Chinese counterparts could avert a damaging escalation of retaliatory, tit-for-tat tariffs but declined to elaborate on the status of talks and whether he thought an agreement could be reached.

Financial markets continued to drop on Friday as the potential for a damaging trade dispute -- which had begun to fade on Wednesday and early Thursday as other top White House advisers tried to soothe markets -- reared its head amid comments by Mr. Trump, Mr. Mnuchin and Robert Lighthizer, the United States trade representative, suggesting the United States would not back down.

In a radio interview that aired on Friday, Mr. Trump acknowledged that his approach to China could cause ''a little pain'' to **financial markets** but said that it would be worth it in the long run.

''Now we could -- the easiest thing for me to do would be just to close my eyes and forget it,'' Mr. Trump said on WABC Radio's ''Bernie & Sid in the Morning'' show.

''If I did that, I'm not doing my job. So, I'm not saying there won't be a little pain, but the market's gone up 40 percent, 42 percent -- so we might lose a little bit of it -- but we're going to have a much stronger country when we're finished. And that's what I'm all about. We have to do things that other people wouldn't do.''

Mr. Mnuchin said on Friday that a correction was normal after such a long stretch of rising stock prices. He insisted that Mr. Trump's trade policy would be good for economic growth and that he was not concerned about daily declines in stocks.

''I think these are all long term positive things that the president is willing to defend our interests,'' Mr. Mnuchin said.

He added that he continued to be optimistic that a mutually beneficial agreement could be worked out.

''I think this could be good for us and good for them,'' he said.

Mr. Trump, in a tweet on Friday, criticized both China and the World Trade Organization, saying that the Chinese ''get tremendous perks and advantages, especially over the U.S. Does anybody think this is fair. We were badly represented. The WTO is unfair to U.S.''

That followed another early morning tweet, in which Mr. Trump boasted that the new metals tariffs he has put into effect on China and other nations had not hurt American consumers as his critics predicted.

The price of aluminum per pound has been falling since February, a decline that started before the tariffs were imposed. Mr. Trump's decision to exempt Canada, which supplied more than half of America's aluminum imports in 2016, has also helped to soften the blow from tariffs, companies say.

The president's criticism of the World Trade Organization is not new -- many of his top advisers have complained that its process for reviewing and resolving trade disputes has put the United States and Western countries at a disadvantage.

But the United States has said it will take its complaint about Chinese trade practices, including the tactics it uses to gain access to American intellectual property, to the global body as part of the sweeping trade action the White House announced last month. That White House investigation found that China cheats the United States out of $50 billion annually through pressure and other coercive measures aimed at gaining access to American technology.

On Friday morning, the White House issued an additional statement defending the president's actions.

''Year after year, China continues to distort global markets and harm U.S. businesses and consumers with unfair trade practices,'' the press office said.

''The president is for free trade, but it must also be fair trade. Addressing unfair trade practices and ensuring that global trade is free, fair, and reciprocal will have a significant positive long-term impact on the U.S. economy,'' the statement said.

But the approach has come under swift and stinging criticism from lawmakers of both parties, as well as industries whose businesses depend on access to China's markets.

Senator Heidi Heitkamp, a Democrat from North Dakota, called Mr. Trump's actions ''reckless,'' saying in a tweet that 60% of her state's exports to China are agricultural products. ''China's unfair trade policies need to be reined in but this isn't the way to do it.''

In his statement on Thursday, Mr. Trump said he had instructed the agriculture secretary to implement a plan to protect farmers and agricultural interests. It is unclear what that plan could entail, but Chad Bown, a senior fellow at the Peterson Institute for International Economics, said that if the president chose to subsidize farmers, he could spark a wider conflict with countries beyond China, which would object to unfair competition from American agriculture.

White House trade advisers have described the tariff threats as a long overdue action against a pernicious cheater in global trade, saying China has long engaged in pressure, coercion and outright theft to gain access to valuable intellectual property. Yet the escalating threat of a trade war between the world's two largest economies has unnerved many American businesses that depend on China as a source for goods or as a market for their own products.

Global markets were cautiously lower on Friday, following a **volatile** week in which markets plunged on the president's initial trade threats, then recovered as his advisers said the trade move was mostly a negotiating tool and might not even go into effect.

China was celebrating a national holiday Friday and did not immediately announce any concrete action against the president's threat of an additional $100 billion in tariffs. A spokesman said the Chinese Ministry of Commerce had ''taken note'' of the White House's statement, adding that ''the Chinese position has been made very clear. We do not want to fight, but we are not afraid to fight a trade war.''

If the United States follows through with its threats, the Chinese ''will follow suit to the end and will not hesitate to pay any price,'' he said, arguing that the United States initiated the conflict.

In the meantime, the trade measures ignited a swift response from manufacturers, retailers and politicians from states whose economies depend on agriculture. Although China exports far more to the United States than it imports, China is still the United States' third largest export market after Canada and Mexico, a vital destination for American-made goods like Boeing airplanes, luxury automobiles and soybeans.

''Hopefully, the president is just blowing off steam again, but if he's even half-serious, this is nuts,'' Senator Ben Sasse, Republican of Nebraska, said on Thursday. ''Let's absolutely take on Chinese bad behavior, but with a plan that punishes them instead of us. This is the dumbest possible way to do this.''

The National Retail Federation criticized the new round of tariffs as a dangerous game of chicken ending with the United States on the losing end of a trading relationship that has benefited American companies and consumers.

''This is what a trade war looks like, and what we have warned against from the start. We are on a dangerous downward spiral, and American families will be on the losing end,'' Matthew R. Shay, the president and chief executive of the retail group, said in a statement. ''We urge the administration to change course and stop playing a game of chicken with the nation's economy.''

Document NYTF000020180407ee4700046

The New York Times

Foreign Desk; SECTA
Trade Upheaval Casts a Shadow On the Recovery

By BEN CASSELMAN and JIM TANKERSLEY
1,426 words
7 April 2018
The New York Times
NYTF
Late Edition - Final
1
English

The rapidly escalating trade conflict with China has upended the prevailing economic dynamic of falling unemployment and faster growth, leaving policymakers and investors scrambling to figure out the way forward.

The threat of a trade war loomed over Jerome H. Powell's inaugural speech as Federal Reserve chairman on Friday in Chicago, even as he tried to focus attention on the fundamental strength of the American economy. **Financial markets** fell Friday morning after President Trump's latest salvo against China, then tumbled further after Mr. Powell indicated that the Fed saw no imminent need to adjust its outlook. The **Standard & Poor's 500-stockindex** ended the day down 2.2 percent, closing a turbulent week.

And there was uncertainty in Washington, where lawmakers, lobbyists and even White House officials struggled to discern how much of Mr. Trump's move was policy and how much was bluster.

The president acknowledged that the trade friction could take a toll. ''I'm not saying there won't be a little pain,'' he said in a radio interview on Friday. ''But we're going to have a much stronger country when we're finished.''

The concern over trade was evident at Mr. Powell's appearance before the Economic Club of Chicago. The Fed chief did not mention tariffs in his speech, but in a question-and-answer session afterward, they were the first topic raised.

The Fed chief, who took his post in February, said it was ''too early to say'' what impact the dueling trade measures would have. ''We don't know the extent to which the tariffs will actually come into effect and, if so, how big will that effect be and what will the timing of it be,'' Mr. Powell said. But he made it clear that the Fed would watch closely for any sign that the trade dispute was knocking the recovery off course.

The trade tensions complicate what was already a tricky task for the Fed. Hundreds of billions of dollars in tax cuts and spending increases risk fueling inflation, as do wage pressures from a robust labor market. The government's monthly jobs report on Friday, while more subdued than in recent months, still pointed to a healthy employment picture.

Yet policymakers are wary of acting too aggressively to slow the economy at a time when wage growth has been tepid. The Fed's response has been gradual interest-rate increases.

A trade war could act as a drag on economic growth, forcing the Fed to be even more cautious. But tariffs could also raise consumer prices by limiting cheap imports from China and other countries. That could increase the risk that the Fed will lift rates too quickly, choking off the recovery.

''There's an immediate, knee-jerk reaction to tighten policy more,'' said Ellen Zentner, chief United States economist for Morgan Stanley.

The latest escalation between the United States and China came Thursday evening, when Mr. Trump said he was considering tariffs on an additional $100 billion of Chinese imports. That came on top of the tariffs on steel and aluminum imposed last month and those on $50 billion in Chinese goods that he proposed in recent days. China has responded with its own new tariffs.

It is not clear whether Mr. Trump will make good on his latest threats. Larry Kudlow, Mr. Trump's new top economic adviser, has sought to portray the tariffs as an opening bid in a negotiating process with China, and he told reporters on Friday that ''there are all kinds of back-channel discussions going on.''

But Mr. Trump's Treasury secretary, Steven Mnuchin, indicated that tensions had reached a more combustible level. ''There is the potential of a trade war,'' Mr. Mnuchin said Friday on CNBC. ''There is a level of risk that we could get into a trade war.''

The trade upheaval threatens to undermine an American economy that is at its strongest point since the financial crisis struck a decade ago. Employers have added jobs for 90 consecutive months, by far the longest streak on record; the unemployment rate, at 4.1 percent, is the lowest since 2000.

''The labor market has been strong, and my colleagues and I on the Federal Open Market Committee expect it to remain strong,'' Mr. Powell said on Friday, referring to the Fed's policy group.

Wage growth, weak for much of the recovery, ticked up in March, and Mr. Powell said he expected the gains to continue in the months ahead. And while workers would, without a doubt, like to see their pay rise more quickly, the gradual pace is comforting for some investors, who have been watching for any hints that the economy is overheating.

In his speech, Mr. Powell said the Fed saw ''other signs of economic strength,'' citing ''steady income gains, rising household wealth and elevated consumer confidence,'' which he said would continue to support consumer spending.

Other economists agreed, saying that the recently passed tax and spending measures give the economy added momentum. A full-blown trade war might be enough to short-circuit the recovery, they said, but isolated tariffs -- even large ones -- most likely are not.

Certain categories are more vulnerable. Among the retaliatory moves announced by China are new tariffs on soybeans, which could hurt American farmers already struggling with low prices for their crops.

The nation's factories, a sector that Mr. Trump has championed, have become a bright spot in the recovery -- a development Mr. Powell underlined on his Chicago visit by touring an incubator for industrial start-ups. But Mr. Trump's tariffs could force manufacturers to pay more for materials, and China's countermeasures could hurt their overseas sales.

Just the prospect of tariffs -- even before they begin to take a direct bite -- could hurt the economy if it makes corporate executives reluctant to invest.

Becky Frankiewicz, president of ManpowerGroup, a staffing firm, said she was already hearing from clients that they are more hesitant to commit to major projects, at least until they see whether this week's skirmishes develop into an all-out trade war.

''We're not seeing the impact directly of tariffs yet, but we would say there's pretty broad conservatism as a result,'' she said.

Mr. Powell said Fed policymakers, too, were conscious of concerns from corporate executives.

''We did hear from a number of business leaders around the country that changes in trade policy had become a bit of a risk to the medium-term outlook,'' Mr. Powell said in the question-and-answer session.

Continued turmoil in **financial markets** could begin to hurt spending, especially among higher earners, who are more likely to own stocks. Ms. Zentner said surveys suggested that some high-income consumers had already become more pessimistic as markets have become more **volatile**.

''It's starting to affect those groups, whose spending is more tied to the **stock market**,'' Ms. Zentner said. ''If they simply pause their spending or become more prudent in their spending because of market **volatility**, it drags down consumer spending in the aggregate.''

The effect of all this on the Fed's thinking won't be clear until the next policy meeting on May 1 and 2. Fed officials raised interest rates by a quarter of a percentage point at their most recent meeting, in March, to a range of 1.5 percent to 1.75 percent. Officials indicated that they considered the economy and labor market healthy, and that they expected to raise rates twice more this year and three times in 2019.

Mr. Powell, like his predecessor, Janet L. Yellen, cast that gradual series of increases as a carefully planned strategy to ensure that the Fed will not need to raise rates abruptly in the event of a steep rise in inflation. But he also cautioned that policymakers could change course if necessary.

''Our views about appropriate monetary policy in the months and years ahead will be informed by incoming economic data and the evolving outlook,'' Mr. Powell said. ''If the outlook changes, so will monetary policy. Our overarching objective will remain the same: fostering a strong economy for all Americans -- one that provides plentiful jobs and low and stable inflation.''

Follow Ben Casselman on Twitter: @bencasselman.

Jerome H. Powell, the Fed chairman, visited a Chicago incubator for start-ups to highlight the role of manufacturing in the recovery. (PHOTOGRAPH BY LYNDON FRENCH FOR THE NEW YORK TIMES) (A8)

Document NYTF000020180407ee4700049

THE WALL STREET JOURNAL.
U.S. EDITION

Crude Prices Slide Lower

By Sarah McFarlane and Alison Sider
164 words
7 April 2018
The Wall Street Journal
J
B11
English

Oil prices fell, capping their worst week in two months, amid rising trade tensions between the U.S. and China.

Crude prices have lately mirrored stock markets, which stumbled as fears of a trade war between the world's two biggest economies intensified throughout the week.

"They are just moving in lockstep," John Saucer, vice president of research at Mobius Risk Group, said of oil and stocks. The selloff in oil was "driven by equity markets, but does create its own momentum," he said.

Crude for May delivery fell $1.48, or 2.3%, to $62.06 a barrel on the New York Mercantile Exchange on Friday. Prices ended the week down 4.4%, their worst decline since early February.

Brent, the global benchmark, dropped $1.22, or 1.8%, to $67.11 a barrel on ICE Futures Europe, ending 3.2% down on the week.

Document J000000020180407ee4700028

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: For President, the Attacks On Amazon Are Personal

By Peter Nicholas
707 words
7 April 2018
The Wall Street Journal
J
A5
English

Early in President Donald Trump's term, when White House officials heard him complain vociferously about Amazon.com Inc., they arranged private briefings in the Oval Office to make sure that he would talk knowledgeably about the company.

Gary Cohn, his top economic adviser, and other officials gave PowerPoint presentations and briefing papers they believed debunked his concerns that Amazon was dodging taxes and exploiting the U.S. Postal Service.

It made little difference. Mr. Trump persisted in attacks that ran counter to the material they had showed him. "It's not the narrative he wants," one person familiar with the matter said of the briefings. "He clearly didn't find it persuasive because he keeps saying it's untrue."

In the past week, Mr. Trump has turned what were sporadic and often private criticisms into a sustained volley of tweets against Amazon, often causing **stock-market** fluctuations.

Fueling Mr. Trump's ire is not so much Amazon, the online giant that is revamping the retail industry, but the company's Chief Executive Officer Jeff Bezos, who also owns the Washington Post, people close to the White House say.

Mr. Trump sees Mr. Bezos's hand in newspaper coverage he dislikes and is lashing out at Amazon as a proxy, these people said.

The White House didn't respond to a request for comment. A Post spokeswoman, asked for a response, referred to quotes from the paper's leadership in a story published Thursday. In that piece, publisher Frederick J. Ryan Jr. said that Mr. Bezos has "never proposed a story."

"Jeff has never intervened in a story. He's never critiqued a story. He's not directed or proposed editorials or endorsements," Mr. Ryan said.

Amazon declined to comment. But the company says it collects sales taxes on its own inventory in all 45 states that have that type of tax and has voluntarily started collecting taxes in some municipalities. Many small businesses selling products on Amazon's site don't collect sales taxes outside of the states where they are based.

Still, Mr. Trump stepped up his attack Thursday, tweeting about the company and telling reporters aboard an Air Force One flight home from West Virginia: "Amazon is just not on an even playing field. They have a tremendous lobbying effort, in addition to having the Washington Post, which is, as far as I'm concerned, another lobbyist."

"Look at the sales tax situation," Mr. Trump added, suggesting the company doesn't pay its fair share of them.

Mr. Trump's most recent statements prompted aides to go back to him this week to tell him his Amazon critique might be "missing the point," a White House official said. In response, Mr. Trump has been "digging in," this person said.

In past briefings, his advisers have told him how Amazon pays taxes, the person familiar with the matter said.

The president's advisers similarly have presented financial data that show the Postal Service's financial woes are being caused by forces other than Amazon: notably that people are sending far fewer letters.

The Postal Service has suffered a decline in revenue from first-class mail delivery of about 7% in the fiscal year that ended in November. Meantime, it has had strong growth in package delivery, the category that would account for Amazon and many other online retailers, with revenue growing 11% in the same fiscal year to November.

Mr. Trump's most recent flurry of tweets targeting Amazon has coincided with the publication of Post stories he dislikes -- one that documented problems at a White House office that vets political appointees and another that depicted Mr. Trump acting more independently of chief of staff John Kelly and other "moderating forces."

Privately, Mr. Trump has "talked about the fact the Washington Post is solely owned by Jeff Bezos and he [Mr. Bezos] is using that same entity to take on the president and the administration," said one person who talks to Mr. Trump regularly.

Another person close to the White House said: "Every time there was a bad story, it [Amazon] would come up."

Document J000000020180407ee4700024

THE WALL STREET JOURNAL.
U.S. EDITION

Business News: CSX Reports Payout For Late CEO

By Theo Francis
275 words
7 April 2018
The Wall Street Journal
J
B6
English

CSX Corp. disclosed compensation totaling $151 million for deceased railroad executive Hunter Harrison, the biggest CEO pay package for 2017 reported so far by a large U.S. company. But his payout isn't what it seems.

About $116 million of his package -- stock options that were to vest over four years -- vanished with Mr. Harrison's death on Dec. 16, the company said in its annual proxy statement filed with the Securities and Exchange Commission.

The remaining $35 million would still leave Mr. Harrison with the 10th-highest pay for the year reported thus far by **S&P 500** companies.

Some $29 million of Mr. Harrison's remaining compensation reflects payments CSX agreed to make on behalf of activist investor Mantle Ridge, which brought the 72-year-old railroad veteran on board in March as part of a bid to revamp the company despite concerns about his health.

CSX also reimbursed Mantle Ridge for a $55 million payment made to Mr. Harrison before he became CEO. That isn't included in the pay package reported to the SEC. Counting that sum, Mr. Harrison's compensation was more than $90 million last year, or No. 2 among big-company CEOs to date.

In its proxy filing, CSX said the 2017 compensation package was unique and necessary to secure Mr. Harrison's "proven leadership."

Investors approved the $84 million in payments tied to Mantle Ridge by a wide margin in a June shareholder vote.

A spokesman for CSX declined to comment beyond details disclosed in its proxy.

Document J000000020180407ee470001i

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Jobs Take a Gut Punch And Trade Is a Culprit

By Ken Brown
377 words
7 April 2018
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

There are good reasons to brush off the weak March jobs number. It was payback from a rousing February, the weather was miserable and economists have been way too optimistic about the March figures in recent years.

Investors can be somewhat comforted by those explanations. But they shouldn't ignore two other possible reasons why the economy created just 103,000 jobs, down from a revised 326,000 in February and the second-lowest figure of the past 12 months.

President Donald Trump began his trade tirade right at the start of March with tweets about putting tariffs on steel and aluminum, which he quickly followed with an announcement about the penalties. That set off a month of dueling threats and actual tariffs that has only gotten more heated.

Mr. Trump's first actions sent stocks tumbling, setting up March to be a **volatile** and down month for the market and leading to the first quarterly decline in nine quarters.

The combination of a trade dispute and a **volatile stock market** could make executives, who have been struggling to hire in a tight job market, a bit nervous. It wasn't too long ago that executives were too worried about weak economic growth to hire more than absolutely necessary. Deutsche Bank economist Torsten Slok says nervousness about trade was jarring to executives because of the strong, pro-business sentiment that prevailed until early this year.

The evidence for that is most clear in employment by goods producers, which was up just 15,000 -- compared with a gain of 106,000 in February -- largely because of a 15,000-job decline in construction hiring. It is no coincidence that builders use lots of aluminum and steel, though they also were hit by weather. While goods producers are a smaller part of the economy than the service sector, they had been big drivers of job growth in recent months after choppy gains last year. It is just one month of data from a miserable month, weatherwise, but the overlap with the start of a possible trade war may not be a coincidence.

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Document J000000020180407ee470001e

THE WALL STREET JOURNAL.

World

China Set to Strike Back 'Forcefully' at Threatened New U.S. Tariffs; President Trump is threatening tariffs on $100 billion more of Chinese goods

By Lingling Wei
900 words
6 April 2018
06:53 PM
The Wall Street Journal Online
WSJO
English

BEIJING—China vowed strong retaliation if the U.S. imposes newly threatened tariffs on Chinese goods and ruled out engaging in negotiations while Washington is escalating the pressure on Beijing over trade.

President Donald Trump's announcement late Thursday that he was considering penalties on an additional $100 billion in Chinese goods brought a vehement response from the government. At a hastily-arranged briefing with reporters Friday night, Chinese Commerce Ministry spokesman Gao Feng described the U.S. move as "extremely wrong" and acknowledged the two governments were now in a battle.

"China is fully prepared to hit back forcefully and without hesitation," Mr. Gao said. He said that China has put in place "detailed countermeasures" and those measures "don't exclude any options." Mr. Gao didn't elaborate.

Mr. Gao denied that Beijing and Washington were engaged in any negotiations and said they haven't done so "for a period of time," despite remarks by some U.S. officials that both sides were trying to resolve the disputes.

"Under such circumstances, it's even more unlikely for the two sides to engage in any kind of negotiations," Mr. Gao said.

Beijing's apparent refusal to negotiate marks a new phase in weeks of rising tensions during which China largely reacted with measured calm to Trump administration moves and kept open the door for dialogue.

Economists said the Trump administration's latest action could leave the Chinese government facing options beyond tariffs to retaliate.

The additional penalties on $100 billion in imports from China would come on top of proposed tariffs on $50 billion in imports from China that Washington unveiled last week. The Trump administration aims to rebalance trade that last year favored China by $375 billion.

Beijing has responded in kind to the U.S. actions with penalties of a similar value. But if the Trump administration pursues tariffs on an additional $100 billion in goods, the new $150 billion total would exceed the roughly $130 billion in goods China imports from the U.S. That would force Beijing to seek other options.

Such measures, economists said, could include stepped-up regulation of American companies operating in China and using the threat of a trade war to rattle the U.S.'s larger and more important **financial markets**, compared with China's smaller, less globally connected ones.

"China shouldn't dance to the U.S.'s tune," said Mei Xinyu, a researcher with the government-backed China Academy of International Trade and Economic Cooperation. He pointed to the U.S. financial-services sector as one vulnerability.

Already unsteady after the exchange of trade salvos earlier in the week, markets slid Friday. The **Dow Jones Industrial Average** was down about 1.6% in morning trading, following Asian markets broadly lower.

Beyond the threats of trade penalties, China has actually imposed tariffs on $3 billion worth of American farm goods and other products, answering similar levies placed by the U.S. on Chinese steel and aluminum.

In looking for retaliatory options beyond tariffs, economists said, Beijing can turn to its experience in punishing other countries it has had disputes with. For example, at different points in recent years China has banned group travel to the Philippines, Japan and South Korea, depriving them of revenue, according to officials in those countries.

And last year consumer boycotts and stepped-up inspections by regulators so crimped business at Lotte Group's hypermarts and supermarkets in China that the South Korean conglomerate decided to sell some of them. Though Beijing officials denied a connection, the boycotts and inspections came after South Korea agreed to deploy a U.S. missile-defense system that China said endangered its national security.

"There's every prospect that U.S. firms could be leaned on, face additional and aggravating regulation, or be sanctioned somehow," said George Magnus, an associate at the University of Oxford's China Center and a former chief economist for UBS.

And going after American companies, he said, would further anger the White House and "pretty soon we're approaching meltdown."

Ha Jiming, a former economist with Goldman Sachs and now at China Finance 40 Forum, a Beijing think tank, said that Beijing might have few options but to reduce holdings of U.S. Treasurys. That could raise borrowing costs for the U.S., but other economists have cautioned that it would also increase the value of the yuan, making Chinese exports less competitive.

Senior Chinese officials have offered assurances that Beijing will continue to follow market-based principles in managing its foreign-exchange stockpile.

"China is a responsible investor in global capital markets," Chinese Vice Finance Minister Zhu Guangyao told reporters Wednesday.

Mr. Mei, the Chinese researcher, said China is considering other options because its response has to match the Trump administration's threats. "This is a bet on whose stance is tougher," he said.

Lin Zhu contributed to this article.

Write to Lingling Wei at lingling.wei@wsj.com

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THE WALL STREET JOURNAL.

Markets

Attorney General During Financial Crisis Is Now a Confidant to Corporations; Eric Holder works at a Washington law firm and recently took on Uber's case

By Daniel Kruger
587 words
6 April 2018
09:30 AM
The Wall Street Journal Online
WSJO
English

A decade after the financial crisis, The Wall Street Journal has checked in on dozens of the bankers, government officials, chief executives, hedge-fund managers and others who left a mark on that period to find out what they are doing now. Today, we spotlight former Treasury Secretary Timothy Geithner and former Attorney General Eric Holder.

Eric Holder has gone from serving as the nation's top prosecutor to being one of the business world's leading advisers.

He was sworn in as U.S. Attorney General in February 2009 as policy makers were straining to support **financial markets** after the collapse of Lehman Brothers a few months earlier.

Under his leadership, the Justice Department negotiated several billion-dollar settlements for fraud tied to the mortgage market. But Mr. Holder has faced criticism for not prosecuting anyone on Wall Street for their roles in the financial crisis.

He stepped down in 2015 to return to Covington & Burling LLP, a Washington law firm known for representing banking clients where Mr. Holder is part of a unit charged with internal corporate investigations.

The 67-year-old attorney recently took on the case of ride-hailing company Uber Technologies Inc., which had been dogged by allegations of gender bias and sexual harassment. Mr. Holder's team in June 2017 recommended the company reduce founder Travis Kalanick's leadership role and that it make executives more accountable for fixing problems. Mr. Kalanick stepped down as CEO later that year under pressure from Uber shareholders.

Mr. Holder declined a request for an interview.

He has recused himself from working on matters that were the subject of Justice Department litigation during his time in office. But he still gets blamed for not prosecuting any individuals from companies at the heart of the financial crisis.

"A lot of Americans felt they were screwed and all the fat cats that got them into the situation got off scot-free," said Alan Blinder, a Princeton University economics professor and former vice chairman of the Federal Reserve.

The former attorney general has said the view that he went easy on banks is "misplaced." At a Democratic Platform Drafting Committee hearing in June 2016, he said, "we had in some cases statutory and sometimes factual inabilities to bring the cases we wanted to bring."

Mr. Holder, who also served as deputy attorney general under President Bill Clinton, maintains a toehold in politics. He heads the National Democratic Redistricting Committee, where he is pushing states to redraw legislative district maps which it says have been used to help protect Republican majorities.

He has criticized President Donald Trump's administration, saying that the president's broadsides against the Justice Department and the Federal Bureau of Investigation undermine the credibility of law-enforcement agents.

Mr. Holder hasn't said whether he plans to seek office.

"I think I'll make a decision by the end of the year about whether there is another chapter in my government service," he told reporters at a Christian Science Monitor breakfast in February.

Write to Daniel Kruger at Daniel.Kruger@wsj.com

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THE WALL STREET JOURNAL.

Markets

Former Treasury Secretary Timothy Geithner Is Now a Private-Equity Firm Executive; At Warburg Pincus, Geithner works on strategy and meets with investors

By Ryan Dezember
587 words
6 April 2018
09:30 AM
The Wall Street Journal Online
WSJO
English

A decade after the financial crisis, The Wall Street Journal has checked in on dozens of the bankers, government officials, chief executives, hedge-fund managers and others who left a mark on that period to find out what they are doing now. Today, we spotlight former Treasury Secretary Timothy Geithner and former Attorney General Eric Holder.

Since helping steer the U.S. through the global financial crisis, former Treasury Secretary Timothy Geithner has been cashing in.

He signed a book deal and hit the six-figure-speech lecture circuit. He so impressed one audience, at Warburg Pincus LLC's annual meeting, that the Manhattan investment firm hired him as its president.

In March 2014, he started at the firm known for staking oil explorers and multibillion-dollar buyouts of retailer Neiman Marcus and eye-health company Bausch & Lomb. He wasn't the first former Treasury secretary to go from Washington to Wall Street. Unlike predecessors, however, his arrival wasn't a homecoming. He had never worked for a financial firm or a bank.

Mr. Geithner was a civil servant who had climbed the technocratic career ladder one financial crisis after another—Mexico, Asia, Russia—until he became head of the Federal Reserve Bank of New York, in 2003. He was still there four years later when **financial markets** began to implode and he was tapped, in the middle of the maelstrom, by President-elect Barack Obama to see through the financial system's rescue as Treasury secretary.

His confirmation hearing revealed him to be very different from the banking titans who typically held the post, never mind his boyish looks: He was well-off enough to afford household help, yet used TurboTax to prepare his returns.

When he joined Warburg, New York state records show, he had to borrow the cash that the firm requires its executives to invest in its private-equity funds. So-called skin-in-the-game can amount to millions of dollars up front but can return staggering wealth over time.

Mr. Geithner, 56 years old, declined to comment, and a Warburg spokeswoman said the firm doesn't discuss the particulars of his days. Generally, she said, Mr. Geithner strategizes with the firm's co-chief executives, meets with investors and, sometimes, gets involved with particular investments, usually in Asia or involving financial firms. A Warburg spokesman said he also lectures at the Yale School of Management.

Mr. Geithner refers to himself as a "backstage guy" in his 580-page memoir, "Stress Test: Reflections on Financial Crises." He found the spotlight glaring and felt he sometimes struggled to articulate his rescue plan.

"I'd somehow managed to convince the public we'd be overly generous to Wall Street while convincing the markets we wouldn't be generous enough," he wrote of his first speech as Treasury secretary.

Some—by no means all—of the anger over bank bailouts could have been soothed had he better explained his unpopular but necessary decisions, he wrote: "We did save the economy, but we lost the country doing it."

Write to Ryan Dezember at ryan.dezember@wsj.com

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THE WALL STREET JOURNAL.

Politics

The Architect of Trump's Threatened China Trade War; U.S. Trade Rep Bob Lighthizer argued that years of negotiation with Beijing had produced little and now the time had come for a confrontational approach

By Bob Davis
2,357 words
6 April 2018
11:20 AM
The Wall Street Journal Online
WSJO
English

WASHINGTON—President Donald Trump's tough policy on China trade took shape in a White House meeting last August—and at the center was an often-overlooked man.

Decades of quiet negotiations had gotten nowhere, U.S. Trade Representative Robert Lighthizer told senior White House advisers and cabinet officials gathered in the Roosevelt Room.

"China is tap, tap, tapping us along," he said, meaning it regularly promised policy changes but didn't deliver. He punctuated his talk with charts showing how the trade deficit with Beijing had widened.

U.S. Ambassador to China Terry Branstad, linked by videophone, asked for a chance to conduct another round of talks based on a rapport he was developing with the Chinese. He found little support. It was time to act, starting with a formal investigation of China for unfair trade practices, Mr. Lighthizer argued.

A few days later, Mr. Trump announced an investigation of alleged Chinese violations of U.S. intellectual-property rights—headed by Mr. Lighthizer. It marked the start of the most dramatic and high-risk effort in decades to force the world's second largest economy to change its behavior, which culminated this week in an order threatening to slap tariffs on $50 billion of Chinese imports, a move that also had Mr. Lighthizer's imprint on it.

After China threatened tariffs on an equal amount of imports from the U.S., Mr. Trump on Thursday called that "unfair retaliation" and said he might put tariffs on a further $100 billion of Chinese imports, tripling the amount subject to them. A Chinese Commerce Ministry spokesman said on Friday Beijing "is fully prepared to hit back forcefully and without hesitation."

Mr. Lighthizer's role became clear to the Chinese when the Trump economic team landed in Beijing in November for a round of discussions. Mr. Trump made sure the U.S. trade representative met with top Chinese leaders while some others waited outside.

In a session with President Xi Jinping, Mr. Lighthizer laid out how fruitless the U.S. considered past negotiations and how the president was concerned the U.S. trade deficit continued to expand. While US officials saw Mr. Lighthizer's comments as a lawyerly argument, Chinese officials described their reaction as shocked.

Today, Mr. Lighthizer is exchanging letters with China's senior economic envoy on measures Beijing could take to head off a trade war. Negotiations are likely to stretch over many months—an ambiguity that could rattle **financial markets** and lift prices on goods earmarked for tariffs.

"Trump and Lighthizer are like-minded," said William Reinsch, a former trade official now at the Center for Strategic and International Studies. "There is a negotiating strategy of bullying, intimidation, and threats to soften up [the adversary]. Then, maybe make a deal."

Mr. Lighthizer's brother, Jim Lighthizer, a former Democratic politician, puts it another way. "His approach is direct; he doesn't spend a lot of time on nuance."

Mr. Lighthizer declined requests for comment.

Many U.S. businesses say they are fed up with what they view as unfair Chinese subsidies to local companies, and strong-arm tactics that make them hand over technology to Chinese partners. Still, they worry U.S. threats of tariffs could backfire and leave them vulnerable to retaliation.

"We want to prod the administration to line up friends and allies" to press China, said Josh Bolten, head of the Business Roundtable trade group and a former White House chief of staff for George W. Bush. "If it's just the U.S. versus China, negotiations will be confrontational. The winners may not be the international trading order but our European and Japanese competitors," which could increase sales to China.

Early in the Trump administration, Commerce Secretary Wilbur Ross, a longtime Trump ally who had done business in China, was expected to lead China economic policy. He privately referred to Mr. Lighthizer, a former trade attorney, as his lawyer, say business executives, who took it as a slight. A Commerce official said Mr. Ross meant only that the two had worked together previously on steel issues.

Mr. Ross's star dimmed when the president dismissed an early package of deals the commerce secretary negotiated with Beijing as little more than a repackaging of past offers, say senior White House officials. "Shut it down," Mr. Trump told Mr. Ross in July when he stripped Mr. Ross of his China role and closed down the talks, according to senior administration officials.

Mr. Ross continues to work on China issues, including advising Mr. Lighthizer on which Chinese imports to target for tariffs, a Commerce official said.

Mr. Lighthizer, by contrast, managed to bridge a sharp divide over trade among Mr. Trump's warring factions.

To so-called nationalists like trade aide Peter Navarro, who was itching to take on China, Mr. Lighthizer was a China hawk. Mr. Navarro is mainly an idea man, who has seen his role as making sure the White House carries out the president's campaign pledge to stop China from "ripping us left and right." Mr. Lighthizer runs a trade agency, plots strategy and carries it out. The two have worked together to develop on China policy, though they sometimes disagree on tactics.

To the so-called globalists such as former National Economic Council Director Gary Cohn, who worried about the impact of trade fights on markets, Mr. Lighthizer was the skilled attorney and former congressional aide who understood how Washington worked.

To Mr. Trump, Mr. Lighthizer was a kindred spirit on trade—and one who shuns the limelight. The two men, who have a similar chip-on-the-shoulder sense of humor, bonded. Mr. Lighthizer caught rides to his Florida home on Air Force One. Mr. Trump summons Mr. Lighthizer regularly to the Oval Office to discuss trade matters, administration officials say.

"Lighthizer has everyone's trust, regardless of their views on trade," said Kevin Hassett, the White House chief economist.

Mr. Lighthizer is skilled at managing up, said his brother, Jim: "Bob recognizes there's one king and he ain't it."

As an attorney at Skadden, Arps, Slate, Meagher and Flom LLP, Mr. Lighthizer represented steel-industry clients who believed they had been hurt by subsidized imported Chinese goods. In op-ed columns dating back to 1997, Mr. Lighthizer opposed the entry of China into the World Trade Organization under the terms being negotiated. Mr. Trump has called the WTO a "disaster for this country."

Mr. Lighthizer's role is a change from recent administrations where China experts, such as Treasury Secretary Henry Paulson in the George W. Bush administration, handled the China economic portfolio. In his previous role as Goldman Sachs Group Inc. chief executive, Mr. Paulson helped China carry out its earliest privatizations and continues to meet with Chinese leaders.

Mr. Lighthizer, on the other hand, is a skilled international trade litigator, more in the mold of former U.S. Trade Representative Charlene Barshefsky, who negotiated China's entry into the WTO. The Trump team thinks China experts have been too quick to back off in negotiations with Beijing.

By the time he took office in May, the administration was fighting internally over whether to impose tariffs on steel and aluminum imports globally. China policy was on the back burner.

While Mr. Lighthizer believed the metal glut was due to Chinese excess production, say administration officials, he thought a fight at that point would be self-defeating because the focus would be on U.S. tariffs, not Chinese trade and investment practices. Assessing tariffs on all steel exporters, many of which are U.S. allies, would paint the U.S. as a villain instead of China.

Rather than risk the ire of Mr. Trump, who considered steel tariffs a campaign promise, Mr. Lighthizer worked quietly with Mr. Cohn and others to get the issue set aside in favor of other priorities.

U.S. trade representatives often regard themselves as lawyers for U.S. exporters, trying to open up new markets. Mr. Lighthizer saw things differently, viewing big U.S. companies as job outsourcers that sometimes had to be reined in.

At a September meeting with about 100 CEOs organized by the Business Roundtable, he said he understood they had to maximize profits, which sometimes meant exporting jobs. "My job is different," he told the group, according to participants. "My job is to represent the American workers. We're going to disagree." It was a position some in the audience found arrogant.

Mr. Lighthizer, 70 years old, grew up in the Lake Erie port city of Ashtabula, Ohio, which was battered by imports. He sees himself as blue-collar even though he is a doctor's son who once raced around West Virginia in sports cars and has financial assets worth between $10 million and $38 million, according to government filings.

As with his boss, bluntness is his calling card. In the mid-1980s, as a U.S. Trade Representative official who negotiated with Japan, he once grew so frustrated he took a Japanese proposal, turned it into a paper airplane and floated it back at the Japanese negotiators as a joke. In Japan, he became known as "the missile man."

In a Senate hearing last month, when Democratic Sen. Maria Cantwell of Washington said his China plans could hurt U.S. aircraft makers, he dismissed her concerns as "nonsense."

As the U.S. moved toward confrontation with China last fall, after the August Roosevelt Room session, Mr. Lighthizer worked to make sure the administration was united. Previously, the U.S. had often balked at confronting China out of fear a fight would tank the global economy and make China less willing to help on national-security issues.

Defense chief Jim Mattis, though, backed a tough approach because he was concerned China was illicitly obtaining U.S. technology and could gain a military edge, say individuals familiar with his thinking. Others in the national-security agencies were tired of what they felt were unmet Chinese promises on Korea and other security issues.

Mr. Cohn, then the economy chief, was as fed up with Beijing as Mr. Lighthizer, say officials. As a longtime president of Goldman Sachs, Mr. Cohn had lobbied to do business unimpeded in China and didn't get the approvals he sought.

At the end of February, China sent its chief economic envoy, Liu He, to Washington to try to restart negotiations. Mr. Liu was ready to pledge that Beijing would open its **financial market**.

He found a frosty welcome. The Chinese embassy had requested 40 visas so Mr. Liu could bring a full entourage. The State Department granted just a handful.

Mr. Liu couldn't get any time with President Trump. Instead, he met with Mr. Lighthizer, Mr. Cohn and Treasury Secretary Steven Mnuchin. The three delivered a simple message, say officials familiar with the talks: The U.S. isn't going to get "tapped around" like prior administrations.

The U.S. wanted substantial changes in trade practices and barriers, which Mr. Lighthizer detailed. They included cutting the tariff China imposes on auto imports from 25% to something closer to the U.S. tariff of 2.5%. The U.S. also wanted a $100 billion reduction of its $375 billion annual merchandise trade deficit with China. To punctuate those demands, the administration planned to threaten tariffs.

One more obstacle needed to be cleared away. President Trump, frustrated that the steel-tariff matter had been indefinitely delayed, was sympathetic to pitches by Messrs. Navarro and Ross that he should finally move on the issue. In early March, Mr. Trump said he would impose 25% tariffs on steel and 10% tariffs on aluminum from any exporting nation.

The international response threatened to drown out the China initiative as U.S. allies complained they were unfairly targeted.

On Tuesday evening, March 20, senior officials gathered again in the Roosevelt Room to decide how to proceed with the tariffs scheduled to go into effect in three days. Mr. Navarro, the trade adviser, argued tariffs should be imposed across the board as the president threatened, say officials. That would increase U.S. leverage with steel-exporting nations, which could be expected to offer concessions to avoid tariffs, he argued.

Mr. Lighthizer, aligned this time with Mr. Ross, pressed for an alternative course. Grant nearly all nations except China temporary exclusions from the tariffs, they proposed, according to participants, but then limit their exports through quotas. That would make the U.S. seem more reasonable in steel negotiations and help form a coalition against China.

The group produced a memo in which the different views were articulated. Mr. Trump backed Mr. Lighthizer's side.

With the steel issue defused, at least temporarily, Mr. Trump announced on March 22 the U.S. would threaten tariffs on Chinese imports. He thanked Mr. Lighthizer for his help and invited him to say a few words.

"This is an extremely important action," Mr. Lighthizer said, "very significant and very important for the future of the country, really, across industries."

Over coming months, the ability of the U.S. to maintain pressure on China will depend on factors including the reaction of markets, opposition by U.S. industries and farmers, and retaliation by China against U.S. companies. Chinese leaders say they are confident they would prevail in a trade war, say U.S. individuals who have met with them recently, and chalk up U.S. threats to Mr. Trump's midterm congressional electioneering.

Jorge Guajardo, a former Mexican ambassador to China and now a Washington consultant, has seen up close how Beijing can pressure companies and wear down governments. "The big question is, 'Will the U.S. blink?'" he said. "Or will they stay the course so China is forced to understand there is a new way of doing business."

Lingling Wei contributed to this article.

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Document WSJO000020180406ee46003jt

THE WALL STREET JOURNAL.

Markets

Oil Falls Amid U.S.-China Trade Tensions; Crude hasn't been included in China's retaliatory tariffs, but investors are wary of the risk

By Sarah McFarlane and Alison Sider
568 words
6 April 2018
03:48 PM
The Wall Street Journal Online
WSJO
English

Oil prices fell Friday, capping their worst week in two months as investors became more fearful of rising trade tensions between the U.S. and China.

Oil prices have lately mirrored equity markets, which stumbled as fears of a trade war between the world's two biggest economies grew throughout the week. On Friday, the **Dow Jones Industrial Average** plunged more than 700 points.

"They are just moving in lockstep," John Saucer, vice president of research at Mobius Risk group, said of oil and equity indexes. The selloff in oil was "driven by equity markets, but does create its own momentum," he said.

U.S. crude futures fell $1.48, or 2.33%, to $62.06 a barrel on the New York Mercantile Exchange. Prices ended the week down 4.43%—their biggest weekly decline since Feb. 9.

Brent, the global benchmark, fell $1.22, or 1.79%, to $67.11 on ICE Futures Europe Friday and ended the week down 3.22%—their worst week since March 2.

The conflict continued to intensify as the week ended. U.S. President Donald Trump on Thursday threatened to impose tariffs on an additional $100 billion of imports from China. China vowed strong retaliation if the U.S. moves ahead with that.

For now, crude hasn't been included in China's retaliatory tariffs, but investors are wary of the risk. China is the second largest importer of U.S. oil.

"The indirect impact is going to be more about a slowdown in global trade and GDP, the feed through into global demand growth," said Richard Mallinson, analyst at consultancy Energy Aspects.

Thus far, the energy products included in China's tariffs are propane and polyethylene. Since the U.S. resumed oil exports in 2016, the shale oil-and-gas boom has helped the country to offset a gaping trade deficit with China.

U.S. trade statistics for February, published Thursday, showed the total trade deficit growing to the largest it has been since 2009 and the largest ever if petroleum is excluded, consultancy JBC Energy said in a note.

"It is obvious that this standoff between the U.S. and China is quite serious and navigating these waters will be tricky for traders as any meaningful change to the perception regarding future trade issues will most likely trump the potential effects of short-term variations to oil fundamentals," the note said.

Other geopolitical issues, which are instead **bullish** for **oil prices**, include rising tensions in the Middle East between major oil producers Iran and Saudi Arabia, along with expectations the U.S. may withdraw from the international nuclear deal with Iran and reinstate sanctions.

"The impact on oil flows if China was to hit U.S. crude oil exports would be about the same as the expected impact on oil flows if the U.S. was to hit the Iranian nuclear deal," said Olivier Jakob, head of energy consultancy Petromatrix.

Gasoline futures fell 2.69 cents, or 1.36%, to $1.9547 a gallon. Diesel futures fell 1.87 cents, or 0.95%, to $1.9578 a gallon.

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THE WALL STREET JOURNAL.

Markets

U.S. Government Bonds Rally on Trade Jitters; Renewed worries about a trade war sap investor appetite for riskier assets

By Sam Goldfarb
424 words
6 April 2018
03:44 PM
The Wall Street Journal Online
WSJO
English

U.S. government bonds strengthened Friday as a fresh round of tariff threats from the U.S. and China sent investors back to the safety of government debt.

The yield on the benchmark 10-year U.S. Treasury note settled at 2.779%, compared with 2.830% Thursday.

Yields, which fall when **bond prices** rise, slipped overnight after President Donald Trump on Thursday said he was considering tariffs on an additional $100 billion in imports from China, prompting a Chinese official to say that the country was "prepared to hit back forcefully and without hesitation."

The official, Commerce Ministry spokesman Gao Feng, also denied that Beijing and Washington were engaged in any negotiations—a rebuttal to remarks by some U.S. officials that had helped ease concerns of investors earlier in the week.

Renewed worries about a trade war sapped investors' appetite for riskier assets, causing stocks to sink while Treasurys rallied.

A mixed jobs report provided another reason to buy bonds. While average hourly earnings for private-sector workers rose at the expected rate, the U.S. added just 103,000 jobs in March, below the 178,000 gain anticipated by economists polled by The Wall Street Journal and a slowdown from the previous month.

Bond investors have watching jobs data closely recently for signs that a tightening labor market could produce a uptick in inflation—a main threat to government bonds because it erodes the purchasing power of their fixed returns.

In a speech Friday, Federal Reserve Chairman Jerome Powell reiterated his message that the central bank wants to see the labor market strengthen further and let inflation reach its 2% target without allowing prices to rise so quickly that it would require more drastic intervention from the Fed.

Bets that inflation will rise have helped lift Treasury yields this year, though the 10-year yield is down from the peak it reached in February.

While Treasurys have benefited from trade jitters, analysts have noted that the response could easily have been greater given the **volatility** of the **stock market** and the potential for a trade conflict to create economic headwinds.

"There are still the concerns about what's going on with the trade situation but even that is being taken with a bit more grain of salt these days," said John Canavan, market analyst at Stone and McCarthy Research Associates.

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Document WSJO000020180406ee46002bd

THE WALL STREET JOURNAL.

Markets
SEC Accuses Cryptocurrency Company Longfin of Securities Violations; In complaint, SEC alleges shares were illegally sold and moves to freeze $27 million in proceeds

By Aaron Back and Jean Eaglesham
816 words
6 April 2018
06:37 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

Longfin's CEO is Venkata Meenavalli. An earlier version of this article misspelled Mr. Meenavalli's first name as Vankata.

The wild ride of cryptocurrency company Longfin Corp. came to an abrupt standstill on Friday, when its shares were halted and the Securities and Exchange Commission accused the company and its chief executive of violating securities laws.

Longfin was listed on **Nasdaq** in December under post-financial-crisis rules that made it easier for small companies to do initial public offerings. Within days, the shares soared 13-fold, making the company worth $5.5 billion. The SEC alleges that Longfin's chief executive and associates effectively sold shares after the stock soared, in violation of securities rules, and it obtained a court order to freeze $27 million of the proceeds.

Longfin shares have been on a roller coaster, surging after the company said it acquired a cryptocurrency company and subsequently falling 85% over six days following its removal from the Russell 2000 small-cap index. Its shares rose 185% in the last three days of this week, including a 47% rise on Friday before they were halted. At the time of the trading halt, Longfin's market valuation stood at $2.1 billion.

On Monday, the company disclosed an SEC probe while also reporting material weaknesses in its financial controls. A review of the company's securities filings, detailed in a Wall Street Journal article on Monday, found failures to disclose important information and misstatements of facts.

Nasdaq said Friday it was halting Longfin shares until the company satisfied its request for unspecified additional information.

Longfin said in a statement that it would cooperate with **Nasdaq** and the SEC.

The SEC said Friday Longfin's founder and CEO, Venkata Meenavalli, had the company issue more than two million shares to Andy Altahawi, who is described in filings as an adviser to Longfin, and tens of thousands of shares to two other individuals, Dorababu Penumarthi and Suresh Tammineedi. The SEC, in its civil action, alleges that Messrs. Penumarthi and Tammineedi were acting as "nominees" for Mr. Meenavalli, or holding shares on his behalf.

After the company's share price rose sharply, the SEC alleges, these three individuals illegally sold large blocks of shares, even though the shares weren't registered for sale. In its complaint, the SEC didn't say when exactly the shares were sold, but that the sale occurred when the **stock price** was "highly elevated." The SEC said it has obtained a court order to freeze $27 million of proceeds from those sales to prevent the funds from being transferred out of the country.

According to its filings, Longfin is based out of a shared office space in Manhattan that had three desks and no computers when The Wall Street Journal visited. Mr. Meenavalli, an Indian entrepreneur, previously told the Journal he is based out of Dubai. The bulk of the company's revenue comes from a Singapore-based subsidiary, according to its filings.

Mr. Altahawi was listed on Longin's website as a director until September, but he later told The Journal that was untrue. According to the company's pre-IPO prospectus, he was issued just over two million shares in exchange for "legal and business development advisory services" related to the IPO. In a recent interview with The Journal, Mr. Altahawi suggested that he hasn't sold his shares even though their lockup expired in March. "I'm not really a seller…I might sell a small amount," he said.

Messrs. Meenavalli and Altahawi didn't reply to requests for comment on Friday. Mr. Meenavalli earlier told The Journal he rejects any suggestion of financial misconduct.

The Longfin prospectus doesn't mention Messrs. Penumarthi or Mr. Tammineedi. But Mr. Tammineedi was a director of Stampede Capital, a company based in Hyderabad, India, that was founded by Mr. Meenavalli and owns 37% of Longfin shares. Mr. Tammineedi resigned as a Stampede Capital director, effective Feb. 14, according to a Stampede Capital statement. Neither man could be reached for comment on Friday.

Despite disclosure of the SEC investigation on Monday, Longfin shares soared in recent days, rising 185% from Tuesday's close until they were halted Friday. Short sellers had bet heavily against Longfin shares and Mr. Meenavalli had criticized them. The shares are down 60% from their closing high in late March, but up more than 460% from the IPO price.

The stock's rebound this week began around the time that CNBC announced that Mr. Meenavalli would appear for an interview with the network. During that interview on Wednesday, Mr. Meenavalli said Longfin is profitable after stripping out shareholder compensation expenses and he plans to expand the company's U.S. operations.

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Document WSJO000020180406ee46005bp

THE WALL STREET JOURNAL.

Business

European Buyers Go Shopping for U.S. Companies; The drop in the U.S. corporate tax rate makes American businesses more alluring to European buyers

By Nina Trentmann
795 words
6 April 2018
05:58 PM
The Wall Street Journal Online
WSJO
English

European executives are targeting U.S. companies as a brighter economic landscape at home and abroad boosts buyer confidence.

Lower taxes and favorable foreign exchange rates are increasingly enticing for France's JCDecaux SA, which has looked at U.S. rivals as potential acquisition targets for more than a decade.

"The change in the U.S. tax rate will make it more attractive for us to pursue such a deal," said finance chief David Bourg.

European companies spent $47.26 billion on U.S. targets since the beginning of the year, through April 5, according to Dealogic. That is the highest deal value for this period since 2006 and up from $37.59 billion worth of deals struck in the same period last year.

The total number of European acquisitions of U.S. companies declined to 113 in that period of 2018 from 172 in that part of 2017, according to Dealogic, an indication that this year's deals are often larger.

Sanofi SA, the French pharmaceuticals company, and AXA SA, the French insurance company, have both made big U.S. transactions, with Sanofi spending over $11.4 billion for Waltham, Mass.-based Bioverativ Inc. in January. AXA in March said it would buy XL Group Ltd. for $15.3 billion.

The drop in the U.S. corporate tax rate to 21% makes U.S. businesses more alluring to European buyers, as does the pullback in the U.S. dollar, which is down nearly 15% against the euro since Dec. 2016.

Wärtsilä Corp., the Finnish maker of marine engines and power plants, is planning to spend hundreds of millions of euros on acquisitions this year. The company is following 15 to 20 companies, including some in the U.S., said CFO Marco Wiren.

"We are continuously looking for new targets," Mr. Wiren said. "The corporate tax reform and the sound business environment make it more attractive to invest in the U.S.," he added. Wärtsilä is prepared to spend €60 million to €400 million ($73.5 million to $490.1 million) per transaction to complement its portfolio, Mr. Wiren said.

European companies are eager buyers because of strong cash reserves, the result of years of conservative spending, in addition to the availability of cheap funding as interest rates remain near historic lows.

Smurfit Kappa Group PLC, Europe's largest paper packaging producer, also is looking for targets abroad, including the U.S. The company reiterated its appetite for acquisitions after Tennessee-based International Paper Co. in late March made a second bid to buy the Irish firm, which Smurfit Kappa rejected.

"The U.S. is a growing market in terms of our business," Smurfit Kappa CFO Ken Bowles said, adding that a larger footprint in the U.S. would allow the company to take advantage of bright economic prospects.

The company's last sizable U.S. transaction was the acquisition of a company called Bates Container LLC for $150 million that closed in 2015.

However, uncertainty about Washington's stance on foreign takeovers could make some buyers pause. President Donald Trumpblocked the takeover of Qualcomm Inc. in March, citing concerns about national security.

Deal makers are also likely to proceed with caution amid escalating trade tensions between the U.S. and China, which have triggered wild swings in global markets.

"The **volatility** has certainly increased," said Philipp Beck, a managing director in UBS Group AG's mergers and acquisitions team. "This is certainly not helpful for transactions," he said. A long-lasting trade conflict between the U.S. and China would also discourage deal making, bankers say.

European buyers must also contend with sticker shock, as U.S. companies often trade at higher valuations than their European peers. Companies in the **S&P 500** command an average trailing price earnings ratio of 18.9, compared with 15.1 for the Stoxx Europe 600, according to Thomson Reuters Corp.

"The historic valuation asymmetry has been partially compensated for by the weaker U.S. dollar," said Borja Azpilicueta, who advises companies in Europe and elsewhere at HSBC Holdings PLC. "But there is still a relative valuation premium for many U.S. firms," he said.

And while the weaker dollar can temper the cost of a U.S. company, it also takes a toll on the income a European buyer would get from a U.S. target.

JCDecaux's Mr. Bourg knows that he might have to put a big offer on the table. "The price of the potential acquisition targets has always been very high," he said.

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THE WALL STREET JOURNAL.

Business

Deceased CSX Chief Hunter Harrison Was Among Top-Paid CEOs; Despite $116 million in lost stock options, railroad chief's 2017 pay ranks in top 10

By Theo Francis
510 words
6 April 2018
12:48 PM
The Wall Street Journal Online
WSJO
English

CSX Corp. disclosed compensation totaling $151 million for deceased railroad executive Hunter Harrison, the biggest CEO pay package for 2017 reported so far by a large U.S. company. But his payout isn't what it seems.

About $116 million of his package—stock options that were to vest over four years—vanished with Mr. Harrison's death on Dec. 16, the company said in its annual proxy statement filed with the Securities and Exchange Commission.

The remaining $35 million would still leave Mr. Harrison with the 10th highest pay for the year reported thus far by **S&P 500** companies. About 347 companies in the index had reported CEO pay through Friday morning, according to data from MyLogIQ.

Some $29 million of Mr. Harrison's remaining compensation reflects payments CSX agreed to make on behalf of activist investor Mantle Ridge, which brought the 72-year-old railroad veteran on board in March as part of a bid to revamp the company despite concerns about his health.

CSX also reimbursed Mantle Ridge for a $55 million payment made to Mr. Harrison before he became CEO. That isn't included in the pay package reported to the SEC. Counting that sum, Mr. Harrison's compensation was more than $90 million last year, or No. 2 among big-company CEOs to date.

In its proxy filing, CSX said the 2017 compensation package was unique and necessary to secure Mr. Harrison's "proven leadership." It reflected the positive market reaction to his potential hiring and was structured to align his interests with shareholders, CSX said.

Investors approved the $84 million in payments tied to Mantle Ridge by a wide margin in a June shareholder vote.

A spokesman for CSX declined to comment beyond details disclosed in its proxy. In the filing, the company noted that its **stock price** rose 35% in the run-up to Mr. Harrison's appointment.

Mr. Harrison's death came just nine months after he was named CEO and while he was in the midst of a major overhaul of the railroad company. The changes he implemented caused disruptions last summer, but CSX's share price finished the year up 55%.

Two other men who served as chief executive at CSX during 2017 made less. CSX reported paying $2.6 million to James Foote, who joined in October and was promoted from chief operating officer after Mr. Harrison's death, and $14.6 million to Michael Ward, who was CEO prior to Mr. Harrison's appointment in March.

The Wall Street Journal reported in March that median CEO pay for **S&P 500** firms is poised to reach a record high, approaching $12 million for 2017. After Mr. Harrison's reported pay, Hock Tan of chip maker Broadcom Ltd., has the highest reported CEO compensation for the year, at $103 million.

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