The New York Times

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**Federal Reserve Leaves Rates Unchanged**

By BINYAMIN APPELBAUM
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WASHINGTON — The Federal Reserve said on Wednesday that it was still trying to stimulate faster economic growth as one of the longest expansions in American history neared the end of its ninth year.

The Fed said after a two-day meeting of its policymaking committee that it was leaving its benchmark interest rate unchanged in a range of 1.25 percent to 1.5 percent, a relatively low level that the Fed said would help support continued job growth and stronger inflation.

The Fed's economic outlook remained relatively upbeat, setting the stage for a rate hike at its next meeting in March. But the decision to hold steady in January, while widely expected, underscored that the Fed still regards the economic expansion as fragile and in need of assistance.

The announcement brought down the curtain on Janet L. Yellen's four-year tenure as the Fed's chairwoman. She will step down on Saturday at the end of her term. The Fed said that her successor, Jerome H. Powell, a Fed governor since 2012, would take the oath of office on Monday morning.

The economy grew 2.3 percent in 2017, extending a prolonged period of unusually stable growth. And economic forecasters, including most Fed officials, expect somewhat faster growth this year, partly as a result of the $1.5 trillion in tax cuts that went into effect in January.

The Fed said the economy is growing at a "solid rate" and the labor market continues to improve.

The assessment "is about as strong a characterization of the domestic economy as the committee has had during the current recovery," said Michael Gapen, chief United States economist at Barclays. He said it was a "strong signal" that the Fed is planning to raise its benchmark rate in March.

A measure derived from asset prices, which tend to rise with the Fed's benchmark rate, implied about a 78 percent chance of a March rate increase on Wednesday, according to CME Group, up from about 71 percent before the Fed released its statement.

The unemployment rate stood at 4.1 percent in December, and Fed officials do not expect it to fall much further. Instead, as growth continues, they expect inflation to begin rising more quickly.

But Fed officials are still committed to moving slowly. Growth, while steady, remains weak by historical standards, and although unemployment is quite low, wage growth remains sluggish, too.

"The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2 percent inflation," the Fed said in the postmeeting statement.

The announcement made little impression on **financial markets** because it left the Fed's plans unchanged. The **Standard & Poor's 500-stockindex** rose 0.05 percent on the day to close at 2,823.21. The yield on the benchmark **10-year Treasury**, which has climbed over the last few months on market expectations of stronger growth and inflation, closed at 2.7 percent, down 0.02 points on the day.

Much of the economic strengthening happened under Ms. Yellen's leadership, a period during which the Fed extended the economic stimulus campaign it began after the 2008 financial crisis. While critics warned that the Fed had exhausted its ability to improve economic conditions, and would instead unleash inflation, Ms. Yellen convinced her fellow Fed officials that the economy had room to grow, and events proved her right.

On Wednesday, some Fed employees wore shirts or jackets with the collars turned up, or popped, in a tribute to Ms. Yellen, who favored that look in public appearances.

Mr. Powell, a Republican with a background in investment banking, consistently voted in favor of Ms. Yellen's policies as a member of the Fed's board, and said during the confirmation process that he intends to continue the gradual unwinding of the stimulus campaign.

The next meeting of the policymaking committee is scheduled for March 20 and 21. If the Fed raises rates, it would be the sixth consecutive quarterly tightening of monetary policy.

"For a while now, the Fed has been very predictable in the face of a pretty benign environment," said Luke Bartholomew, an investment strategist at Aberdeen Standard Investments.

The risk, he said, is that the $1.5 trillion tax cut that began to take effect this month will produce faster growth and inflation, forcing the Fed to consider increasing rates more quickly.

Most Fed officials predicted in December that the Fed would raise rates at least three times in 2018. Some analysts predict a fourth increase, citing a strengthening economic outlook.

There are countervailing pressures. Inflation remains low despite the Fed's repeated predictions that faster inflation is around the corner. The Fed's statement suggested that officials are gaining confidence in that prediction, saying they expect inflation to gain strength this year.

"Everything from stronger growth at home and abroad to debt-financed tax cuts have raised expectations for inflation," said Diane Swonk, chief economist at Grant Thornton.

The value of financial assets, on the other hand, continues to soar as investors have shaken off the rate increases, keeping borrowing costs low and creating pressure for the Fed to move more quickly.

Alan Greenspan, the former Federal Reserve chairman, stirred **financial markets** on Wednesday by telling Bloomberg Television that investors had become irrationally exuberant.

"There are two bubbles: We have a **stock market** bubble and we have a bond market bubble," Mr. Greenspan said. But he did not predict an imminent correction. "At the end of the day, the bond market bubble will eventually be the critical issue, but for the short term, it's not too bad," he said.

So far, Fed officials have played down the importance of both factors, insisting that they are focused on raising rates slowly as the labor market tightens.

Ms. Swonk noted that the Fed had demonstrated little ability to constrain **financial markets** without causing broader economic damage.

Mr. Powell, she said, "will be reluctant to voice publicly the concerns that he and his colleagues have about the froth in **financial markets**."

She added, "Previous attempts by the Fed to jawbone **financial markets** into place have failed."

Mr. Powell may make his public debut as the Fed's chairman in mid-February, when the House and Senate hold hearings on monetary policy twice a year. The dates have not been announced, but the testimony will offer Mr. Powell a first chance to calibrate expectations for his tenure.

Follow Binyamin Appelbaum on Twitter: @bcappelbaum.

* Janet Yellen's Fitting Finale: Fed Plans to Stand Still

Janet L. Yellen, the departing chairwoman of the Federal Reserve, which said Wednesday that the economy continued to grow at "a solid rate" and the job market continued to gain strength. | Eric Thayer for The New York Times

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The New York Times

News Analysis
U.S.; Politics
**Trump Can Sell an Improved Economy, but Not Himself**

By PETER BAKER
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WASHINGTON — When he took office, President Trump painted a bleak picture of a country ravaged by economic turmoil, a landscape of “American carnage,” as he so memorably put it. A year later, he presented the nation on Tuesday night with a different narrative, one of a booming economy and a “new American moment.”

The **stock market** has “smashed one record after another.” Retirement accounts have “gone through the roof.” Companies are “roaring back” to the United States. “We haven’t seen this in a long time,” he exulted from the rostrum of the House chamber as he delivered his first formal State of the Union address. “It’s all coming back.”

Never mind that in some fundamental ways the economy is growing no faster than it did at points during President Barack Obama’s second term. Mr. Trump is at heart a salesman, and he rarely lets details get in the way of a good story. And by some measures, he has managed to convince many Americans, especially corporate leaders, that the economy really is surging in a way it has not for years.

The challenge for Mr. Trump is that even as he sells the economy with the fervor of a real estate developer, he has not been able to sell himself. His approval ratings remain at historic depths, and effectively unchanged after a year in office. His success at passing tax cuts and the continued progress of the economy he inherited have not changed the dismal views that a sizable majority of Americans hold of their president.

Just 37 percent of Americans approve of the job he is doing, according to the latest survey by the Pew Research Center, lower than any modern president after a year in office and no better for all of his efforts. Forty-one percent think he will be an unsuccessful president, twice as many as last year and nearly twice as many as those who think he will be successful. Far fewer Americans think he keeps his promises than thought so when he was inaugurated.

Mr. Trump’s outsize personality has so polarized the country that he may not be able to win over many converts easily, even with opportunities like a national television audience of tens of millions. His goal for the speech was to reach beyond his base and put forward a more optimistic, bipartisan face to a presidency that has been exceedingly divisive, but he has demonstrated before that such moments rarely last before he begins lobbing political artillery shells all over again.

“Every major address like this is an opportunity for reset, but that is unlikely in this case and even more unlikely still given that it’s an election year,” said Lanhee J. Chen, a scholar at the Hoover Institution at Stanford who advised Mitt Romney’s presidential campaign in 2012. “The current narrative, both for those who oppose the president and those who support him, has been established over the better part of two years — during a campaign and one year in office. It’s hard to see that changing dramatically.”

Matt Latimer, a former speechwriter for President George W. Bush, said the effect of a State of the Union address could be overstated, especially if it was not followed up consistently, and Mr. Trump has shown little capacity for that. “If past history is any guide, the president will only bask in praise for so long before he demonstrates his self-destructive tendency to undo it all in the form of an avoidable controversy or an offensive tweet,” he said.

Mr. Trump largely stuck to the script as he read from the teleprompters, hailing American successes in fighting the Islamic State, challenging the nuclear aspirations of North Korea and calling for bipartisan deals on immigration and infrastructure. Unlike other presidents, who used this platform to unveil a fresh legislative agenda, Mr. Trump offered little new in the way of policy proposals.

As much as it has consumed him over the last year, Mr. Trump said nothing about the special counsel investigation into any collaboration between Russia and his campaign in 2016. And he largely avoided mentioning the acrimonious episodes of the last year beyond a line about standing for the national anthem, a reference to his criticism of National Football League players protesting racial injustice.

The partisan schism in the chamber was so powerful, though, that Democrats like Representative Nancy Pelosi of California remained in their seats unmoved even when he preached unity and many black lawmakers did not applaud when he cited record-low unemployment among black people, a trend that began six years before he took office. Some hissed when he promoted limiting the ability of immigrants to bring relatives to the United States.

In the hours before the speech, Mr. Trump was in reach-out mode. Meeting with television network anchors, he was asked what he had learned in his first year as president. “When you’re a businessman, you don’t have to worry about your heart, the heart,” he said. “You really do what’s best for you, you know, for almost purely monetary reasons. You know, you make your money.”

“In doing what I’m doing now,” he added, “a lot of it is heart, a lot of it is compassion, a lot of it is far beyond money, such as immigration, such as the things we’re talking about.”

Compassion is not the word his critics or even many of his admirers would use to characterize Mr. Trump’s tenure so far, at least when it comes to immigrants from Muslim countries or Africa, racial minorities protesting white supremacists, women subjected to sexual harassment or working families dependent on government health care programs. Just 33 percent of Americans said they thought of him as compassionate in a new Politico/Morning Consult poll.

His strength at the moment is an economy that seems to be humming and the possibility that it will grow stronger in the next year as a result of Mr. Trump’s tax cuts and regulatory rollback.

Still, his sales pitch went beyond the numbers. The economy grew 2.3 percent in 2017, more than in 2016 but less than in 2014 or 2015. More than two million new jobs were created last year, a significant achievement but less than in any of the last six years of Mr. Obama’s tenure.

The difference is that the accumulation of growth has pushed the unemployment rate down to 4.1 percent, a 17-year low, which means that wages may increase in the coming year as employers compete for scarcer workers. And the other difference is that Mr. Trump unabashedly sells the success of the economy without the caveats and reservations that Mr. Obama tended to favor.

“He has done a good job resetting expectations — something important and, yes, a better cheerleader for optimism than President Obama,” said R. Glenn Hubbard, dean of the Columbia Business School and a former chairman of the President’s Council of Economic Advisers under Mr. Bush.

Jared Bernstein, an economics adviser to former Vice President Joseph R. Biden Jr., said Mr. Obama never felt as comfortable with unalloyed claims of economic progress, fearing that it would look out of touch to many Americans who might not be enjoying the same benefits as others.

“Obama was a lot more cautious than Trump. Of course, who isn’t?” Mr. Bernstein said. “Like any president, he took some credit for economic gains over his watch, but he was always very cognizant, very conscious, that there were significant groups of people who were left behind, so any economic cheerleading was always tempered by the reality of the unequal distribution of economic growth.”

Mr. Trump’s cheerleading has helped convince Americans that the economy really is doing better. Fifty-eight percent of those who responded to a poll by ABC News and The Washington Post said the economy was in good or excellent shape, the most in 17 years. Yet just 38 percent credited Mr. Trump, while 50 percent said Mr. Obama deserved a great deal or good amount of credit.

Mr. Trump seems to recognize that he is having trouble uniting the country, but took no responsibility for that, saying that it preceded his ascension to power.

“I would love to be able to bring back our country into a great form of unity,” he told the anchors. “Without a major event where people pull together, that’s hard to do,” he added, referring to a catastrophic moment like a terrorist attack. “But I’d like to do it without that major event, because usually that major event is not a good thing. I would love to do it.”

 

That really would be a new American moment.

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* State of the Union Makes Washington Normal Again. Briefly. Kind Of.

* First Trump State of the Union Address Makes Appeal for Unity

* 2018 State of the Union Fact-Check

President Trump sprinkled his State of the Union speech with optimistic flourishes about “unity” and “the American family.” But his tweets often tell a darker, more divided story. | By DREW JORDAN and DAVE HORN | President Trump discussed immigration, the economy and North Korea. His speech was the second-longest in 50 years. Here’s a decidedly shorter version. | By NATALIE RENEAU

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STOCKS & BONDS
Business/Financial Desk; SECTB
**Health Care Firms Slide, Pulling Market Down Again**

By THE ASSOCIATED PRESS
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Hefty losses in health care and technology companies led U.S. stocks sharply lower Tuesday, handing the market its biggest pullback since August and its worst two-day drop since May.

The broad slide, which briefly sent the **Dow Jonesindustrial average** down by more than 400 points, erased some of the big gains the market had racked up since the beginning of the year, though the market was still on track to close out January with a gain.

Banks, industrial companies and energy stocks also accounted for a big slice of the market's losses. **Bond prices** fell, sending yields to their highest level since April 2014.

"This was a market that was overbought and it was vulnerable to something pulling it back," said Quincy Krosby, chief market strategist at Prudential Financial. "That said, we're in the heaviest part of earnings season this week and we expect to see the majority of the reports coming out to be positive. That could be the catalyst to have buyers come in."

The **Standard & Poor**'**s500 index** fell 31.10 points, or 1.1 percent, to 2,822.43. That's the biggest one-day drop since August 17. The Dow had its biggest decline since May, losing 362.59 points, or 1.4 percent, to 26,076.89. The average had been down more than 411 points.

The **Nasdaq** slumped 64.02 points, or 0.9 percent, to 7,402.48. The Russell 2000 index of smaller-company stocks gave up 15.29 points, or 1 percent, to 1,582.82. The market's last two-day losing streak was in late December.

Health care companies were by far the biggest losers on Tuesday. The sector finished with a loss of 2.1 percent. It's still up 8.1 percent this year.

Insurers, drugmakers and distributors slumped following news that Amazon was teaming up with JPMorgan Chase and Berkshire Hathaway to create a company that helps their U.S. employees find quality care at a reasonable cost. The venture, whose initial focus would be on developing technology, is in its early planning stage.

Express Scripts slid $2.61, or 3.2 percent, to $79.31. Cigna tumbled $16.01, or 7.2 percent, to $207.89. UnitedHealth Group lost $10.76, or 4.3 percent, to $236.65. Anthem fell $13.58, or 5.3 percent, to $243.44.

HCA bucked the trend after the hospital chain posted better fourth-quarter results than analysts had expected. The stock gained $3.83, or 3.9 percent, to $101.45.

The news gave Amazon shares a lift. The stock added $20.14, or 1.4 percent, to $1,437.82.

Technology stocks fell almost as much as health care shares. Corning lost $1.92, or 5.6 percent, to $32.33.

**Bond prices** continued to decline, driving up the yield on the **10**-**year Treasury** to 2.72 percent from 2.70 percent late Monday. That's the highest the rate has been since April 2014. The yield was as low as 2.04 percent last September.

Bond yields have been rising steadily over the past few months, making bonds more appealing to investors seeking income. Rising yields can also lead to higher financing costs for companies, homebuyers and other borrowers.

"With the 10-year rate shooting above 2.7 percent, the cost of capital for equity investments also just increased," said Alexandra Coupe, associated director for Pacific Alternative Asset Management Co. "Investors are stepping back and reevaluating if their holdings can surpass this revised hurdle."

The market sell-off comes during a week with no shortage of potential market-moving corporate news and economic data.

Several big-name companies are due to report quarterly results on Wednesday and Thursday, including Apple, Amazon, Microsoft, Facebook and Google's parent company Alphabet.

Also on investors' radar: Tuesday night's State of the Union address and a two-day meeting of the Federal Reserve's policymaking committee that wraps up Wednesday.

The Fed has signaled it expects to raise its key short-term interest rate three times this year. But some investors speculated that the growing strength in the U.S. economy and labor market could prompt the central bank to perhaps forecast an extra rate increase this year.

Energy sector stocks declined along with the price of crude oil. Noble Energy fell $1.73, or 5.4 percent, at $30.40.

Benchmark U.S. crude slid $1.06, or 1.6 percent, to settle at $64.50 a barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, dropped 44 cents, or 0.6 percent, to close at $69.02 a barrel in London.

In other futures trading, wholesale gasoline fell 4 cents to $1.90 a gallon. Heating oil gave up 3 cents to $2.07 a gallon. Natural gas rose 3 cents, or 0.9 percent, to $3.20 per 1,000 cubic feet.

Gold fell $4.90 to $1,335.40 an ounce. Silver dropped 7 cents to $17.06 an ounce. Copper slipped 1 cent to $3.19 a pound.

The dollar, which fell sharply last week, declined to 108.78 yen from 108.94 yen late Monday. The euro rose to $1.2404 from $1.2389.

Major indexes in Europe declined amid investor worries that new data showing the eurozone grew in 2017 at its fastest pace in a decade could prompt the European Central Bank to wind down its monetary stimulus program earlier than expected.

The DAX in Germany lost 1 percent, while the CAC 40 in France fell 0.9 percent. Britain's FTSE 100 gave up 1.1 percent. Key indexes in Asia also closed lower. Japan's Nikkei 225 index lost 1.4 percent, while Hong Kong's Hang Seng dropped 1.1 percent. South Korea's Kospi sank 1.2 percent.

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

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Tuesday. (Source: Reuters); Consumer Confidence: Index measures attitudes toward the economy, 1985 = 100. (Source: The Conference Board)

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THE WALL STREET JOURNAL.
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**Business News: Tech to Size Up Tax-Law Impact --- Companies are likely to take a big hit on overseas profits, but effects are uncertain**

By Douglas MacMillan
1,015 words
31 January 2018
The Wall Street Journal
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Silicon Valley threw its support behind the congressional tax overhaul. How much will the new rules help their bottom line?

Investors will closely watch tech firms' financial results over the next few weeks for clues on how the new U.S. tax system will affect profits.

A drop in the corporate tax rate to 21% from 35% will boost future earnings at most businesses, but for some tech giants, the benefit of the lower rate could be partially offset by a one-time mandatory levy on their huge overseas cash stockpiles.

The exact impact of the new tax rules won't be known for several months, as regulators spell out how they will enforce the changes and as companies make adjustments.

But executives are already dropping tax hints as they update investors on fourth-quarter results. Here are the four key areas to watch.

Offshore profits

The tax overhaul gave incentives for American businesses to bring their estimated $2.5 trillionin offshore profits back to the U.S. Where they once paid up to 35% on profits brought to the U.S., they will now generally pay no U.S. taxes on future overseas profits.

But there is a catch: All companies will be forced to pay a one-time tax on the overseas profits they have accumulated so far, with one rate for cash and liquid assets and another on other assets, including factories and equipment.

The tax is due regardless of whether they bring anything home or not, though companies may choose to pay it over eight years.

Businesses must generally book this tax as a one-time charge in the final quarter of 2017. Apple said this month it would pay $38 billion in taxes and return the majority of its overseas cash to the U.S.

The taxes companies pay on these profits will vary somewhat, depending on both the size of the profits and how they have been invested.

Companies must pay 15.5% on liquid assets, such as cash and a variety of marketable securities, and 8% on other assets.

Compared with other industries, technology companies tend to have a larger share of their overseas stockpile in liquid assets. For instance, 95% of networking giant Cisco Systems Inc.'s accumulated foreign profit last year was in cash and cash equivalents, versus 22% for retailer Wal-Mart Stores Inc.

The Wall Street Journal estimated that 311 large publicly traded U.S. companies could generate nearly $250 billion in these taxes, of which 38% could be paid by tech companies.

Tax rates

Tech giants generally enjoy low effective tax rates because of the portion of their profits that accumulates in low-tax foreign jurisdictions.

Tech firms paid an average tax rate of 24% over the 10-year period through 2016, below the 29% average tax rate for all companies in the **S&P 500** for that period and lower than any other industry, according to an analysis of corporate filings by Zion Research Group.

Companies that pay the lowest effective rates may be punished by the new rules, which set a minimum 10.5% tax on wide swaths of future offshore profits.

That means firms like Google parent Alphabet Inc. and Cisco Systems,which over the past decade have paid lower tax rates on average than the new statutory rate of 21%, may soon see their rates go up.

International Business Machines Inc., which paid a tax rate of 12% last year excluding one-time benefits, said this month its rate will rise to as much as 18% in 2018.

The five biggest U.S. tech companies -- Apple Inc., Alphabet, Microsoft Corp., Amazon.com Inc. and Facebook Inc. -- all report earnings this week and investors will be looking for guidance on tax rates.

Use of capital

Now that companies are free to bring foreign cash to the U.S. at no added cost, they will be dogged with the question of how they plan to spend it.

Tech firms are already among the biggest spenders on research and development and on acquisitions. Adding to these budgets may not be the answer, even if the revised tax code also allows companies to accelerate deductions for the cost of equipment purchases.

The easiest solution strategically -- to return cash to shareholders through buybacks and dividends -- may be unwise politically. The Republicans sold the tax overhaul on the promise that it would spur investment in the U.S., and not simply enrich shareholders.

"It will be interesting to see what companies ultimately do with more unfettered access to their global cash," said Kirsten Malm, a partner at law firm Baker McKenzie who advises tech firms on taxes. "Is this going to set off a new wave of M&A? Will we see share buybacks? Maybe not, because share prices are so high at the moment."

Borrowing

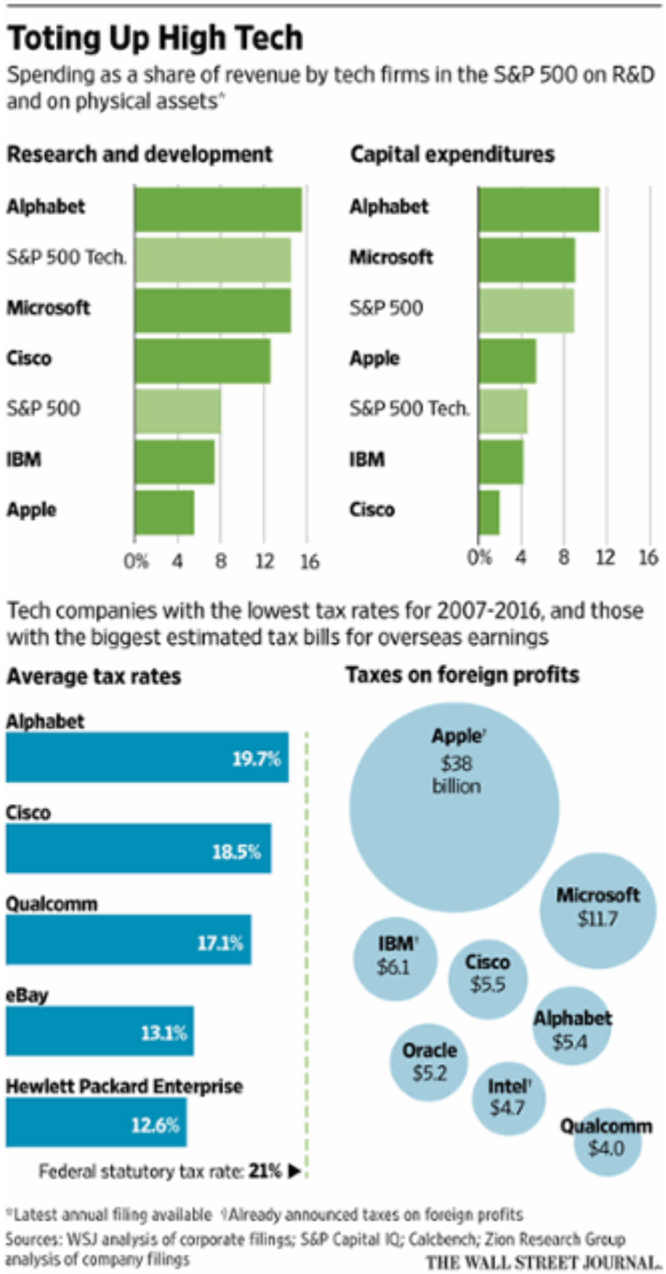
With most of their cash sitting offshore, tech giants have increasingly issued debt to finance their growth and return money to shareholders.

Tech firms in the **S&P 500** collectively held nearly $566 billion in long-term debt in the most recent quarter, more than three times the amount they held just five years ago. That is a faster pace of growth than any other sector.

Now that they can access their overseas cash, tech giants have less need for debt, said Jason Pompeii, senior director at Fitch Ratings. "We believe those companies borrow only because they don't have access to their cash flow," Mr. Pompeii said. "We would expect debt issuance in the technology sector to decrease."

Investors will be asking the companies with the most debt whether they intend to pay it off ahead of schedule, even though they have been able to borrow the money at attractive rates. The big borrowers include Apple, with long-term debt of $97 billion; Microsoft, with $76 billion; and Oracle Corp., with $58 billion.

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**Bond Yields Hurt High-Dividend Stocks --- Fed's course change is pushing many investors out of shares that benefit from low rates, such as utilities and real-estate firms**

By Ben Eisen
817 words
31 January 2018
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English


Rising bond yields are starting to compete with stocks that pay some of the biggest dividends, leaving these companies behind even as the **stock market** has rallied to new highs.

The S&P utilities sector is down about 10% since the end of November and the real-estate sector has fallen 4.9%, sharply underperforming the **S&P 500**'s 6.6% rise. Companies in both groupings typically pay out big dividends relative to their stock prices, giving them high dividend yields.

For years, investors poured money into high-dividend stocks as they sought investment income that outpaced superlow yields in the bond market, which were held down by the Federal Reserve's low-rate policy. But the central bank is reversing course, leading to a rise in bond yields that has accelerated in recent days.

The two-year U.S. Treasury note yield, which rose to a nine-year high of 2.124% on Tuesday, now offers more compensation than the **S&P 500** dividend yield, which was at 1.69% this week, or the **Dow Jones Industrial Average**'s dividend yield, at 1.97%.

That **bond yield**, a benchmark for short-term debt, still trails the average dividend yields offered by S&P utilities and real-estate companies, but investors say rising rates are playing a key role in driving money out of riskier income plays and into the bond market.

"A lot of investors would be very content investing in the two-year Treasury given that they're getting over 2% now," said Andrew Pace, a vice president at Performance Trust Capital Partners LLC, a fixed-income trading firm.

Rising yields stand to make it more expensive for a wide swath of borrowers, from corporations to homeowners, and traders say they were a big reason why stocks fell Tuesday.

The **S&P 500** slid 1.1% Tuesday, its worst day since August. Investors have turned more cautious on stocks in recent days after a strong start to the year. Dividend stocks were mixed Tuesday. The utilities sector rose 0.2%, while the real-estate grouping fell 0.5%.

The Fed has penciled in three increases to its benchmark policy rate this year, but some investors believe the pace could speed up if inflation, long missing from the economic recovery, starts to rise. For much of the past five years, consumer prices have increased at less than 2% a year, the central bank's target, but have recently shown signs of picking up. Now, traders in the federal-funds futures market see a nearly 25% probability of at least four rate increases this year, according to CME Group data. That is pushing many investors out of stocks that benefit from low rates, and into those expected to benefit from faster inflation and economic growth.

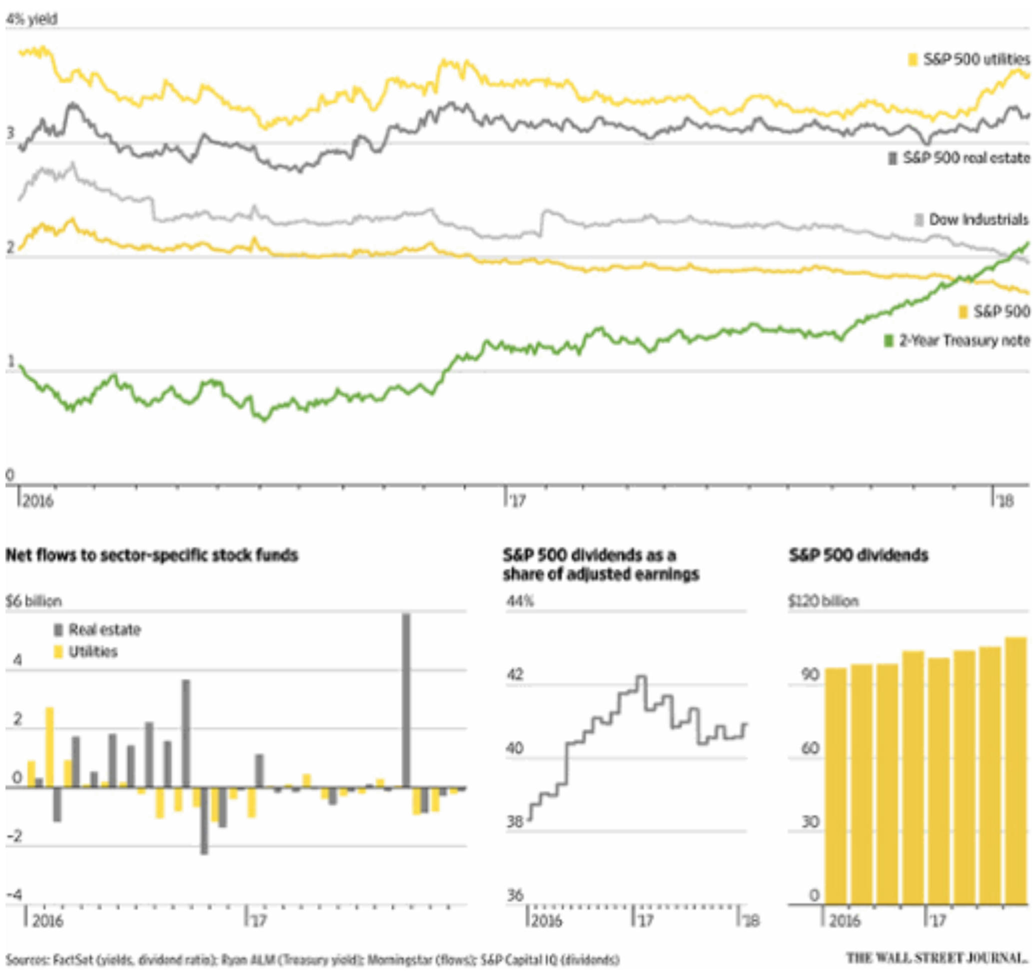
Wall Street strategists, including those at Bank of America Merrill Lynch, recently recommended investors have a smaller allocation to utilities and real estate than their benchmarks.

"As a group of companies, dividend-yielding stocks are likely to underperform," said Anik Sen, global head of equities for PineBridge Investments. The firm has been underweight the broad real-estate and utilities sectors for a few years, though it believes some individual names could continue to perform well.

Meanwhile, investors say they are chasing sectors most likely to see a profit boost from the recent corporate-tax overhaul, which lowers the corporate tax rate to 21% from 35%. Big banks and other financial institutions, for example, have said they expect to become more profitable over time due partly to the lower tax rate. They are also set to bring back cash they currently hold overseas, which they may use, in part, to increase dividends and share repurchases. The **S&P 500** financial sector is up 8.2% since the end of November.

While utilities and real estate aren't likely to benefit as much from the new tax law, the shift out of those sectors has been slow. Investors pulled money from mutual funds and exchange-traded funds that invest in utilities stocks for seven out of 12 months last year, with net outflows totaling nearly $3 billion. They withdrew money from real-estate funds in nine of the months in 2017, but a large inflow in September pushed net flows positive, according to Morningstar data.

Over the past year, Matt Quinlan, portfolio manager of the Franklin Equity Income Fund, has reduced his exposure to some sectors that already offer high dividends while investing in stocks such as industrial and financial companies whose fundamental growth could reward shareholders with higher dividends down the road. "We're focused on companies growing their dividends," he said.

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The Property Report
**In Big Cities, Retail Rents Yield to Storm**

By Esther Fung
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The retail storm pounding weaker real-estate markets is starting to lash America's biggest cities.

Malls in smaller cities have been suffering for years from store closures as retailers adjust store footprints to changing consumption habits and rising online sales.

Now, retail rents in some of the priciest cities in the U.S. are falling back to earth after years of strong growth, as the retail reckoning spreads to properties once considered immune.

Over the past 12 months, rents in New York, Washington and Boston declined between 0.4% and 1.4%, while rents were roughly flat in Chicago and San Francisco, according to data from CoStar Group Inc., a commercial real-estate data provider. Across the U.S., rent growth averaged 1.8% in 2017, down from 2.7% in 2016 and the slowest pace since 2012.

The availability rate across all retail property types, including enclosed malls, open-air malls, grocery-anchored centers and strip centers, rose to 6.6% in the fourth quarter of 2017, from 6.1% a year earlier, according to CBRE Econometric Advisors. Availability rates include both vacant space and spaces that are currently occupied but are marketed to potential tenants because they will be vacant soon.

"We're seeing downward pressure on rents," said James Hull, founder and managing principal of Hull Property Group, a retail real-estate company based in Augusta, Ga. "Some of that comes from too much space and too few tenants."

Hull Property, which owns about 15 million square feet of retail space in 13 states, said some tenants are more cautious these days, opting to sign leases of three years versus the previous norm of five to 10 years. Mr. Hull added that, depending on location and availability of space, his firm sees rent increases in about 20% to 30% of lease renewals signed.

A surge in the number of bankruptcy filings and store closures by apparel retailers and department stores has hung over the sector, particularly second-tier malls in less affluent areas.

While discount retailers and grocers such as Dollar General Corp., TJX Cos., Five Below Inc. and Lidl are still opening stores, they are focused mainly in stand-alone retail centers and open-air centers rather than enclosed malls, according to research firm Fung Global Retail & Technology.

Meanwhile, some downtown areas that experienced skyrocketing rents a few years ago are now showing significant weakness.

The substantial number of empty storefronts in New York City, for example, finally has taken a toll on landlords, which are starting to adjust prices accordingly. CBRE said average asking rents in Manhattan plunged 18%, to $721 a square foot, in 2017 from 2016. Manhattan's retail real-estate market, which is more affected by tourism than that of other cities, is subject to **volatile** swings.

SL Green Realty Corp., a big office building owner in New York City, said rent negotiations for retail space at its 719 Seventh Ave. building in Times Square would take some time.

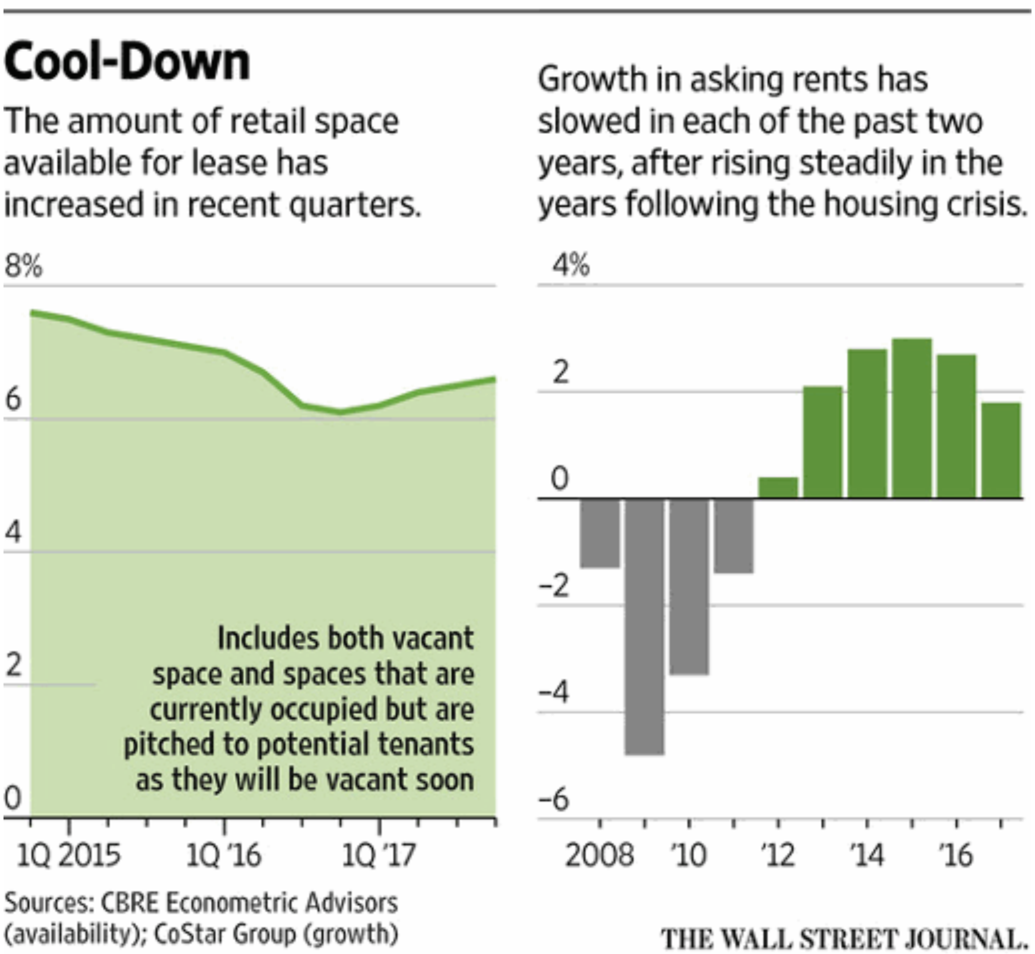
"We acknowledge it was more of a challenge than we expected," said Marc Holliday, chief executive officer at SL Green during the company's fourth-quarter earnings call last week. "We're still in sort of a discovery phase in terms of the market, block by block."

Some pockets of the country remain strong. Asking rents in Nashville, Tenn., Orlando, Fla., Atlanta, Dallas-Fort Worth and Denver rose 5.1% to 7.3% over the past 12 months, while in Los Angeles and Miami rents rose 2.3% and 2.8%, respectively, according to CoStar.

Retailers are becoming more selective in where they open new stores or sign renewals, and in affluent, high-density locations, landlords say they are still able to command higher rents.

Tom McGee, president and chief executive officer at industry group International Council of Shopping Centers, said the sector is in a good position with regard to supply, noting that the millennial population will be aging into its prime consumption years, while the modest growth in new shopping center development in the past 10 years could keep market fundamentals balanced.

Also tipping in landlords' favor this year is the tax overhaul, which promises significant savings for retailers, a group that has paid among the highest effective tax rates over the years.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Easy-Money Decade Upends Bond Market**

By Matt Wirz
1,381 words
31 January 2018
The Wall Street Journal
J
B1
English


A hydroelectric dam in Tajikistan, the government of Portugal and a cruise-ship operator last fall all issued debt at unusually low interest rates, part of a proliferation of aggressive bond sales influenced by a decade of loose monetary policy and a demographic shift in global investing.

Historical limits on who can borrow, and at what cost, have broken down as fund managers agree to previously unpalatable terms. Central bankers in the U.S., Europe and Japan helped shape the new breed of deals by simultaneously purchasing more than $1 trillion in high-quality bonds since 2009 and lowering benchmark interest rates to jump-start their faltering economies.

Modest economic growth came, but the strategy crowded private investors out of safe debt, prompting them to buy riskier bonds to boost returns.

Retiring baby boomers amplified the trend by moving their investments from stocks into bonds, increasing assets in U.S. bond mutual funds to $4.6 trillion in November from $1.5 trillion a decade earlier, according to the Investment Company Institute, a trade group for investment firms.

"A lot of smart people say we're in a bubble, and their fingers are pointed at credit," said Steven Shenfeld, president of MidOcean Credit Partners, an investment firm focused on high-yield debt. MidOcean is preparing for the expected downturn in certain portfolios by placing bets that will pay out if **bond prices** sell off, he said. "I'm just an old trader that's seen this movie too many times."

U.S. bond yields ticked up this year but remain below historical averages, and investors keep buying below-investment-grade bonds, squeezing the risk premium junk bonds pay over Treasurys to a 10-year low. Some central banks are reeling back quantitative easing to keep economies and markets from overheating. An anecdotal gauge of five key markets -- emerging markets, municipal bonds, government debt, securitizations and corporate loans -- shows temperatures are plenty hot already.

Here are some tales from the bleeding edge of credit:

TAJIKISTAN: The country is ranked as one of the world's most corrupt nations by Transparency International. When the country sold its first international bond in September, offering documents warned that "corruption, and allegations of corruption, in Tajikistan may have a negative impact on Tajikistan's economy."

So many investors wanted a piece of the $500 million deal that Tajikistan was able to negotiate a significant reduction in the interest rate of the bond.

Cash raised in the sale is earmarked to finish construction of the Rogun hydroelectric dam, begun in 1976 under the Soviet Union, and repayment of the debt is projected to come from electricity sales to Afghanistan and Pakistan. Conflict in Afghanistan "could have a material adverse effect on Tajikistan's economy and its ability to make payments on the notes," the bond offering said.

Tajikistan's investment bank, Citigroup Inc., initially marketed the bond to yield 8% but received so much investor demand the clearing price was cut to 7.1%. The bonds still paid well above the 5.4% average yield for emerging-market debt in September, according to an index maintained by JPMorgan Chase & Co., making them attractive to yield-hungry bond funds. Buyers included large U.S. asset managers like Fidelity Investments, which purchased $14 million of these bonds for its mutual funds, regulatory filings show.

A spokesman for Citigroup declined to comment. Officials from Tajikistan's Ministry of Finance couldn't be reached for comment.

AMERICAN DREAM: Another languishing development, the American Dream Mall in East Rutherford, N.J., also got a jump-start from bond markets in 2017. The project, previously known as Xanadu, broke ground in 2003 but ran out of money to finish construction. The mall's current owner -- its third -- is betting that it can buck the trend of retail extinction spreading across the country.

Initial efforts to fund the mall-and-amusement-park-hybrid with real-estate loans foundered during the financial crisis. Canadian developer Triple Five took over the project in 2013 and announced plans to sell municipal bonds, but that stalled amid political opposition and pushback from skeptical investors.

Goldman Sachs Group Inc. sold the tax-exempt bonds in June at yields as high as 6.9%, depending heavily on one investor: John Miller, a portfolio manager at Nuveen Asset Management LLC, whose largest mutual fund has more than doubled in size since 2014 to about $17 billion. Mr. Miller bought half of the American Dream bonds, or about $570 million, because of the yield and because the project will flourish, he said. Unlike most malls, American Dream will derive much of its revenue from experiential attractions that can't be replicated online, rather than depending on retailers, he said.

PORTUGAL: On Nov. 8, Portugal auctioned 1.25 billion ($1.55 billion) of 10-year bonds to yield 1.94% -- the lowest rate ever for the country. Portugal needed an international bailout in 2011 and still has a junk credit rating. Investors placed bids for about 2 billion euros of bonds, far exceeding the amount on offer.

Portugal remains one of the most heavily indebted countries in Europe, but the auction set its borrowing cost below that of the U.S. government, which sold 10-year bonds in November to yield 2.31%. The U.S., with among the highest credit ratings, is viewed as one of the safest borrowers on the planet.

The mismatch is an unintended consequence of the European Central Bank's use of low interest rates and bond purchases to revive economic activity. The policy resulted in negative bond yields in the eurozone's strongest economies like France and Germany, forcing bond funds to buy more in riskier countries like Portugal to deliver positive returns.

ASSET-BACKED SECURITIES: These three words are redolent of the risk taking, financial alchemy and hubris that fed the credit crisis. Mortgage-backed bonds were the most infamous ABS, but investment banks innovated far stranger types, including airplane-backed bonds, bonds backed by royalties owed to David Bowie and, in 2007, a $100 million bond backed by the inventory of Antwerp, Belgium-based diamond dealer Diarough.

Like many precrisis ABS, repayment of the diamond bonds was predicated on refinancing, and after the securitization market dried up, Diarough restructured the debt instead. The gem merchant cut the interest it paid bondholders and extended the due date of the bonds, according to a report by Moody's Investors Service.

By 2017, the esoteric ABS market was showing signs of life again, and Diarough returned with a $150 million deal in August. Bond funds, flush with cash from yield-hungry investors, flocked to the new bonds, warranting an increase to $155 million. The Pioneer Bond Fund, which has about doubled in size since 2015 to $5 billion, bought $4.2 million of the Diarough bond, according to a regulatory filing.

Gert Ovart, a finance manager at Diarough, declined to comment. Officials at Pioneer couldn't be reached.

NORWEGIAN CRUISE LINES: Executives of Miami-based Norwegian Cruise Line Holdings gathered in October to toast an unexpected accomplishment with Veuve Clicquot Champagne. They had negotiated a $375 million bank loan for the company at an interest rate of about 3%, the lowest in its 55-year history.

It is also one of the lowest yields ever achieved by any borrower in the leveraged-loan market for companies with below-investment-grade credit ratings.

The force driving the race to the bottom in leveraged loan rates is the same one causing the feeding frenzy in other credit markets: Investors reaching further for yield in response to central-bank policy. With most triple-A Treasury bonds paying negligible yields, banks and insurers from Tokyo to New York are buying more investment-grade corporate and securitized bonds to boost returns.

That has benefited managers of collateralized loan obligations, or CLOs, who issue triple-A bonds and use the borrowed money to buy up bundles of leveraged loans like those borrowed by NCL. No surprise, CLO issuance boomed in 2017, boosting demand for corporate loans and giving NCL unprecedented pricing power and a new reason to break out the champagne.

 

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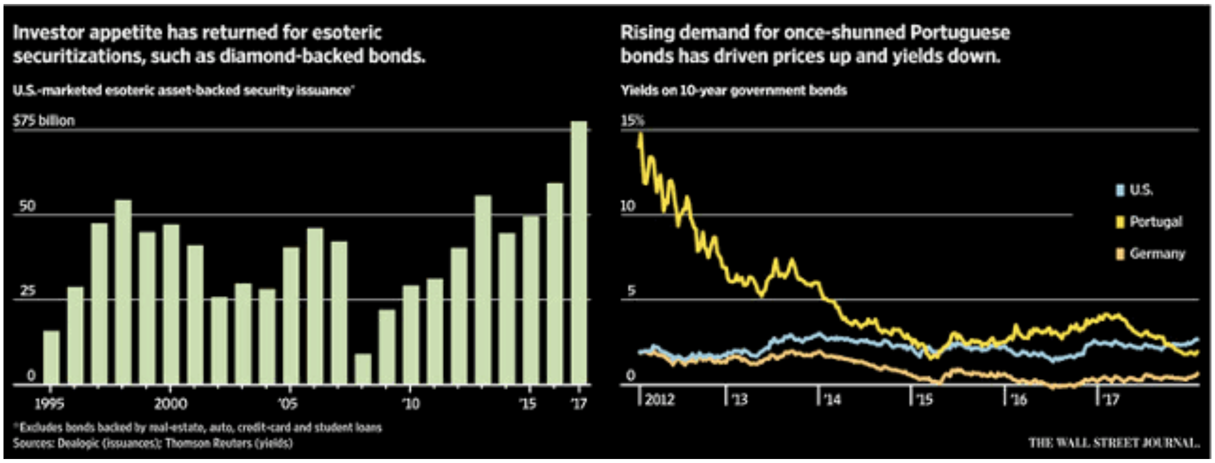
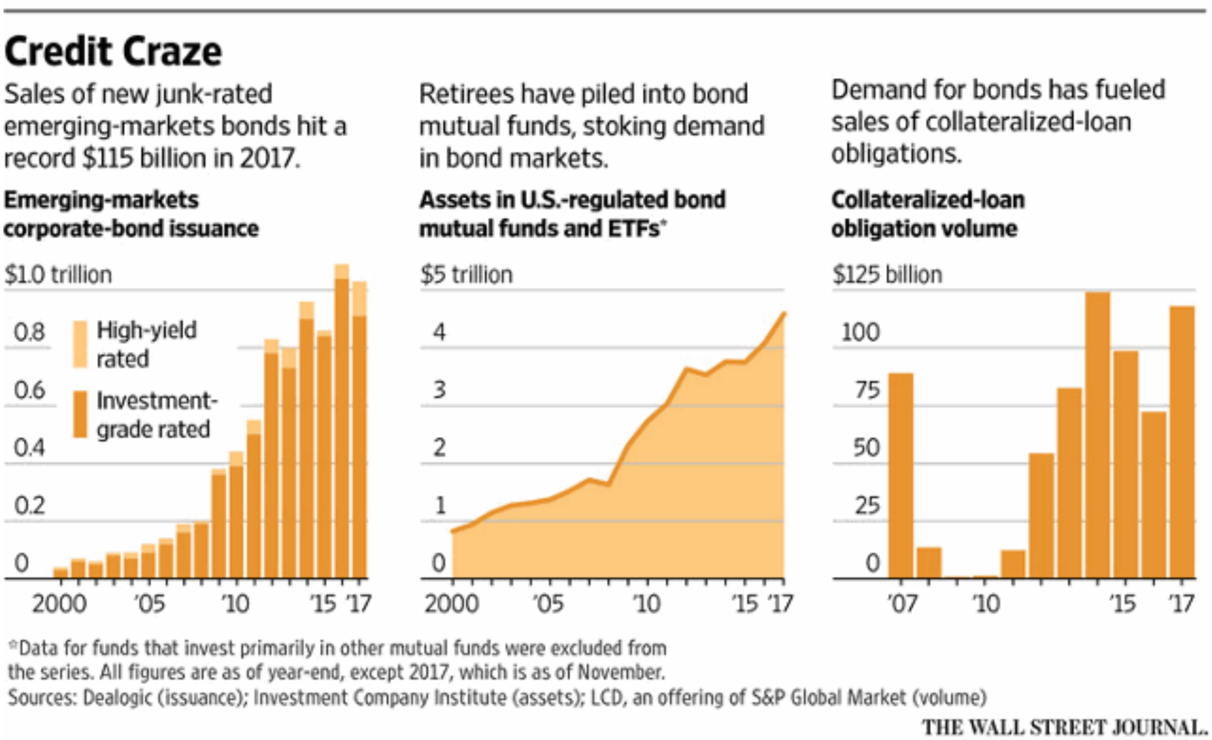
Ben Eisen contributed to this article.

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The New York Times

THE TRUMP PRESIDENCY
National Desk; SECTA
**Assessing Trump's Claims on Immigration, ISIS, the Economy and Taxes**

By THE NEW YORK TIMES
2,137 words
31 January 2018
The New York Times
NYTF
Late Edition - Final
14
English


Reporters from The New York Times checked the facts, falsehoods and statements in need of context from President Trump's first State of the Union address. Watch a replay along with real time analysis here and an annotated transcript of the speech.

economy

''Since the election, we have created 2.4 million new jobs, including 200,000 new jobs in manufacturing alone.''

The math is correct, but context matters.

The economy has added about 169,000 jobs a month since the 2016 election, but that is somewhat slower than the 185,000 jobs per month that the economy added over the previous seven years.

--Binyamin Appelbaum

economy

''African-American unemployment stands at the lowest rate ever recorded.''

True, but needs context.

It's true that the black unemployment was the lowest recorded, 6.8 percent in December. But also the culmination of a longer-term trend. Moreover, it's an open question how much credit a president, especially in his first year, can take for the economy.

--Linda Qiu

economy

''After years of wage stagnation, we are finally seeing rising wages.''

False.

Wages are, in fact, rising -- but at a slower rate than they were at the end of President Obama's second term.

-- Jim Tankersley

health care

''We eliminated an especially cruel tax that fell mostly on Americans making less than $50,000 a year -- forcing them to pay tremendous penalties simply because they couldn't afford government-ordered health plans. We repealed the core of disastrous Obamacare -- the individual mandate is now gone.''

True, but needs context.

In the newly-passed tax law, Congress eliminated penalties for people who go without health insurance, starting in 2019. An estimated 4.5 percent of taxpayers paid the penalty in 2015, and nearly 60 percent of those who did earned less than $50,000 in 2015 -- though the Kaiser Family Foundation found that a sizable amount of low-income Americans paying the penalty could find coverage for less.

People could, in many cases, obtain exemptions from the penalties that were indeed a major element of the Affordable Care Act. Other elements of the health care law remain intact.

--Robert Pear

economy

''Apple has just announced its plans to invest a total of $350 billion in America, and hire another 20,000 workers.''

This needs context.

Tech giant Apple did, indeed, say after the tax cut passed that it would "invest" $350 billion domestically over the next five years. But at least $275 billion of that was simply continuing the company's past spending trends. The actual amount of new investment appears to be roughly $37 billion.

-- Jim Tankersley

economy

''Many car companies are now building and expanding plants in the United States -- something we have not seen for decades.''

This is an exaggeration.

Yes, some car companies have announced new or expanded plants under Trump, but that's hardly new or unseen ''for decades.'' Toyota, for example, opened a plant in Mississippi in 2011.

There has been no surge in automotive employment under his tenure -- it's actually down from a year ago.

-- Jim Tankersley

health care

''Last year, the F.D.A. approved more new and generic drugs and medical devices than ever before in our history.''

True.

The Food and Drug Administration approved 1,027 generic drugs in the 2017 fiscal year, the highest annual total in the agency's history. Scott Gottlieb, the F.D.A. commissioner, also said that the agency approved 95 novel medical devices last year, another record.

-- Robert Pear

energy

''We have ended the war on American energy -- and we have ended the war on beautiful, clean coal. We are now very proudly an exporter of energy to the world.''

This is misleading.

Overall, the United States is a net energy importer, although it is projected to be a net energy exporter sometime in the 2020s.

A government analysis found that the United States became a net exporter of natural gas in 2017 for the first time since 1957, and remains a net exporter of coal. But it is still a net importer of oil.

While it is accurate that Mr. Trump has ordered the Environmental Protection Agency to roll back regulations on the burning of coal, it has done almost nothing to revive the industry, which, economists note, was already in decline due to competition from cheaper natural gas.

 

-- Coral Davenport

economy

''Chrysler is moving a major plant from Mexico to Michigan.''

Sort of.

Chrysler announced that it would move production of heavy-duty pickup trucks from Saltillo, Mexico to a plant in Michigan. But a truck plant in Saltillo will remain open and be ''repurposed to produce future commercial vehicles for global distribution,'' according to the automaker. Other plants in Mexico will also continue operations.

-- Linda Qiu

health care

''One of my greatest priorities is to reduce the price of prescription drugs. In many other countries, these drugs cost far less than what we pay in the United States, and it's very, very unfair.''

True.

Prices for brand-name prescription drugs are typically higher in the United States than in other developed countries, which regulate prices or set them through negotiations with drug manufacturers. Drug makers have strenuously opposed regulation of prices in this country. Cancer drugs and other new medicines sometimes enter the U.S. market with prices exceeding $50,000 a year. And a handful of companies have driven up the prices of some decades-old drugs whose patents expired years ago.

-- Robert Pear

infrastructure

''We built the Empire State Building in just one year -- isn't it a disgrace that it can now take 10 years just to get a permit approved for a simple road?''

Partially true, and needs context.

The Empire State Building was built in just over a year. But construction time shouldn't be compared to the time needed to get a permit (the design for the Empire State Building changed at least 15 times during planning and construction). The requirements for construction and permits are also different between roads and buildings, two different pieces of infrastructure.

Mr. Trump is also overstating the process for building roads. While some bigger projects can take around 10 years to receive permits, small projects, like repaving a road, can take little to no time at all. Average wait times have ranged from three to six years over the past two decades, according to the Federal Highway Administration.

-- Emily Cochrane

immigration

''The second pillar fully secures the border. That means building a wall on the Southern border, and it means hiring more heroes like C.J. to keep our communities safe.''

The wall's impact is unclear.

Homeland Security officials say a border wall would slow illegal immigrants and drug smugglers and help Border Patrol agents stop them. But it, alone, would not fully stop immigration or the flow of drugs; nor would it make the border fully secure. The majority of border crossings occurred in places where fencing or walls already exist. Just 30 percent of known illegal entries took place in areas without border fencing.

-- Ron Nixon

immigration

''The third pillar ends the visa lottery -- a program that randomly hands out green cards without any regard for skill, merit or the safety of our people.''

 

False.

The visa lottery program provides 50,000 immigrant visas to people from countries with low immigration rates to the United States.

An 18-page guide from the State Department says applicants must have a high school education or two years of work experience in the past five years that requires "two years of training or experience."

The applicant must undergo a medical exam and cannot have a criminal record. Visa winners are then subjected to a lengthy background check that can last for months.

-- Ron Nixon

immigration

"Under the current broken system, a single immigrant can bring in virtually unlimited numbers of distant relatives."

This claim is misleading.

Immigrants who gain their green cards or citizenship can petition to bring in their relatives. But that doesn't automatically allow entry into the United States. Anyone applying for residency must undergo national security and criminal background checks.

The federal government also places annual caps on the number of immigrants' married children and adult siblings who can sponsor for a visa. The system is badly backlogged; as of Nov. 1, more than 3.9 million people were waiting in line. Some siblings of immigrants who in 2004 petitioned for a visa to come to the United States were just this month starting to have their claims processed.

-- Ron Nixon

national security

"The coalition to defeat ISIS has liberated almost 100 percent of the territory once held by these killers in Iraq and Syria."

True, but needs context.

Mr. Trump is correct that the Islamic State has been forced from most of its previously held territory -- 98 percent -- in Iraq and Syria. But he is reaping the advantage of a strategy begun in the Obama administration.

American-led forces had already wrested more than 13,000 square miles of territory from the group by the time Mr. Trump was elected in November 2016. Things accelerated after he gave American commanders more authority to order airstrikes and make battlefield decisions. But the defeat of the caliphate does not mean the end of the Islamic State, or ISIS, as a movement or ideology.

-- Helene Cooper and Eric Schmitt

economy

"The **stock market** has smashed one record after another."

True.

The United States **stock market** has indeed surged since Mr. Trump took office, with the **S**.**&P**. **500 stock index** rising 24.7 percent and notching a series of record highs. By comparison, the same index was up 26.3 percent at the same point during President Barack Obama's administration in 2009 and early 2010.

Back then, level of the **stock market** was significantly lower, reflecting the impact of the financial crisis in the United States and the deep recession that followed. Under Mr. Obama, stocks continued to recover and also notched a series of record highs, starting in 2013.

-- Matt Phillips

trade

 

"America has also finally turned the page on decades of unfair trade deals that sacrificed our prosperity and shipped away our companies, our jobs, and our nation's wealth."

This needs context.

Economists believe the loss of manufacturing jobs has more to do with automation and globalization than specific trade deals.

Research suggests that the North American Free Trade Agreement has had a negligible effect on American jobs. And China's entry to the World Trade Organization in 2001 seems to have had a more pronounced impact on factory jobs. While Mr. Trump has abandoned the trans-Pacific Partnership, negotiations to revamp Nafta are ongoing.

--Natalie Kitroeff

economy

"Since we passed tax cuts, roughly 3 million workers have already gotten tax cut bonuses -- many of them thousands of dollars per worker."

True.

The statistic comes from a list of tax-related corporate announcements compiled by Americans for Tax Reform, an enthusiastic booster of Mr. Trump's tax cuts. His wording is carefully phrased. Mr. Trump notes "many" of the announced bonuses amount to thousands of dollars, a number that is vague enough to be defensible. (He also could have said "many of them hundreds of dollars per worker" and been correct, as well.)

-- Jim Tankersley

READ MORE: The Times is tracking companies that have made announcements about bonuses and other employment benefits because of the tax law.

taxes

"We enacted the biggest tax cuts and reform in American history."

False.

Mr. Trump won't stop making this claim, even though zero evidence supports it. Tax cuts signed by President Ronald Reagan were larger as a share of the economy and in terms of their effects on federal revenues. The recently passed tax bill appears to rank 12th in American history, as a share of the economy.

-- Jim Tankersley

The Democratic Rebuttal

Joseph P. Kennedy III delivered the Democratic response to the State of the Union. Below is a fact-check of his remarks.

economy

"Top C.E.O.s making 300 times the average worker is not right."

True, but misleading.

Mr. Kennedy is likely referring to a 2014 study from the left-leaning Economic Policy Institute. It said that pay for C.E.O.s at the top 350 American firms were about 300 times more than their employees.

But that sample represents a fraction of all American businesses, and not a very representative one. According to Bureau of Labor Statistics data, chief executives made an average salary of $194,000 in 2016, about four times what the average worker made.

-- Linda Qiu

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

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THE WALL STREET JOURNAL.
U.S. EDITION

**Analysis: Different Role for President: Optimist**

By Gerald F. Seib
864 words
31 January 2018
The Wall Street Journal
J
A1
English


In the year since President Donald Trump took office, voters have frequently seen the angry Trump, the divisive Trump, and occasionally the reserved Trump. On Tuesday night, the president wanted voters to see something different: the optimistic Trump.

In his first official State of the Union address, Mr. Trump presented his own relentlessly upbeat picture of the country, its economy and its prospects. "Exciting progress is happening every day," he declared.

Jobs are returning, business confidence is high and the **stock market** has added $8 trillion in value, he said. "Together, we are rediscovering the American way," he proclaimed.

Mr. Trump called out more than a dozen average Americans in the audience as heroes and role models. The darkest cloud hanging over his administration, the investigation of Russian interference in the 2016 election, went unmentioned.

And, in a capital that during his term has been riven by division and polarization -- often aggravated by Mr. Trump's own barbed comments -- he insisted he could see the possibility of unity: "Tonight, I call upon all of us to set aside our differences, to seek out common ground, and to summon the unity we need to deliver for the people we were elected to serve." Rather than unity, though, Democrats, saw more divisiveness sown by the president's description of immigrants as criminals and gang members.

All told, his speech was a long distance from Mr. Trump's dark inaugural address last January, when he painted a picture of what he called "American carnage," of "rusted-out factories," plagues of crime and gang warfare. It was as relentlessly dark as Tuesday night's speech was upbeat.

Taken as a whole, the speech may represent an attempt by the president to change the capital's tone -- though critics will note that steps in that direction often have been upended in short order by presidential tweets and off-the-cuff remarks. He steered clear of some of the targets of recent attacks, including the press and the leaders of his own government's top law-enforcement agency, the Federal Bureau of Investigation.

Certainly the body language of Democrats suggested they weren't ready to buy in. They were particularly grim during Mr. Trump's discussion of immigration, the issue that is driving the most emotional divides between the two parties now. Mr. Trump dwelt at length on the crimes of MS-13, a Central America-based gang, and held up its actions as the rationale for reducing legal immigration programs -- an assertion that drew Democratic grumbling.

He then laid out a compromise the White House advanced late last week, offering a path to citizenship for young immigrants brought here as children in return for funding for a wall along the Southern border and an end to existing visa-lottery and family-migration policies. Again, Democrats appeared unmoved.

Judging by his own words before the speech, Mr. Trump's two great frustrations in his first year in office are that he doesn't get more credit for a good economy, and that the dark cloud of special counsel Robert Mueller's investigation of Russia's actions in the 2016 campaign just won't go away.

There was little Mr. Trump could do about the latter in his State of the Union address, so instead he focused much of his attention on the former, pointing to a good economy and calling it his own.

In an extended passage of his remarks, he touted the virtues of the big tax-cut legislation passed late last year by Republican votes. "Since we passed tax cuts, roughly three million workers have already gotten tax-cut bonuses -- many of them thousands of dollars per worker," he said.

One of the anomalies of Mr. Trump's presidency so far is that he appears to get little political boost from a generally good economy. The president's job-approval stands at just 39% in the latest Wall Street Journal/NBC News poll this month and has basically been stuck at roughly that level for the last 10 months.

That is more than 20 points below the average for all modern presidents one year into office. Moreover, his job-approval rating has remained stuck despite the fact that the share of Americans who say they are satisfied with the economy has risen to 69% from 56% last spring.

Woven into these numbers are two problems for the president. The first is that while the economy clearly has been good, it actually hasn't been booming. Unemployment has dropped to 4.1% from 4.8% since Mr. Trump took office, and the economy added a solid 2.1 million jobs last year. Yet that actually represents the lowest level of annual job growth since 2010.

The second is that Mr. Trump often gets in the way of his own good news. He creates controversies and fights that, while they keep attention focused on him, have the effect of distracting attention from good economic news. It's far from clear that Tuesday's upbeat speech will represent a change in that pattern.



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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
**Good News in Bond-Market Wake-Up Call**

By Richard Barley
286 words
31 January 2018
The Wall Street Journal
J
B18
English


[Financial Analysis and Commentary]

Bond markets are no longer slumbering. The 10-year **U**.**S**. **Treasuryyield** is at its highest since April 2014; its German equivalent is at a level not seen since October 2015. That may make some investors nervous, but looks more like a belated recognition that the global economy is in a better place.

Indeed, concern about the 10-year U.S. note says more about how unusually low global bond yields have been for years. Stronger growth encouraged central banks to gain confidence throughout 2017 that inflation would pick up gently, allowing them to dial back stimulus. Bonds appear only now to be getting the message.

The key judgment is that major central banks are reacting to optimism about growth, so monetary policy can move slowly. Inflation expectations have ticked up but remain on the low side. The 10-year break-even inflation rate on Treasurys has risen above 2%, but in the longer run has been closer to 2.5%. Strikingly, the term premium calculated by the Federal Reserve Bank of New York -- the extra yield investors demand for uncertainty about future interest rates -- is still negative.

Higher yields will become a headwind at some point, but that may be some way off. UBS strategists think U.S. equity multiples can withstand a move toward 3% 10-year yields.

Yet low bond yields have come with suppressed **volatility**, which is now picking up from very low levels across bond, stock and currency markets. Sticking with risky assets like stocks still looks like the right strategy, but the path may get rockier.



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THE WALL STREET JOURNAL.
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**Banking & Finance: Pension Fund Raises Bet on Low-Carbon Firms**

By Sarah Krouse
562 words
31 January 2018
The Wall Street Journal
J
B16
English


One of the largest state pension funds in the country has doubled its investment in a low-carbon-emissions index, the latest high-profile endorsement of sustainable investing strategies.

The New York State Common Retirement Fund will now invest $4 billion in a so-called low-emissions index designed by Goldman Sachs Asset Management. The index is less exposed to companies such as Exxon Mobil Corp. and Chevron Corp. and has a heavier bent toward stocks including Apple Inc. and Microsoft Corp.

Money managers have launched a bevy of new investment strategies in recent years that they say reward companies with strong environmental, social and governance practices and punish those without them. But some of those strategies are nascent and their ability to deliver strong returns over the long term is largely unproven.

State Comptroller Thomas DiNapoli, who oversees the pension fund's investment lineup, said the Goldman-designed index has delivered returns that are comparable to the Russell 1000, a widely followed **stock-market** index, since its inception in 2016.

The investment has returned an estimated 19.93% from its inception Jan. 1, 2016, to Jan. 26, 2018, compared with 20.14% for the Russell 1000, a spokesman for the comptroller said.

"We get the benefit of a strong positive return with the added plus of having the opportunity to significantly reduce our carbon footprint with the investment," Mr. DiNapoli said.

The additional investment represents a small part of the pension fund's more than $200 billion in assets. The fund has committed $7 billion to sustainable investing strategies in stocks, real estate and private equity across its portfolio.

The New York State Common Retirement Fund manages assets for more than one million state and local public-sector employees. The fund's average five-year return is 10.17%.

The fund's leaders have long worked with organizations such as the CDP, an international nonprofit organization that presses companies to disclose their environmental impact. It has also demanded greater climate risk disclosures from the companies in which it invests.

"If we can get companies to move and be part of the transition to a low-carbon economy even if they are energy companies, that is a good thing," Mr. DiNapoli said.

The diversity of socially and environmentally responsible strategies on offer can at times pose a challenge for asset owners and stewards grappling with how best to invest according to their political, religious or social beliefs while achieving the best possible returns for their constituents. New York state officials and fund leaders, for example, have debated the merits of divesting from fossil-fuel companies altogether versus trimming exposure to them.

"Divestment is simple -- sell your Exxon Mobil and that's going to change the world. Our perspective is it's a little more complicated than that," Mr. DiNapoli said.

The new $2 billion investment shifts money into the strategy that was previously tracking the Russell 1000. Mr. DiNapoli said the fund could invest more in the strategy over time if it continues to perform well relative to the broad benchmark.

The fund paid Goldman Sachs Asset Management $610,000 in fees in the year to the end of March for its work on the low-emissions strategy, the spokesman said.



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The New York Times

Business/Financial Desk; SECTB
**Market Slides Backward as Investors Take a Breather**

By THE ASSOCIATED PRESS
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NYTF
Late Edition - Final
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English


A broad sell-off Monday handed the **stock market** its biggest loss in more than four months, pulling the major indexes below their recent highs.

Technology stocks, the biggest gainers in 2017, accounted for much of the slide. Energy companies also fell as crude **oil prices** finished lower. Utilities and other rate-sensitive sectors declined as bond yields hit their highest level in almost four years.

Investors weighed the latest company earnings and deal news, including Keurig's acquisition of Dr. Pepper Snapple for $16.6 billion, including debt, and looked ahead to a busy week of corporate news and economic data.

The pullback followed a big rally on Friday, which was the market's biggest single-day gain since March 2017.

''It may just be we've had a really good run and people are taking profit off the table right now,'' said Randy Frederick, vice president for trading and derivatives at Charles Schwab.

The **Standard & Poor's 500**-**stockindex** fell 19.34 points, or 0.7 percent, to 2,853.53. The **Dow Jonesindustrial average** slid 177.23 points, or 0.7 percent, to 26,439.48. The **Nasdaq composite** lost 39.27 points, or 0.5 percent, to 7,466.51. The Russell 2000 index of smaller-company stocks gave up 9.95 points, or 0.6 percent, to 1,598.11.

Falling stocks outnumbered rising ones almost five-to-one on the New York Exchange.

**Bond prices** fell. The yield on the **10**-**year Treasury** note rose to 2.70 percent, the highest level in almost four years, from 2.66 percent late Friday.

The prospect for stronger economic growth, both at home and abroad, has helped drive bond yields higher. As bond yields rise it puts pressure on yield-sensitive sectors: Real estate investment trusts, telecoms and utilities. Those three sectors finished more than 1 percent lower Monday and are in the red for the year.

Investors face a busy week of potential market-moving corporate news and economic data the rest of this week. Several big-name companies are set to report quarterly results on Wednesday and Thursday, including Apple, Amazon, Microsoft, Facebook and Google's parent company Alphabet.

''Combined, that's 14.3 percent of the entire **S**.**&P**. **500 index** in five companies -- $3.6 trillion in market cap -- so this is a very important week,'' said Mike Baele, senior portfolio manager at U.S. Bank Private Wealth Management.

About a quarter of the companies in the **S**.**&P**. **500** have reported results so far this earnings season, and some 65 percent of those have delivered results that exceeded financial analysts' expectations, according to S&P Global Market Intelligence.

On Monday, the defense contractor Lockheed Martin added 1.9 percent after it reported better-than-expected quarterly results. The stock rose $6.52 to $351.42.

Apple fell 2.1 percent amid growing investor worries that the iPhone X has not been a hit with customers. Shares in the technology giant have been declining for several days, erasing billions of the company's market capitalization. The stock shed $3.55 to $167.96. Apple is scheduled to report its earnings Thursday.

Beyond earnings, the market will be sizing up new data on U.S. jobs, manufacturing and consumer sentiment this week.

The Commerce Department said Monday that consumer spending rose 0.4 percent in December, a solid though slower pace than in November.

Also on investors' radar: Tuesday night's State of the Union address and a two-day meeting of the Federal Reserve's policymaking committee that wraps up Wednesday.

Traders welcomed a crop of corporate deals Monday.

Dr. Pepper Snapple Group vaulted 22.4 percent after it agreed to be acquired by Keurig for $16.6 billion, including debt. The deal would create a beverage giant with about $11 billion in annual sales and a stable of brands including Dr. Pepper, 7UP, Snapple, A&W, Mott's, Sunkist and Keurig's single-serve coffee makers. Dr. Pepper Snapple added $21.42 to $117.07.

KapStone Paper and Packaging soared 30.8 percent after it agreed to be bought by rival WestRock for $35 a share, or $3.39 billion. KapStone shares gained $8.17 to $34.71. WestRock slid $1.86, or 2.6 percent, to $68.41.

Benchmark U.S. crude fell 58 cents, or about 1 percent, to settle at $65.56 a barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, dropped $1.06, or 1.5 percent, to close at $69.46 per barrel.

Gold, which hit an 18-month high last week, fell $11.80 to $1,340.30 an ounce. Silver dropped 31 cents, or 1.8 percent, to $17.13 an ounce. Copper slipped 1 cent to $3.19 a pound.

The dollar, which fell sharply last week, rose to 108.94 yen from 108.66 late Friday. The euro fell to $1.2389 from $1.2423.

The price of bitcoin fell 4.2 percent Monday to $11,207, according to the tracking site CoinDesk. Bitcoin futures on the Cboe Futures Exchange rose 2.1 percent to $11,170.

In other futures trading, wholesale gasoline was little changed at $1.9 a gallon. Heating oil slid 3 cents to $2.11 a gallon. Natural gas rose 13 cents, or 3.6 percent, to $3.63 per 1,000 cubic feet.

Germany's DAX and France's CAC 40 fell 0.1 percent Monday. Britain's FTSE 100 added 0.1 percent. Japan's benchmark Nikkei 225 finished flat, while Hong Kong's Hang Seng index lost 0.6 percent. South Korea's Kospi gained 0.9 percent.

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

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Monday. (Source: Reuters); 3-Month Treasury Bills: High rate at weekly auction. (Source: The Bond Buyer)

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The New York Times

OP-ED COLUMNIST
Editorial Desk; SECTA
**Bubble, Bubble, Fraud And Trouble**

By PAUL KRUGMAN
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The other day my barber asked me whether he should put all his money in Bitcoin. And the truth is that if he'd bought Bitcoin, say, a year ago he'd be feeling pretty good right now. On the other hand, Dutch speculators who bought tulip bulbs in 1635 also felt pretty good for a while, until tulip prices collapsed in early 1637.

So is Bitcoin a giant bubble that will end in grief? Yes. But it's a bubble wrapped in techno-mysticism inside a cocoon of libertarian ideology. And there's something to be learned about the times we live in by peeling away that wrapping.

If you've been living in a cave and haven't heard of Bitcoin, it's the biggest, best-known example of a ''cryptocurrency'': an asset that has no physical existence, consisting of nothing but a digital record stored on computers. What makes cryptocurrencies different from ordinary bank accounts, which are also nothing but digital records, is that they don't reside in the servers of any particular financial institution. Instead, a Bitcoin's existence is documented by records distributed in many places.

And your ownership isn't verified by proving (and hence revealing) your identity. Instead, ownership of a Bitcoin is verified by possession of a secret password, which -- using techniques derived from cryptography, the art of writing or solving codes -- lets you access that virtual coin without revealing any information you don't choose to.

It's a nifty trick. But what is it good for?

In principle, you can use Bitcoin to pay for things electronically. But you can use debit cards, PayPal, Venmo, etc. to do that, too -- and Bitcoin turns out to be a clunky, slow, costly means of payment. In fact, even Bitcoin conferences sometimes refuse to accept Bitcoins from attendees. There's really no reason to use Bitcoin in transactions -- unless you don't want anyone to see either what you're buying or what you're selling, which is why much actual Bitcoin use seems to involve drugs, sex and other black-market goods.

So Bitcoins aren't really digital cash. What they are, sort of, is the digital equivalent of $100 bills.

Like Bitcoins, $100 bills aren't much use for ordinary transactions: Most shops won't accept them. But ''Benjamins'' are popular with thieves, drug dealers and tax evaders. And while most of us can go years without seeing a $100 bill, there are a lot of those bills out there -- more than a trillion dollars' worth, accounting for 78 percent of the value of U.S. currency in circulation.

So are Bitcoins a superior alternative to $100 bills, allowing you to make secret transactions without lugging around suitcases full of cash? Not really, because they lack one crucial feature: a tether to reality.

Although the modern dollar is a ''fiat'' currency, not backed by any other asset, like gold, its value is ultimately backed by the fact that the U.S. government will accept it, in fact demands it, in payment for taxes. Its purchasing power is also stabilized by the Federal Reserve, which will reduce the outstanding supply of dollars if inflation runs too high, increase that supply to prevent deflation. And a $100 bill is, of course, worth 100 of these broadly stable dollars.

Bitcoin, by contrast, has no intrinsic value at all. Combine that lack of a tether to reality with the very limited extent to which Bitcoin is used for anything, and you have an asset whose price is almost purely speculative, and hence incredibly **volatile**. Bitcoins lost about 40 percent of their value over the past six weeks; if Bitcoin were an actual currency, that would be the equivalent of a roughly 8,000 percent annual inflation rate.

Oh, and Bitcoin's untethered nature also makes it highly susceptible to market manipulation. Back in 2013 fraudulent activities by a single trader appear to have caused a sevenfold increase in Bitcoin's price. Who's driving the price now? Nobody knows. Some observers think North Korea may be involved.

But what about the fact that those who did buy Bitcoin early have made huge amounts of money? Well, people who invested with Bernie Madoff also made lots of money, or at least seemed to, for a long time.

As Robert Shiller, the world's leading bubble expert, points out, asset bubbles are like ''naturally occurring Ponzi schemes.'' Early investors in a bubble make a lot of money as new investors are drawn in, and those profits pull in even more people. The process can go on for years before something -- a reality check, or simply exhaustion of the pool of potential marks -- brings the party to a sudden, painful end.

When it comes to cryptocurrencies there's an additional factor: It's a bubble, but it's also something of a cult, whose initiates are given to paranoid fantasies about evil governments stealing all their money (as opposed to private hackers, who have stolen a remarkably high proportion of extant cryptocurrency tokens). Journalists who write skeptically about Bitcoin tell me that no other subject generates as much hate mail.

So no, my barber shouldn't buy Bitcoin. This will end badly, and the sooner it does, the better.

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The New York Times

Business/Financial Desk; SECTB
**Change Comes, But for Now Fed Will Wait**

By BINYAMIN APPELBAUM
1,193 words
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English


WASHINGTON -- Janet L. Yellen, the Federal Reserve's departing chairwoman, will preside over her final policymaking meeting on Tuesday and Wednesday where, in a fitting finale, the Fed is expected to leave its benchmark interest rate unchanged as the economy continues to gain strength.

Ms. Yellen's four-year tenure has been defined by her campaign to stimulate job and wage growth by holding interest rates at low levels for much longer than markets had expected.

Her patience was rewarded: Unemployment steadily declined while inflation remained low.

Now, as Ms. Yellen makes way for her successor, Jerome H. Powell, who was confirmed by the Senate last week, the challenges confronting the central bank also are starting to change.

The unemployment rate was 4.1 percent in December, and the Fed does not expect it to fall much further. Instead, as economic growth continues, it expects faster inflation. After hiking rates three times last year, Fed officials have predicted that they will raise rates another three times in 2018.

''Yellen had the uncharted territory of getting an economy going with low inflation,'' said Seth Carpenter, a former Fed economist who is now chief United States economist at UBS. Mr. Powell, he said, ''is going to be in a very different world: Fiscal stimulus when you're already at full employment.''

Analysts and investors are unruffled by the impending departure of Ms. Yellen and installation of Mr. Powell. They have accepted Mr. Powell's assertions during the confirmation process that he intends to continue the Fed's current approach to monetary policy.

''The way I think about it is, Jay Powell will be a reassuring force of continuity,'' said Vincent Reinhart, chief economist for Standish Mellon Asset Management.

Ms. Yellen is also leaving a clear road map. When the Fed began in October to reduce its holdings of Treasuries and mortgage bonds, which it purchased as part of its post-crisis stimulus campaign, it announced a multiyear timetable that it said would remain unchanged barring emergencies.

The Fed has made clear that the January meeting will be a place holder, not least because of the transition in leadership, and markets have taken the message. The headline on Morgan Stanley's preview of the January meeting: ''Where's the Snooze Button?''

But markets are equally convinced that the Fed will tighten policy for the sixth straight quarter at its next policy meeting in March, which will be Mr. Powell's first meeting as the chairman.

Ms. Yellen's priority was ensuring that the Fed did not raise rates too quickly; Mr. Powell could face the challenge of making sure that the Fed does not move too slowly.

Fed officials said as they embarked on the tightening process that they wanted to avoid the mechanical predictability of the previous tightening cycle between 2004 and 2006. Like the proverbial frog in the stovetop pot, investors found it easy to ignore the slow and steady increases.

But the Fed, wary of surprising markets, has once again fallen into a pattern of carefully signaling each rate hike -- and markets, once again, are largely unconcerned. The ease of borrowing has increased over the last year, according to measures of financial conditions.

"They said that policy was too gradual and predictable" during the last tightening cycle, said Mr. Reinhart, who played a key role in the last round of rate increases when he was head of the Fed's division of monetary affairs. "And now it is predictable and gradual and even slower."

Under Ms. Yellen, the unemployment rate has declined to 4.1 percent from 6.7 percent in February 2014, while inflation has remained below the Fed's 2 percent target. During the first three years of her tenure, in particular, Ms. Yellen repeatedly found reasons to argue that the Fed should delay raising interest rates, extending the Fed's stimulus campaign.

Scott Sumner, an economist at George Mason University, wrote in an October appraisal that Ms. Yellen's performance was "near perfection." He added that, at the end of her tenure, Ms. Yellen will likely have achieved the Fed's dual mandate of maximizing employment and stabilizing inflation "better than any other chair in history."

There were plenty of critics along the way. A coalition of labor and community groups, the Fed Up campaign, pressed Ms. Yellen throughout her term to increase the Fed's stimulus campaign. Republicans and conservative economists fretted that the Fed was doing too much.

Chris Rupkey, chief financial economist at MUFG Union Bank in New York, said that the persistence of low interest rates had been painful for banks and other financial firms, many of which also resented Ms. Yellen's focus on strengthening financial regulation. "It's not goodbye, good luck from Wall Street," he said. "It's don't let the door hit you on the backside on your way out."

Eleanor Herlands, a 92-year-old retiree in Stamford, Conn., said that she and other savers had suffered during the long years of low interest rates.

"They pushed people to buy stocks, people that knew nothing about the **stock market**," said Mrs. Herlands, who opted instead to keep her money in savings accounts. "I made my own choices, but I never dreamed that it would go on this long. Now I'm pleased that I'm finally getting at least a little relief."

She said she was now earning an average of 1.6 percent on her accounts.

Ms. Yellen, 71, is the first person in modern history to serve a four-year term as Fed chairman without being appointed to a second term. She has not said what she plans to do next.

She leaves behind some challenges for her successor.

Fed officials in recent months have begun to debate whether the central bank should adjust its approach to monetary policy before the next downturn. The Fed's traditional approach is to stimulate growth by reducing interest rates. But rates, which reflect real borrowing costs and inflation, are expected to remain low for the foreseeable future.

The potential solutions mostly involve embracing more inflation.

The current economic expansion also is approaching the end of its ninth year, one of the longest periods of uninterrupted economic growth in American history.

Some forecasters say they can see clouds on the horizon, though a little squinting is required.

Oliver Jones, markets economist at Capital Economics, predicted the Fed's march toward higher interest rates may finally begin to pinch **financial markets** by the second half of the year -- just as the stimulus provided by the tax cuts is beginning to fade.

"As growth in the U.S. economy starts to slow, we think that the long-running rally in the U.S. **stock market** will go into reverse," Mr. Jones wrote in his predictions for 2018. He added, "History suggests that a correction in the U.S. **stock market** would be contagious, even if growth in the rest of the world generally remains healthy as we expect."

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

Janet L. Yellen (B4)

 

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THE WALL STREET JOURNAL.
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**Investors Earmark More Money Abroad --- American stocks make up smaller share of portfolios, contributing to dollar's decline**

By Riva Gold
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B11
English


Global investors are shifting more of their money overseas, betting that even as the U.S. **stock market** soars to new heights, a resurgent global economy creates greater opportunities elsewhere.

That rising tide of capital chasing foreign stocks may even be helping drive the dollar to more-than-three-year lows, some analysts say.

The share of U.S. equities in global portfolios has fallen back to near its lows in early 2016, before a surge of interest in the U.S. market drove investor flows there, according to the Institute of International Finance.

As of Jan. 23, investors had withdrawn roughly $20 billion from U.S. equity funds since the start of 2017, while pouring $42 billion into funds that invest in continental Europe and $55 billion into Japanese stocks, according to fund tracker EPFR Global.

Some of the money leaving the U.S. appears to be heading into the developing world, too. Net inflows into emerging-market bonds and equities reached a high in 2017 of $650 billion, according to Capital Economics. Emerging-market equity flows in the week ended Jan. 24 were the second highest on record.

Since the 2008 financial crisis, global investing "has been a U.S.-centric world," said Alain Bokobza, head of global asset allocation at Societe Generale.

With the U.S. economic recovery likely past its peak, strong prospects for growth around the globe and the dollar fragile, that could be changing, he added.

Despite the **S&P 500 index** closing at another record Friday, the shift away from U.S. stocks has already benefited global investors. Foreign stock returns edged out those in the U.S. last year for the first time since 2012, and overseas stocks are on pace with U.S. stocks this year, with many benchmarks around the world trading at multiyear or record highs.

"If before, the U.S. was the best house in a bad neighborhood, the neighborhood just got better," said Brent Schutte, chief investment strategist at Northwestern Mutual Wealth Management.

U.S. equity funds had a brief resurgence in flows toward the end of 2017, as investors bet President Donald Trump's new tax laws would benefit American companies. That spike in interest has mostly petered out, however, compared with the rush for international stocks.

Global investment flows may also help explain a phenomenon that has puzzled many currency analysts: Why has the dollar declined around 9% in the past year despite solid U.S. data, a corporate-tax cut expected to lure cash back to the U.S. and rising Treasury yields?

Over the past 12 months, the euro has gained roughly 15% against the dollar and the Japanese yen has risen 5%, even as the Federal Reserve has raised interest rates three times over that period and signaled that it plans to do so three more times this year if the economy holds up.

Fixed-income flows typically have a more pronounced impact on currency movements than stock flows, analysts say. Expectations of relative interest-rate dynamics and economic growth can matter even more.

But some investors think the especially large equity flows moving around the world may be having a bigger-than-usual impact on the dollar, as equity markets draw record inflows that far outpace bonds. To purchase a stock abroad, an investor must first buy the currency of the other country, which would help put upward pressure on it.

"Shifting equity capital flows into non-U.S. markets have tended to erode the value of the dollar and support the value of other currencies," said Larry Hatheway, chief economist at GAM Holding, a Zurich-based money manager.

"These days it is all about flows," said Krishna Memani, chief investment officer at OppenheimerFunds in New York. Mr. Memani said he has been gravitating more toward stocks outside the U.S. for over a year, finding better growth opportunities and more attractive valuations.



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**Global Stocks Start the Year With A Sizzle**

By Steven Russolillo
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English


Stocks around the world have staged one of the best-ever beginnings to a year, a synchronized rally that has only gathered momentum after 2017's sharp gains.

In the U.S., the **S&P 500**'s 7.5% rise so far in January is its biggest since 1987. In Asia, the Shanghai Composite has already surged 7.6%, surpassing last year's gain. Hong Kong's Hang Seng Index is up 11%, rising on all but two days this month. And in Europe, the German DAX and France's CAC 40 are up 3.3% and 4.1%, respectively.

Strong corporate earnings and improving economic growth world-wide have fueled the gains, with the new U.S. tax law, which cuts corporate rates to 21% from 35%, bolstering optimism. The weaker U.S. dollar has been a boon to emerging markets while the recent pickup in Treasury yields has prompted a rotation by investors out of bonds and into stocks, further propelling equity markets, investors say.

But the gains have put some investors on edge, intensifying analysts' concerns about the rising price of buying into a **bull market** almost nine years old. The rallies also have drawn comparisons to the 2000 **Nasdaq** peak, when a mania for technology stocks drove that index to a level it wouldn't recapture for more than a dozen years.

While U.S. stocks have been generally expensive relative to historical norms in recent decades, the median price-to-earnings multiple for stocks listed on the New York Stock Exchange , **Nasdaq** and American Stock Exchange has reached a record high, according to Jim Paulsen, chief investment strategist at Leuthold Group .

"For the first time in this recovery, the **stock market** has finally become expensive based on its 'new valuation range,'" Mr. Paulsen said in a note last week to clients, referring to that record-high price-to-earnings multiple.

Overall, the MSCI All Country World Index, which captures equity returns from 23 developed and 24 emerging markets, has risen 6.9% so far in January, on pace for its best monthly start to a year over the past three decades.

"I figured we'd rally again in 2018, but I wasn't expecting a full year's worth of gains in the first few weeks of January," said Andrew Clarke, director of trading at brokerage firm Mirabaud Asia Ltd. in Hong Kong.

The surge in U.S. stock indexes this year has extended a roaring postelection rally that few analysts predicted, taking the **S&P 500 index** to 14 record closes in 2018, alongside 13 in the **Nasdaq Composite** Index and 11 in the **Dow Jones Industrial Average**.

Stocks and Treasurys are in the midst of what Goldman Sachs calls the most "extreme" start to a year ever. The bank says its cross-asset risk indicator, a measure of how investors are positioned across various asset classes like stocks, bonds and credit, is at its most **bullish** since inception in 1991.

"Risk appetite is now at its highest level on record," Goldman analysts wrote to clients, "which leads to the question of what future returns can be."

The investing environment has made billionaire investor Howard Marks nervous. The co-founder of Los Angeles-based Oaktree Capital Management, which has about $100 billion of assets under management, said investors shouldn't get caught up in the rallies and be defensive.

"Most valuation parameters are either the richest ever or among the highest in history," Mr. Marks said, referring to U.S. stock valuations. "In the past, levels like these were followed by downturns. Thus a decision to invest today has to rely on the belief that 'it's different this time.'

"I'm convinced the easy money has been made," he added.

Yet cash has recently started to pour into equity markets at a record-setting pace. Buyers committed a net $58 billion to mutual funds and exchange-traded funds that invest in global stocks over a four-week stretch through Jan. 17, the most inflows for any comparable stretch in records going back to 2002, according to Bank of America Merrill Lynch .

In its monthly summary of market positioning, the bank said that investors' allocations to equities had jumped to a two-year high, whereas their positioning in bonds had fallen to a four-year low.

But for some investors, that is evidence of a long-awaited rotation into equities, one that might be just the beginning of more cash supporting stock markets.

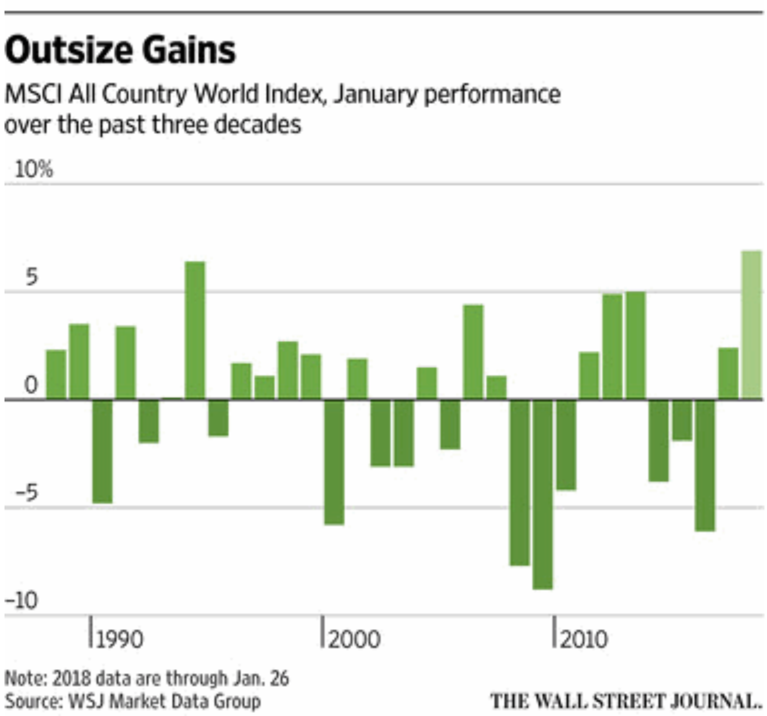
"I'm not yet observing that we're at peak optimism," said Samuel Le Cornu, co-head of Asian equities at Macquarie Investment Management in Hong Kong. "I could definitely understand if the market continued to rally from here."

Analysts and investors remain upbeat about emerging markets. "We think emerging market macro fundamentals are the best they've been in 20 years," said Ajay Kapur, head of Asia Pacific and global emerging market strategy at Bank of America Merrill Lynch , pointing to indicators such as current account balances, lending metrics and currency fluctuations. "Out of 17 countries we monitor, not one is sick. That's a very rare thing."

He predicts the MSCI Emerging Markets Index -- a broad measure of emerging-market equities -- will double in two years, supported by a weak U.S. dollar and valuations that are cheaper relative to developed markets.

Much of his optimism is due to China, which Mr. Kapur says is his firm's biggest overweight position in emerging markets. With Chinese economic growth accelerating again and memories of the 2015 **stock market** crash fading, he said conditions are ripe for more gains.

"There are a lot of skeptics out there, but you don't really hear much from them these days," Mr. Kapur said. "They're burrowed into some caves."



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**Saudis Disagree Over Where to List Aramco**

By Maureen Farrell, Summer Said and Benoit Faucon
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Two years after Crown Prince Mohammed bin Salman announced his intention to turn Saudi Arabia's state-owned oil producer into the world's largest public company, the kingdom and its advisers remain stuck on the crucial question of where to list the shares.

External advisers and officials at the company, known as Aramco, have privately warned that Prince Mohammed's preferred venue, the New York Stock Exchange, could expose the kingdom to lawsuits from shareholders and 9/11 victims, people familiar with the matter said. The officials include Aramco's powerful chairman, Khalid al-Falih, who is also the country's energy minister.

The company and the kingdom are debating listing Aramco solely on the Saudi **stock market**, known as Tadawul, but advisers are concerned the exchange won't be able to accommodate the surge in trading that such an enormous company would bring.

Estimates of the value of Aramco range from $1.3 trillion to $2 trillion; the market capitalization of all stocks on Tadawul is just $451 billion. Saudi Arabia's stock exchange has only been open to international investors since 2015. And while most global exchanges have multiple custodians to facilitate and keep track of trading in stocks, the Tadawul has just one: HSBC Holdings PLC.

A Tadawul-only listing would likely be accompanied by an investment from a sovereign-wealth fund in a country like China, Russia, Singapore or the United Arab Emirates, some of the people said.

Partly as a result of the differences of opinion, progress on the initial public offering has stalled, frustrating many of the hundreds of bankers, lawyers and consultants who have been working around the clock for more than a year to prepare the listing, people familiar with the process said.

The prospects for an international listing in 2018 look remote, some of the people said. Others say that if the crown prince makes a decision on a venue soon, there could still be one this year.

"We hope that 2018 will be the right time, but ultimately we have to make sure the market is ready," Mr. Falih said in Davos, Switzerland, last week, when asked by reporters about a possible delay. "We will calibrate that as we get closer."

The IPO of Saudi Arabian Oil Co., as it is officially known, is the centerpiece of Prince Mohammed's grand and risky plan to modernize the kingdom's economy and wean it off oil. The challenges of simply choosing a venue, however, illustrate the broader geopolitical, legal and bureaucratic difficulties of the effort.

Last year Prince Mohammed met with the chief executives of firms including JPMorgan Chase & Co., Evercore Partners Inc., Moelis & Co, and Morgan Stanley to discuss the listing, people familiar with the discussions said. More recently, he has mostly discussed the IPO with just Mr. Falih and senior ministers who, along with many senior officials at the company, prefer a listing in London, the people said. They see the British capital as having fewer legal risks. The Saudi cabinet remains divided on where to list, the people said.

Prince Mohammed has spent much time recently on the widening corruption probe in which hundreds of senior government officials, prominent businessmen and members of the ruling family have been detained, as well as on conflicts with some Middle Eastern neighbors including Iran, Qatar and Yemen, people familiar with the situation said.

Early in the planning process, Prince Mohammed had told advisers that he preferred the NYSE, a unit of Intercontinental Exchange Inc., because it would gain the company access to the largest pool of investors, as well as prestige, people familiar with the discussions said. More recently, these people said he has talked about the importance of an NYSE listing to bolster U.S.-Saudi diplomatic and economic ties and his already close relationship with President Donald Trump and his son-in-law, Jared Kushner.

In a November 2017 tweet, the president said: "Would very much appreciate Saudi Arabia doing their IPO of Aramco with the New York Stock Exchange. Important to the United States!"

A White House spokesman declined to comment.

Prince Mohammed has told advisers that he thinks Mr. Trump and Mr. Kushner could get the NYSE to relax some of its regulations or help limit the potential for lawsuits, people familiar with the process said. Advisers have told Prince Mohammed that Mr. Trump has no direct control over exchange regulations or any lawsuits related to the Sept. 11, 2001, terrorist attacks, the people said.

Members of Aramco's internal IPO team recently met with Chief Executive Amin Nasser to discuss how they could still list in New York, one person familiar with the meeting said. One possibility they discussed was to create and then list just a subsidiary with some of Aramco's upstream and downstream assets. They said such a move could potentially shield the broader company from lawsuits. Still, this was seen as a "last-resort option," the person said.

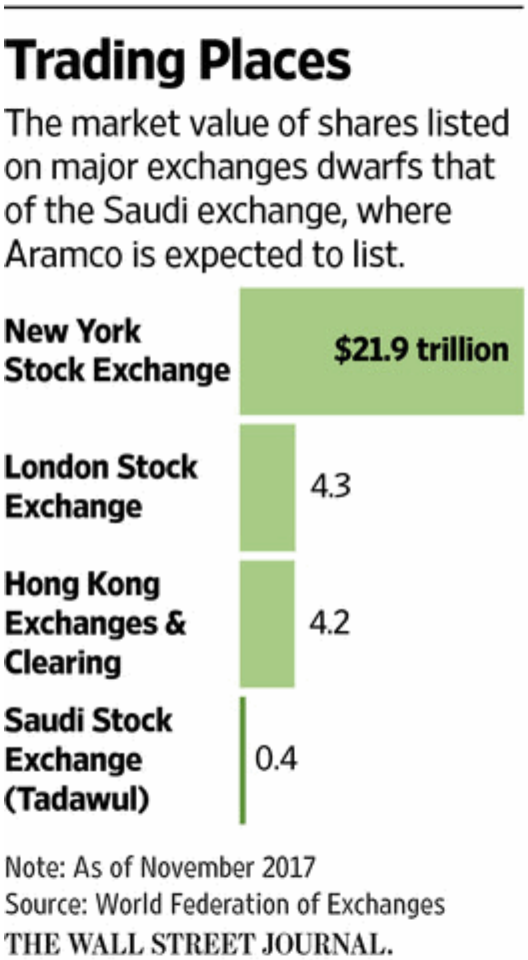
Aramco in recent weeks also contacted several new banks and invited them to Saudi Arabia to make pitches for potential roles on the IPO team, people familiar with the process said. It told them to draft presentations on a venue-agnostic basis.

Aramco's IPO team has most of the paperwork ready for a listing in New York, London, Hong Kong or locally, people familiar with the matter said. Bankers on the deal say they have never seen another company work in this manner, as normally a venue decision is made first, because of the time it takes to draft even a single, less-complicated prospectus.

The Aramco IPO team has recently been discussing listing by October of this year solely on Tadawul, these people said, but some advisers remain skeptical. They have already watched the company blow through many self-imposed deadlines.

Several investment bankers said they are struggling to keep staff on the project. Many have become nervous that the IPO will never happen or will raise much less than expected. They worry they will miss out on career opportunities and bonus payments if their work generates minimal revenue.

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The New York Times

National Desk; SECTA

# Rising Oil Prices Give U.S. an Edge In Global Energy

By CLIFFORD KRAUSS
1,510 words
29 January 2018
The New York Times
NYTF
Late Edition - Final
1
English


HOUSTON -- A substantial rise in **oil prices** in recent months has led to a resurgence in American oil production, enabling the country to challenge the dominance of Saudi Arabia and dampen price pressures at the pump.

The success has come in the face of efforts by Saudi Arabia and its oil allies to undercut the shale drilling spree in the United States. Those strategies backfired and ultimately ended up benefiting the oil industry.

Overcoming three years of slumping prices proved the resiliency of the shale boom. Energy companies and their financial backers were able to weather market turmoil -- and the maneuvers of the global oil cartel -- by adjusting exploration and extraction techniques.

After a painful shakeout in the industry that included scores of bankruptcies and a significant loss of jobs, a steadier shale-drilling industry is arising, anchored by better-financed companies.

With the price of West Texas intermediate crude above $65 a barrel, a level not seen in almost three years, the United States is becoming a dominant producer. It is able to outflank competitors in supplying growing global markets, particularly China and India, while slashing imports from the Middle East and North Africa.

This year, the United States is expected to surpass Saudi Arabia and to rival Russia as the world's leader, with record output of over 10 million barrels a day, according to the International Energy Agency.

''This is a 180-degree turn for the United States and the impacts are being felt around the world,'' said Daniel Yergin, the economic historian and author of ''The Prize: The Epic Quest for Oil, Money and Power.'' ''This not only contributes to U.S. energy security but also contributes to world energy security by bringing new supplies to the world.''

At the same time, the United States is becoming a major exporter of natural gas, another outgrowth of the shale revolution, undercutting Russian energy dominance over Eastern Europe.

The improving energy picture comes as the Trump administration is attempting to increase offshore drilling and loosen other regulations on fossil fuel development. But just as the surge in oil and gas production in shale fields during the Barack Obama administration had little to do with Washington, the current rise is the result of private companies responding to global markets.

Shale fields can be developed relatively quickly and at modest costs relative to the giant projects, whether on land or offshore, that were once favored by big oil companies. That makes it easier to turn investment spigots on or off to adjust to market fluctuations. Companies like Exxon Mobil and Chevron are putting increasing amounts of capital in shale fields, particularly in West Texas and New Mexico.

The results go far beyond the economic, offering Washington strategic weapons once unthinkable. The United States and its allies now have a supply cushion at a time when political turmoil in Venezuela, Libya and Nigeria is threatening to interrupt flows to markets.

Only a few years ago, such threats -- along with a recent pipeline failure in the North Sea and storms in the Gulf of Mexico -- would have sent the price of crude soaring. Instead, the rise has been muted, and gasoline at the pump remains below $2.60 a gallon across most of the United States.

The new energy power also relieves pressure on Washington to act militarily if tensions between Iran and Saudi Arabia break out into war. And it gives Washington the leeway to apply sanctions on other producers -- as it has in Russia, and may in Iran or Venezuela -- with far less risk to the global economy.

It is a striking contrast to the 1970s, when Arab oil boycotts forced motorists to line up for blocks to fill their tanks and the economy went into a tailspin. Even more recently, during the presidency of George W. Bush, domestic oil output was declining so rapidly that the country set a course to replace oil with biofuels like ethanol.

Many environmentalists argue that by increasing oil and gas supplies and lowering prices for consumers, shale drilling is extending the life of fossil fuels to the detriment of the environment and the development of cleaner energy.

The shale drilling revolution has remade the global energy market, with imports from members of the Organization of the Petroleum Exporting Countries plunging by 20 percent from late 2016 to late 2017. At the same time, exports rose by hundreds of thousands of barrels a day.

Nothing like the current situation was foreseen in late 2014, when rising domestic production began weighing on global **oil prices**.

In response, Saudi Arabia led OPEC in a new direction. Instead of throttling back to support prices as the cartel had done so often, it left the market alone and even increased production for a time.

Prices fell below $40 a barrel, as the Saudis and their allies hoped to drive American operations out of business by making shale drilling uneconomical. American exploration quickly dropped, but the price squeeze made companies more innovative in the use of drilling technologies, robotics and sensors to maximize output and reduce costs.

While scores of smaller companies went out of business, the survivors lengthened horizontal wells to yield more oil, and used clever hedging and drilling strategies to maximize profits even when prices slumped.

The response surprised the global oil community. OPEC, Russia and allied producing countries changed course and began cutting back again in 2016.

''OPEC missed the point,'' said René Ortiz, a former OPEC secretary general and former Ecuadorean energy minister. ''They thought they could recover the U.S. market by bringing the prices down. Now the U.S. has gained the leading position in the world oil market regardless of what OPEC does.''

''This displacement of Saudi oil, Nigerian oil, Libyan oil and Venezuelan oil,'' Mr. Ortiz concluded, ''was never anticipated.''

A week ago, OPEC leaders met in Oman to discuss a probable extension of production cuts into 2019 to support prices. Their biggest obstacle is the United States.

Technological advances unlocking oil from tight rocks like shale has led to a drilling frenzy enabling a doubling of output in a decade, transforming unlikely places like North Dakota and New Mexico into world class petroleum hubs. Pipelines are being built across Texas to serve ports where oil can be pumped onto tankers headed for China, India and other markets.

Domestic production last year averaged 9.3 million barrels a day, and the Energy Department projects that the figure will climb to 10.3 million barrels a day this year, surpassing the record set in 1970. In the meantime, since a 40-year export ban was lifted in 2015, exports of American oil have risen to roughly two million barrels a day -- more than many OPEC members.

The department projects an additional increase in domestic production of 500,000 barrels a day in 2019.

Concerns over climate change as well as the growing popularity of electric cars and the eventual aging of the best shale fields will probably curb production and demand over the next few decades. But in the short term, the boom has changed the landscape.

The Energy Department projects that the recent surge will hold the price of Brent crude, the global benchmark, to $60 a barrel in 2018 and $61 a barrel in 2019 -- a modest increase from $54 last year. (The Brent price rose above $70 a barrel this month, but few analysts see a return to $100-a-barrel oil.)

 

The emerging order in the energy realm is a stable balance of power. Saudi Arabia, which essentially runs OPEC, has put a floor under the **oil price** -- probably around $50 a barrel -- with its limits on output and exports over the last four years. But now the United States, by the sheer force of its production, the supremacy of its technology, and an unmatched pipeline, refinery and storage structure, has put a ceiling to the price.

Experts note that when oil climbs to $60 a barrel and higher, as it has lately, a drilling rush commences -- the national rig count has climbed by over a third in the last year -- promising to refill domestic and even global energy inventories. Only a major war or other disruption is likely to send prices soaring.

''We have all suffered these depressed prices over the last two years and we are excited to see the new prices and we will respond accordingly,'' said Harald Jordan, vice president for engineering at Peak Energy, a Colorado-based producer. ''You will see rig activity continue to increase.''

A pump jack in a Permian Basin oil field in West Texas, where interest in shale fields is growing. (PHOTOGRAPH BY SPENCER PLATT/GETTY IMAGES NORTH AMERICA) (A12) CHART: Catching Up: Forecasts show that the United States could surpass Saudi Arabia as an oil producer this year, with output exceeding 10 million barrels a day. (Sources: U.S. Energy Information Administration; Organization of the Petroleum Exporting Countries (OPEC)) (A12)

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The New York Times

OP-ED CONTRIBUTOR
Editorial Desk; SECTA
**Give Trump Credit for The Economy**

By STEPHEN MOORE
908 words
29 January 2018
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English


If you can, put aside for a moment your opinion of Donald Trump's words and actions and let's be perfectly honest: One year into his presidency, could the economy be any rosier?

The economy grew at a rate of about 3 percent in the last three quarters, something that economists said was very unlikely just a year ago. The more than 40 percent increase in the **Dow Jonesindustrial average** since Election Day means a nearly $7 trillion jump in wealth. That has benefited the rich, yes, but every one of the 55 million Americans with a 401(k) plan, the 20 million with IRAs and the millions more with public and private pension plans have benefited, too. I would argue that investors are turning lower business tax rates on profits and the administration's rollback of regulations into higher stock valuations.

The job market improved impressively under Barack Obama's presidency after the Great Recession, when millions of jobs vanished seemingly overnight. But the past year's continued decline in joblessness is impressive as well. In recent weeks, the number of new unemployment insurance claims and the unemployment rate for blacks and Hispanics have been at or near their lowest levels in more than four decades.

Then there is the cheerful news for the Rust Belt areas of the country: Blue-collar manufacturing, construction and mining jobs have risen by almost half a million in just one year.

All of this is punctuated by the daily news of more jobs, higher pay and fresh investment in America just one month into the Trump tax cut. Apple's plan to bring some $250 billion in profits back to America, create 20,000 jobs, open a new business campus and pay $38 billion in taxes to the Treasury Department is just the kind of response we hoped for from lowering corporate and repatriation taxes.

Fiat Chrysler has announced it is moving an auto factory to Michigan with 2,500 jobs. After decades of outsourcing jobs from America, companies are creating jobs here. In recent days, we have seen similar announcements of worker bonuses or new hiring from Disney, Home Depot, JPMorgan Chase, FedEx and other companies.

A new Quinnipiac poll finds that two-thirds of American voters now rate the economy as good or great, the highest number since the question was first asked 17 years ago.

Admittedly, these are short-term trends, based on just one year of Mr. Trump's term. If I've learned anything as an economic analyst, it is that the **stock market** and economic winds can shift by the hour. But for now, it's hard to see many dark clouds on the horizon. They will come, of course, as they do for almost every president. But few presidents can claim to have presided over the kind of economy the United States is enjoying now. And surely the primal screams from both the right and left that President Trump would ruin the economy now seem hysterical.

So who gets the credit for this surge? Most voters say President Obama -- and, sure, he gets some because corporate balance sheets were healthy when Mr. Trump entered office. But there are several holes in this theory. For one, the economy was decelerating at the end of the Obama presidency, with the annual growth rate falling to an anemic 1.6 percent in 2016, and many economists warned of a recession.

If Mr. Trump had continued Mr. Obama's policies, one might not credit him for today's strong economy. But Mr. Trump has begun to systematically overturn Obama policies on taxes, regulations, energy, climate change, net neutrality, budget priorities and health care -- as well as replacing Janet Yellen as chairwoman of the Federal Reserve. Trumponomics is Obamanomics in reverse.

In the first 18 months of the Reagan presidency, the economy plummeted and the president's liberal critics triumphantly declared Reaganomics a failure. But by late 1982, with Reagan's phased-in tax cuts finally kicking in, the economy exploded and quarterly growth rates hit 8 percent, job creation soared and Reagan won re-election in a 49-state landslide.

If the economy had nose-dived in 2017, there's no doubt the media would have pounced on Trump policies as disgraceful failures. But with the economy red-hot, he gets little credit. That's a double standard.

Ultimately, the most important statistical indicator for Mr. Trump will be wages for middle-income workers. They've been flat in real terms for 15 years, which more than anything explains the populist rebellion in 2016. So far, wages and salaries haven't bumped up much, but we are betting that the tax cut will bring increased investment and a supertight job market with intense competition for workers leading to higher pay. This is already starting to happen at Walmart and other companies, and in fast-growing cities like Nashville and San Francisco.

If those wages go up, Mr. Trump may not get credit from the news media or Democrats, but it's a good bet he will get re-elected.

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

Stephen Moore, a senior fellow at the Heritage Foundation, was a senior economic adviser to the Trump campaign.

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THE WALL STREET JOURNAL.
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**Hedge Funds Turn Bullish On Bitcoin-Futures Prices**

By Alexander Osipovich
243 words
29 January 2018
The Wall Street Journal
J
B9
English


Hedge funds have swung their bitcoin-futures bets to the **bullish** side for the first time, a marked turnaround from a few weeks ago, according to figures released Friday.

The data from the Commodity Futures Trading Commission suggest a shift in sentiment among "leveraged funds," a category that includes hedge funds.

Ever since late December, when the CFTC began publishing weekly reports on the new bitcoin-futures market run by Cboe Global Markets Inc., data had shown that these funds were **bearish** on bitcoin, unlike smaller investors who are overwhelmingly **bullish**.

Futures are a type of derivative that allow traders to bet on whether the price of an asset will rise or fall. Long positions in bitcoin futures profit if the price of the digital currency rises, while short positions pay off if it falls.

The most recent CFTC report showed leveraged funds with 1,142 long positions in bitcoin futures, more than double the 518 short positions they held.

That data were current as of Tuesday, Jan. 23, although it was released Friday. By comparison, as of Dec. 26, hedge funds' short positions in Cboe bitcoin futures outnumbered their long positions by more than 4-to-1, CFTC data show. The shift in sentiment came as the price of bitcoin slumped by 31% over that period, according to data from research site CoinDesk.



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**MoneyBeat: Stocks on Record Streak**

By Chelsey Dulaney
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29 January 2018
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B9
English


It is shaping up to be a record month for U.S. **stock-market** records.

The **S&P 500 index** has closed at an all-time high 14 times in January, the most record closes for a calendar month since 1955. Meanwhile, the **Dow Jones Industrial Average** has notched 11 record closes this month, while the **Nasdaq Composite**'s 13 closing highs are the most for the index since the tech bubble was inflating in December 1999.

With three trading days left to go in January, U.S. indexes still have time to add to their record tally. If the S&P can eke out record closes in each of the next three days, it will surpass 1955 to become the index's best-ever month for closing highs.

After a blockbuster 2017, the U.S. stock rally has continued to gain steam in the new year. Steady economic growth both in the U.S. and abroad, a corporate tax cut and strong consumer and business confidence have helped to fuel stocks' recent gains.

The S&P has already added 7.5% this year and the Dow has rallied 7.7%, surpassing the gains that some Wall Street analysts had been predicting for the entire year.

And with the fourth-quarter earnings season now in full swing, analysts say strong reports, particularly from technology titans like Google parent Alphabet Inc. and Amazon.com Inc., could provide U.S. indexes more reasons to rally in the weeks ahead.



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The New York Times

ECONOMIC VIEW
Money and Business/Financial Desk; SECTBU
**Consumer Confidence Helps, Until It's Gone**

By ROBERT J. SHILLER
1,062 words
28 January 2018
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Late Edition - Final
6
English


Amid the constant turmoil in domestic and global politics these days, the economy's steady expansion has been a source of comfort. But look more closely and you will find that economic growth rests on a surprisingly amorphous base: consumer confidence.

In the United States, consumer confidence has been ascending since 2009. What's more, the domestic data have been synchronized to a remarkable degree with similar metrics from around the world.

We know that consumer confidence is a critically important advance indicator of economic booms and busts. At the moment, it is forecasting a continuing expansion. Yet the troubling fact is that we don't fully understand how and why consumer confidence acts as it does.

Since 2009, there have been ups and downs in consumer confidence lasting months, but those downward swings have not interrupted the long uptrend in the United States. This pattern has held for all four major American indexes: the University of Michigan's consumer sentiment survey, the Conference Board's consumer confidence index, the Bloomberg Consumer Comfort Index, and the Organization for Economic Cooperation and Development's consumer confidence index.

Some recent readings have been a bit weak, but we have seen such minor shifts many times since 2009 and they haven't meant much. Even the recent shutdown of the United States government -- and the prospect of further political conflict -- may not matter for this metric. When the government shut down briefly in October 2013, there was a temporary drop in confidence, but that didn't stop the longer-run rise.

The simplest explanation is the necessarily slow but consistent recovery from the crushing financial crisis of 2008 and 2009. After all, a financial crisis of that magnitude leads to lawsuits, bankruptcies, career disruptions and other economic events that muddy a recovery, and they take a long while to clear up.

There is some truth to that explanation, but it is insufficient. It omits a critical yet elusive factor: animal spirits. John Maynard Keynes popularized that term in 1936, referring to a psychological state in which people get a consumerist and entrepreneurial bug that allows them to forget their worries and let their optimism guide their economic decision-making. In homage to Keynes, the economist George Akerlof and I used ''Animal Spirits'' as the title of a book in 2009. Flourishing animal spirits involve complacency, a playful mood, a ''damn the torpedoes, full speed ahead'' feeling of confidence.

That kind of exuberance now seems to be fueling the **stock market**, where prices have outstripped fundamental valuations. Real (inflation-corrected) corporate earnings per share for the **Standard & Poor's 500**-**stockindex** were, for the third quarter of 2017, only 6 percent higher than they were in the second quarter of 2007, just before the financial crisis. In contrast, real **stock market** prices were 39 percent higher. That disproportionate increase is based much more on how earnings are being valued than on how the level of earnings has increased.

Such surges have happened before. The four major confidence indexes took a long ride up between 1990 and 2000, again after a recession. From the bottom of the Michigan index in October 1990 to a peak in February 2000, real **S**.**&P**. **500** price per share rose 256 percent while real earnings per share rose only 78 percent.

Why did share prices rise so much in that period? A traditional explanation is that investors had a ''rational expectation'' of future earnings increases, but it is clear that they were grossly mistaken. The S.&P. 500 lost just over half its real value from its peak on March 24, 2000, to its trough on Oct. 9, 2002. No concrete event caused this plunge, though we can point to the bursting of the dot-com bubble and a recession. Both were plausibly caused by a drop in overinflated confidence.

The critical question, then: What drives these decade-long swings in confidence, including the upsurge that is still underway?

Take the current confidence cycle. While Donald J. Trump's presidency may have exerted some impact on animal spirits in the last year, it doesn't explain the preceding eight years of slowly improving confidence. And I am skeptical that the upward swing can be entirely explained by standard factors like government and central bank stabilization policy or technological innovation.

Scholars are working on this problem. At the American Economic Association annual meeting in Philadelphia this month, I chaired a session on ''Confidence, Animal Spirits and Business Cycles.'' All three researchers presented papers describing how animal spirits are helping to drive the economy in the United States and across the world.

Ayhan Kose, director of the World Bank Group's work on global macroeconomic outlook and forecasts, summarized work by the bank's researchers on confidence indexes and the business cycle. They compiled a new database of such survey-based indexes and measures of economic activity in 95 countries. Much of their data goes back before 2000, and in some cases to the early 1960s. The researchers found that consumer and business confidence tended to start declining before the peak of the business cycle, and to start recovering before recessions ended.

In short, confidence indexes are indeed leading indicators in a vast array of countries, and these individual country confidence indexes are driven by a global cycle, though how this cycle is synchronized still isn't clear. Fluctuations in animal spirits remain an essential mystery for economists, though it is encouraging to see that quantitative studies of the issue are underway.

As a practical matter, consumer confidence numbers are important but still limited in their predictive power. For example, the latest consumer confidence index numbers do not strongly suggest any imminent change in the uptrend we have been seeing for so long. That bodes well for the economy over the short term.

But history indicates that a long uptrend like this one will eventually shift downward, even if we can't say when it will happen. While the timing will be a surprise, we can expect a sharp change in direction that is likely to have serious consequences for the economy in the United States and around the world.

Robert J. Shiller is Sterling Professor of Economics at Yale.

DRAWING (DRAWING BY TIM COOK)

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The New York Times

National Desk; SECTA
**Global Growth Wave Reverses Economic Slump**

By PETER S. GOODMAN
1,524 words
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LONDON -- A decade after the world descended into a devastating economic crisis, a key marker of revival has finally been achieved. Every major economy on earth is expanding at once, a synchronous wave of growth that is creating jobs, lifting fortunes and tempering fears of popular discontent.

No tidy, all-encompassing narrative explains how the world has finally escaped the global downturn. The United States has been propelled by government spending unleashed during the previous administration, plus a recent $1.5 trillion shot of tax cuts. Europe has finally felt the effects of cheap money pumped out by its central bank.

In general terms, improvement owes less to some newfound wellspring of wealth than the simple fact that many of the destructive forces that felled growth have finally exhausted their potency.

The long convalescence has yielded a global recovery that is far from blistering in pace, and geopolitical risks threaten its demise. Many economists are skeptical that the benefits of growth will reach beyond the educated, affluent, politically connected class that has captured most of the spoils in many countries and left behind working people whose wages have stagnated even as jobless rates have plunged.

And still the fact that every major swath of the globe is expanding is a source of optimism. There is no guarantee that this expansion will prove more equitable. Yet if growth were to evolve, bolstering wages while adding to the security of middle-class lives, the beginning would probably feel something like now.

''The world is less reliant on a few star performers,'' said Barret Kupelian, senior economist in the London office of PwC, the global accounting and consulting company. ''If something bad happens in one economy, the fact that global growth is spread gives you more assurance that this is more sustainable.''

The United States, the world's largest economy, is into its ninth year of growth, with the International Monetary Fund lifting expectations for expansion to 2.7 percent this year from 2.3 percent because of the tax cuts.

China has diminished fears of an abrupt halt to its decades-long growth trajectory. Europe, only recently dismissed as anemic and hopelessly vexed by political dysfunction, has emerged as a growth leader. Even Japan, long synonymous with grinding decline, is expanding as well.

Rising **oil prices** have lifted Russia and Middle East producers, while Mexico has so far transcended fears that menacing trade rhetoric from the Trump administration would dent its economy. Brazil, still suffering the effects of a veritable depression, is flashing tentative signs of recovery.

The result is a hopeful albeit fragile recovery, one vulnerable to the increasingly unpredictable predilections of world leaders.

Threats of nuclear annihilation exchanged by President Trump and the North Korean leader Kim Jong-un have sown fears. Britain's pending departure from the European Union -- known as Brexit -- holds the potential to ensue absent a deal, subjecting Europe to grave uncertainty about the rules of trade especially for finance. And Mr. Trump's on again-off again vows to tear up the North American Free Trade Agreement while unleashing a trade war with China also risks derailing growth.

''We used to operate under the idea that Western markets are politically stable, while we accepted that frontier markets were risky,'' said Martin Scheepbouwer, chief executive officer of the OLX Group, which operates online classified advertising platforms in 41 countries. "Nowadays, with Brexit in Europe and the presidency in the United States, there's a new level of instability looming over the economy. That's something that concerns us."

The world economy is expected to grow by 3.9 percent this year and next, up from 3.7 last year, and 3.2 percent in 2016, according to the I.M.F. That is positive. Yet in the years before the crisis, global growth typically exceeded 4 percent.

As the World Economic Forum this past week released an assessment of risk factors featuring a survey of 1,000 experts, it found that 93 percent of respondents saw increased threat of political or economic confrontations. Some 79 percent fretted about heightened likelihood of military conflict and 73 percent saw rising risks of an erosion of world trading rules.

The report also warned of rising economic inequality, growing threats to cybersecurity and increased incidence of extreme weather enhanced by climate change.

"Many of these risks are increasingly systemic," said Margareta Drzeniek Hanouz, an economist at the World Economic Forum, adding that they threaten "catastrophic consequences for humanity, and for the economy."

Global businesses appear cautiously optimistic that the good times can last.

In Poland and Brazil, online job listings are growing rapidly, according to OLX, a clear indication of growth. Across Europe, real estate ads offering homes for sale have increased at more than double the pace of rental properties, another sign that people are operating with more money.

The global crisis began more than a decade ago with the calamitous end of an American real estate bonanza that set off a global disaster involving so-called derivatives.

As the reckoning played out from the United States to Europe to Asia, **oil prices** plunged, hitting Russia and the Middle East. Soybean farms in Brazil and Argentina saw orders plummet. So did mines in Australia and India, and computer chip fabricators in Malaysia and South Korea.

Washington engineered swift relief, with a bank rescue and an enormous injection of credit from the Federal Reserve. But Europe prolonged the agony with bitter recriminations over who should clean up the mess.

As European governments bailed out national banks, foisting the costs on taxpayers, investors demanded higher interest rates to continue lending, raising existential questions about the euro. Not until the summer of 2012, after the European Central Bank chief Mario Draghi vowed to do "whatever it takes," did the siege lift.

This year, the 19 nations that share the euro are expected to see economic growth of 1.9 percent, according to I.M.F. That is not scorching. In Spain, Greece and Italy, young people still grapple with terrible rates of joblessness. Yet compared with the 4.5 percent decline in 2009, and smaller contractions in 2012 and 2013, it makes for a different era.

As recovery has spread, factories in Eastern Europe have bustled with additional orders. Auto plants in the Czech Republic, Slovakia, Poland and Romania have sent growing volumes of cars toward Germany, France and the Netherlands.

DSM, a Netherlands-based multinational company that makes nutritional products, opened a $60 million factory in Rwanda last May that is buying soy and corn from nearly 10,000 local farmers and using it to produce instant porridge.

"We are investing heavily in Asia and also in Africa because the growth of the population there is stronger," said the company's chief executive officer, Feike Sijbesma. "Africa, which always was the forgotten continent, is not the forgotten continent any longer."

The reawakening of Europe combined with growth in the United States has kept Chinese industry humming to satisfy demand for goods, from auto parts to tools to clothing. More factory production has lifted prices for commodities, and increasing revenues at copper producers in Chile and Indonesia, gold mines in South Africa and silver operations in Sweden.

The world is now enjoying a positive feedback loop, with growing business confidence leading to more hiring, delivering gains in consumer spending. More money in consumer pockets gives businesses more reason to expand.

 

"There's basically no country in the world where the consumer is not doing well," said Bart van Ark, chief economist at The Conference Board, a business and research association in New York.

The question now is whether new investment will materialize quickly enough to sustain expansion. Factories in Germany, France, the Netherlands, and Portugal were operating at close to full capacity at the end of last year, according to data analyzed by The Conference Board.

In the United States, investment is increasing, adding to momentum for expansion. In Europe, the growth is uneven.

The biggest concern comes from Washington, where the Trump administration has frequently vowed to punish Mexico and China for their lopsided trade balances with the United States -- a step that would raise the cost of components used by American factories. In a sign that such talk has moved beyond rhetoric, the Trump administration this past week slapped protective tariffs on imports of solar panels and washing machines.

"You get into a trade war, that's the real worry," said Ben May, a global economist at Oxford Economics in London. "The impacts on global growth would be quite severe."

The reawakening of Europe, combined with American growth, has kept Chinese industry humming to satisfy demand for goods. (PHOTOGRAPH BY CHINATOPIX, VIA ASSOCIATED PRESS) (A4) MAPS: Worldwide Expansion: For the first time since the financial crisis a decade ago, all of the world's major economies are growing. (Sources: The Conference Board; Bureau of Labor Statistics) (MAPS BY KARL RUSSELL/ THE NEW YORK TIMES) (A1); CHARTS: Global Expansion: Year-over-year change in gross domestic product. (Source: The Conference Board) (A4)

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THE WALL STREET JOURNAL.
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**Energy Stocks Start to Reflect Oil Surge --- Oil and gas companies' shares benefit as demand is spurred by global growth; investors are bullish about firms' focus on profits over volume**

By Jon Sindreu and Georgi Kantchev
904 words
27 January 2018
The Wall Street Journal
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B12
English


Energy stocks are finally catching up to the rally in crude prices, a sign that investors are increasingly positive about the long-term prospects of oil companies.

Accelerating global growth has increased demand for commodities, drawing down oil inventories and helping push **oil prices** to three-year highs. Meanwhile, a rout in **oil prices** from more than $100 a barrel to under $30 in early 2016 led to extensive cost cutting by producers, meaning they can now make more money at lower prices, investors say.

Energy stocks are up about a fifth in the past six months, according to the MSCI World Energy Index. In the U.S., such stocks in the **S&P 500** have returned 18.3% over that period, making them one of the index's best-performing sectors.

While oil and gas shares have broadly followed crude prices in those six months -- West Texas Intermediate, the U.S. crude gauge, is up about 36% -- it took awhile for them to catch up, a sign that some investors lacked conviction in the oil recovery.

Now, they are seeing the sector differently.

"It now appears, which it did not for a good portion of the last four or five months, that the supply-and-demand imbalance that was driving **oil prices** up is going to be sustainable for the rest of 2018," said Lisa Shalett, head of investment at Morgan Stanley Wealth Management.

Many analysts think that U.S. energy stocks will continue to outperform broader equity markets this year. To do that, "we don't think oil needs to move higher," said Ethan Bellamy, energy analyst at Baird. "Rather, oil just needs to avoid another correction."

The current recovery in **oil prices** started in the summer of 2017, helped by a deal by the Organization of the Petroleum Exporting Countries and other major suppliers to cut production to tackle a glut in supply.

Now demand is also increasing, and investors are focusing on a key bellwether that suggests it could at last be outstripping supply. Over the past month, long-term futures contracts have become cheaper than short-dated ones -- a situation called backwardation.

For many years, storing crude was profitable because the price of oil delivered in the future was higher than the price of oil delivered right away, a sign of weak demand. Now, the premium is for delivering the commodity sooner.

According to the Energy Information Administration, U.S. crude stockpiles have fallen for the past 10 consecutive weeks and are at their lowest since early 2015.

An analysis by Morgan Stanley Wealth Management shows that the energy sector tends to outperform the broader **S&P 500 index** by about 6 percentage points in the year after the oil market shifts to backwardation.

"We are still pretty constructive on demand," said Neil Gregson, a fund manager at J.P. Morgan Asset Management.

Mr. Gregson has ample holdings in oil behemoths such as Royal Dutch Shell PLC and Chevron Corp., but is especially optimistic about the growth potential for smaller drilling firms, such as Pioneer Natural Resources Co. and Parex Resources Inc.

What makes many investors **bullish** about the energy sector is companies' newfound focus on profits over volume. Before 2014, many producers were pumping ever more oil and gas even while incurring losses doing so, but over the past six months they have focused on short-term profitability, analysts say.

Companies such as Anadarko Petroleum Corp. have detailed plans to reduce 2018 spending on drilling and operating wells. Chevron plans to cut such investments by almost 10%. Their share prices are up 35% and 26%, respectively, over the past six months.

Indeed, while net margins in the **S&P 500** energy sector are still much below where they were between 2011 and 2014, when WTI traded around $100, their profitability is getting close to levels then, even though they sell oil at much lower prices.

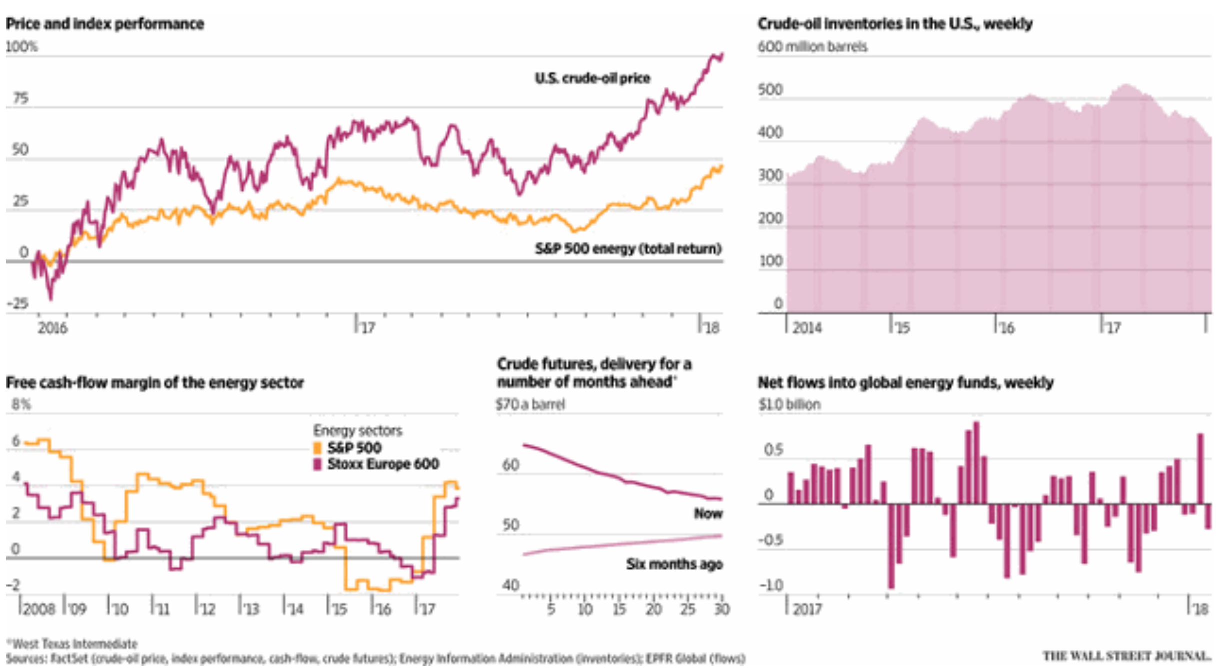
Free cash-flow margins, which measure how much cash a corporation generates for each dollar of sales after paying for investments, are now close to 4% in the sector. In 2013, they had dipped below 2%.

"It's a much better-run sector today," said Stephanie Butcher, a fund manager at Invesco Perpetual, who holds large allocations in energy stocks. "A few years ago, management teams were choosing volume over value; today it's all about cost control."

To be sure, energy companies still have their issues, such as the hefty piles of debt that were built up before 2014. Shares in the energy sector are also currently the most expensive in the **S&P 500**, trading at 24 times the earnings companies are expected to generate for investors over the next 12 months. That compares with 20 times for the tech sector and 18 times for the **S&P 500** as a whole.

But oil itself is expected to stay onside for this sector. Analysts predict that crude will stay in the $60s range this year, relative stability that is good for energy equities.

"As long as **oil prices** don't collapse, equities should grind higher," said Jon Morrison, Calgary-based oil equity analyst with CIBC Capital Markets.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Saudi Arabia Turns Focus to Refining**

By Christopher Alessi
844 words
27 January 2018
The Wall Street Journal
J
B1
English


DUBAI -- Saudi Arabia's state oil company is building an oil-refining empire, a major shift for the world's No. 1 crude producer as it tries to shore up its balance sheet ahead of the world's biggest-ever IPO and make up for income lost to OPEC production cuts.

Over the past five years, Saudi Arabian Oil Co., known as Aramco, has boosted its global refining capacity by more than a third to 5.4 million barrels a day, according to Scottish energy consultancy Wood Mackenzie. New facilities along Saudi Arabia's Red Sea and Persian Gulf coasts are part of the increase, and the kingdom has commissioned an additional refinery in its southwest region that is set to come online in 2019.

These moves and others, including taking full control of the biggest U.S. refinery, in Port Arthur, Texas, have vaulted Aramco's global refining capacity beyond that of Western rivals such as Exxon Mobil Corp., Royal Dutch Shell PLC and BP PLC. But unlike Aramco, the international oil majors already had strong downstream businesses -- including fuel and petrochemicals -- to bolster their earnings when crude prices plummeted just over three years ago.

Saudi Arabia is now one of the top three exporters of diesel fuel to Europe -- the world's largest market for diesel used in passenger vehicles -- grabbing market share from the continent's two longtime suppliers, Russia and the U.S. Saudi diesel sales to Europe in October were up more than 50% from a year earlier, while European imports of American diesel were off 34%, according to the International Energy Agency.

Rising Saudi shipments of fuel products have helped soften the financial blow of decreased crude-oil production and exports by the Organization of the Petroleum Exporting Countries cartel. Saudi Arabia's crude exports in November were down 15% from a year earlier, but exports of refined products were up nearly 28%, according to the Joint Organizations Data Initiative, an international group that tracks energy markets.

Russia has passed Saudi Arabia as the world's biggest oil producer, and the U.S. is set to overtake Saudi crude output for the first time in a generation. At the same time, the kingdom is fighting to defend its market share in China against exports from Russia, the U.S. and fellow OPEC members like Iraq.

The Saudi refining investments were years in the making but were accelerated by 2014's historic **oil-price** collapse and the kingdom's subsequent plans to wean itself off dependence on crude exports for revenue.

The new refining capacity also helps bolster Aramco ahead of a planned initial public offering that Saudi Crown Prince Mohammed bin Salman has said could be valued at as much as $2 trillion. The prince has put the Aramco IPO, which could happen this year, at the center of his efforts to energize and diversify his country's economy.

Aramco declined to answer questions for this article. Last April, in remarks at Columbia University, Aramco Chief Executive Amin Nasser said the company aims to increase its refining capacity to between 8 million and 10 million barrels a day in an effort to better balance the company's business.

For a company that lags behind Western peers in transparency and efficiency, Aramco's refining capabilities help it to be "more of an integrated global energy company" like the publicly listed oil giants, said Ayham Kamel, who heads the Middle East division for political-risk consultancy Eurasia Group.

BP, Exxon and others use their refineries to help them weather oil-market downturns because those parts of the business buy oil and do well when prices are low. Aramco refines less than half of its crude output, putting it behind nearly all the world's big oil companies in that measure of how vertically integrated an energy producer is, according to the IEA.

"It's important for the [Saudi] political leadership to have Aramco be more than just a crude exporter in order to maximize the value of the company," Mr. Kamel said.

Aramco's refining operations span the world, with joint ventures in South Korea, Japan and China, in addition to the giant Motiva refinery in Port Arthur, Texas. These facilities give the company a guaranteed outlet for its crude oil in its most important markets.

But its biggest base is in Saudi Arabia itself, where Aramco has capacity to refine about 3 million barrels of crude a day. That is more than any single European nation, though it falls far short of the country with the most refining capacity -- the U.S., with 18.6 million barrels a day, according Wood Mackenzie.

The Saudis have been exporting fuels like diesel at an opportune time. Since the summer, gasoil futures on London's Intercontinental Exchange -- a benchmark for diesel -- have soared by close to 30%, as a booming global economy has bolstered industrial demand for the fuel.

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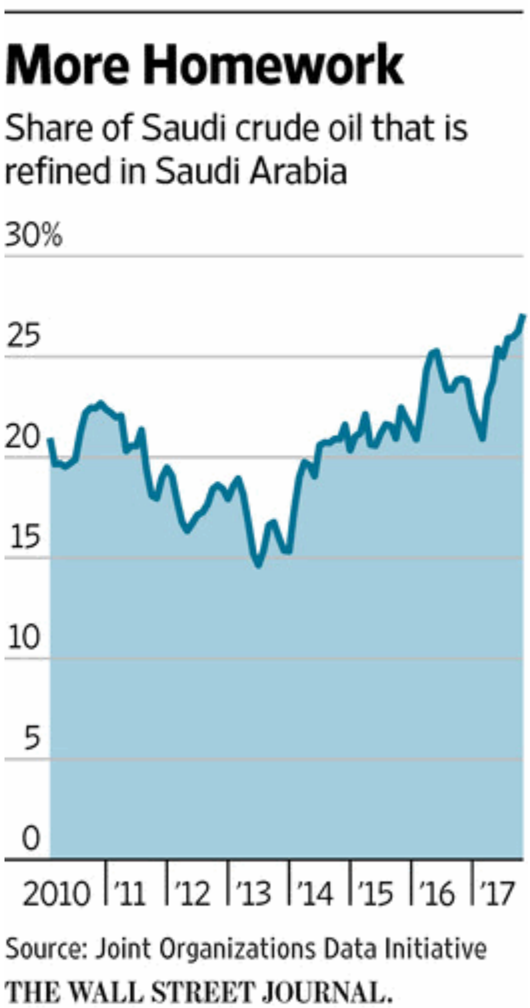
Summer Said contributed to this article.

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THE WALL STREET JOURNAL.
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**Economy Picks Up As Firms Plan New Spending**

By Josh Mitchell
1,199 words
27 January 2018
The Wall Street Journal
J
A1
English


Eight years into what has been an unexpectedly slow expansion, the U.S. economy appears to have picked up steam.

Business executives have reported solid earnings in recent weeks and pointed optimistically to investment and hiring plans for 2018, supported in part by federal tax cuts. Stock prices keep churning higher. And on Friday the Commerce Department reported that U.S. economic output remained on an above-trend path in the final three months of last year.

Gross domestic product -- the value of goods and services produced in the U.S. -- rose at a 2.6% annual rate in the fourth quarter, the government said. That didn't match the second and third quarters' above-3% growth rates, but it exceeded the 2% average that has prevailed since the early 2000s. Output grew 2.5% in 2017 as a whole, the most in three years, and the Federal Reserve predicts 2.5% growth again in 2018.

That puts the economy in unusual territory: not quite booming, but still gaining momentum deep into an expansion. The growth cycle that began in mid-2009 ranks as the third-longest on record going back to the 1850s and is set to become the second-longest this spring. Rather than fizzling, the expansion is being spurred on by robust consumer spending and business investment.

"We don't have a lot of history to guide us here," said Richard Moody, chief economist of Regions Financial Corp. "It is unusual to see what looks to be a strong acceleration this late in the cycle."

Investors cheered the latest evidence of an economy that won't quit, driving up the **Dow Jones Industrial Average** by 223.92 points, or 0.85%, to 26616.71.

President Donald Trump has pledged to return the economy to a growth rate of 3% or more, pinning his agenda on a $1.5 trillion tax cut he signed into law last month, a rollback of environmental, energy, labor, financial and other regulations, and tougher trade positions. By Mr. Trump's standard, growth didn't measure up in the fourth quarter, but the pickup that has played out over the past nine months still has given the president something to boast about.

"There has never been a better time to hire, to build, to invest and to grow in the United States," he said to business and political leaders in Davos, Switzerland, on Friday. "America is open for business and we are competitive once again."

While many economists anticipate a further pickup this year, many also say 3% will be difficult to achieve over the long haul given an aging population and a long run of meager productivity growth.

Several developments are helping the economy perk up. Among them: Synchronized global economic growth and renewed investment spending by U.S. firms, which had spent years hunkering down. Those factors have converged with low unemployment, tame inflation, low interest rates and a booming **stock market** to bolster business and household optimism and spending.

Shelving manufacturer B-O-F Corp. of Aurora, Ill., spent about $750,000 to combine two factories into a larger, single plant that opened this year. The company, which builds slanted shelves in cases at grocery and convenience stores, is aiming to boost production capacity by a third with the new plant.

Jamie Knorring, B-O-F's president, credits a rebound in the housing market with his company's good fortune, including a fourth quarter with record revenue and profit. He adds that generous write-offs for capital expenses in the new tax law all but guarantee his firm will spend up to 5% of its revenue on upgrades and new equipment this year.

"We're going to take full advantage of it," he said of the new law. "We might have done it even without it, but it's a lot more fun with it."

A strong global economy is driving sales for Rockwell Automation Inc., the Milwaukee-based maker of factory software and hardware, as companies in a range of sectors look to boost productivity. Rockwell said this week its fiscal first-quarter revenue rose 7% to $1.6 billion, driven by sales to heavy industry and energy companies.

Through Friday, 26% of **S&P 500** companies have reported quarterly results, and out of those, 77% beat earnings-per-share expectations, more than usual. The current growth rate for earnings compared with last year is 12.3%.

Firms that earlier in the expansion focused on boosting payrolls while labor was cheap now appear to be renewing investment in facilities and equipment. Investment in business equipment expanded at an 11.4% annual rate in the fourth quarter after a 10.8% growth rate in the third, the best six-month stretch since a burst of activity in mid-2014, Friday's economic-output report showed.

While they were investing more, businesses pared back their inventories in the fourth quarter, which helped to reduce output. Inventory rebuilding could boost output in the months to come.

Consumers are driving growth, too. Consumer spending rose at a 3.8% rate in the period, a pace last exceeded in late 2014. Spending on long-lasting items known as durable goods rose at a 14.2% rate, the fastest pace since 2009.

David Alter, 34 years old, spent much of the past decade building his savings and investing in stocks. In December, he bought a car and a second home, in Orlando, Fla., where he just started a job as a technology manager for a major theme-park company.

He said the new job coupled with a big rise in technology stocks he owns gave him the confidence he needed to take on a second mortgage, a fixer-upper for which he just bought a new heating and ventilation system.

"I feel very good on how things are performing," he said of the economy. "But it does make me worry like when that's going to stop. It can't ride up forever."

There are other reasons for caution. A chunk of the fourth quarter's growth likely reflected a temporary boost in spending related to a pair of hurricanes that ripped through Texas and Florida last summer. Spending that was halted by the storms -- such as restaurant visits by consumers and construction -- was pushed back. Likewise the storms spurred a temporary boost in spending on repairs and replacement items, like cars.

Meantime, the global upswing is a two-edged sword for the U.S. Exports are rising, but so are imports. So while consumer spending is rising, many of the goods Americans are buying are being produced abroad. That runs against Mr. Trump's "America First" agenda.

A widening trade deficit subtracted more than a percentage point from growth in the fourth quarter, the Commerce Department said. Some of that reading may have been skewed by goods piling up outside of ports during the storms. Still, with the dollar weakening and exports getting cheaper, the U.S. trade position ought to be improving rather than getting worse.

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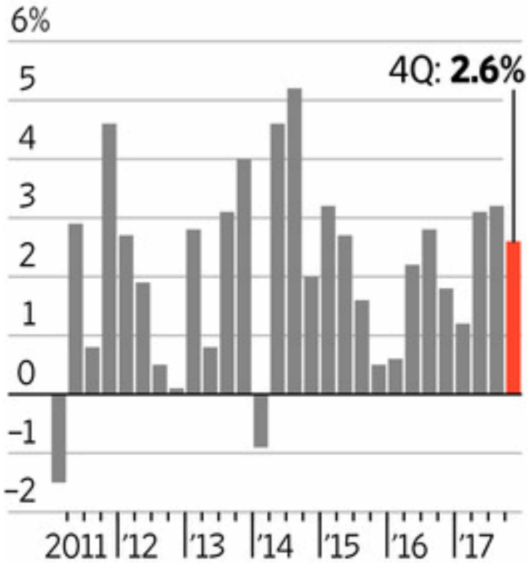
Andrew Tangel contributed to this article.

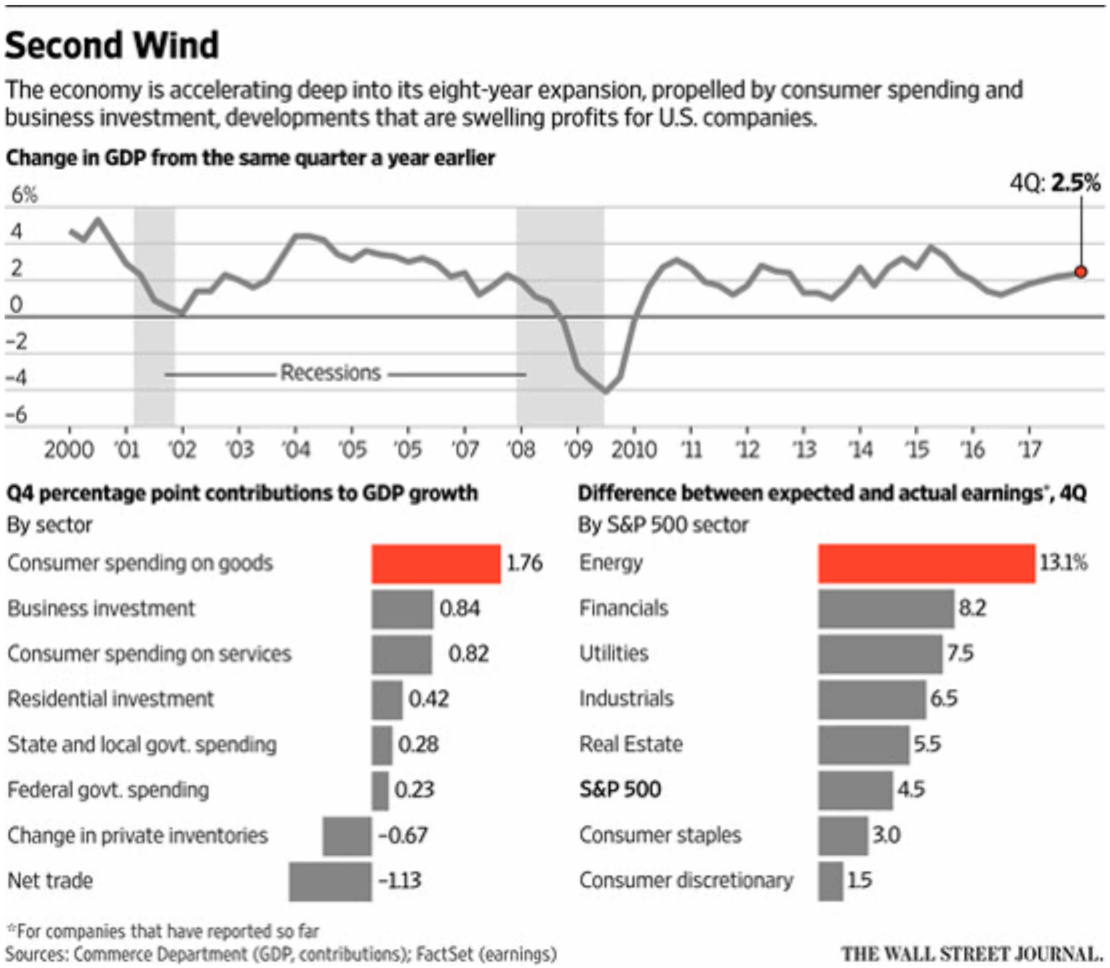
**GDP, annualized quarterly change**




Source: Commerce Department

THE WALL STREET JOURNAL.

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The New York Times

Business/Financial Desk; SECTB
**Drugmakers and Tech Firms Lift Indexes to New Highs**

By THE ASSOCIATED PRESS
606 words
27 January 2018
The New York Times
NYTF
Late Edition - Final
2
English


U.S. stocks powered to their biggest gain in almost nine months on Friday as drugmakers and technology companies surged. Investors were cheered that President Trump appeared to take a more positive tone on international trade.

Speaking at the World Economic Forum in Davos, Mr. Trump said on Friday that leaders should prioritize their own countries, but that his administration was not opposed to international cooperation and that continued growth for the American economy was good for the rest of the world.

''He did talk about making sure trade deals are fair, but I just thought it was a completely different tone today,'' said JJ Kinahan, chief investment strategist for TD Ameritrade. ''I think the market really took a lot of positives away from that.''

The Commerce Department said the American economy grew 2.6 percent in the fourth quarter. That was a bit less than analysts predicted but still a solid result, as Americans continued to shop and home construction increased.

The **Standard & Poor's 500**-**stockindex** climbed 33.62 points, or 1.2 percent, to 2,872.87. The **Dow Jonesindustrial average** added 223.92 points, or 0.8 percent, to 26,616.71. The **Nasdaq composite** rose 94.61 points, or 1.3 percent, to 7,505.77. The Russell 2000 index of smaller-company stocks gained 6.39 points, or 0.4 percent, to 1,608.06.

Already at record highs, the **S**.**&P**. **500** is up 7.5 percent in January and on track for its largest monthly increase since October 2015.

Technology and industrial companies made hefty gains, as did Amazon and other retailers, and banks rose along with interest rates. Those companies tend to benefit from more global trade and faster economic growth. Many of them are helped by a weaker dollar, and the U.S. currency declined again on Friday. The weaker dollar raises costs for more U.S.-focused firms such as those in the Russell 2000, which lagged other indexes on Friday.

Technology companies have led the market's big gains since the start of 2017, and that will be put to the test next week as a slew of major companies including Apple, Microsoft, Facebook and Google's parent company, Alphabet, all report their quarterly results.

AbbVie posted greater sales of key drugs including Humira, an inflammatory disease treatment that is the world's biggest-selling drug by revenue, and its hepatitis C treatments. AbbVie also raised its profit forecast for 2018. The stock jumped $14.91, or 13.8 percent, to $123.21.

Pfizer rose on reports that it's getting closer to a deal to sell its consumer health care business, a possibility Pfizer raised in October. It stock gained $1.78, or 5.3 percent, to $39.01.

Wynn Resorts stock plunged $20.31, or 10.1 percent, to $180.29 after The Wall Street Journal reported on dozens of sexual misconduct allegations against its chairman, Steve Wynn, who denied any wrongdoing.

The dollar declined further against other currencies. It fell to 108.66 yen from 109.41 yen. The euro rose to $1.2423 from $1.2391.

**Bond prices** fell. The yield on the **10**-**year Treasury** note rose to 2.66 percent

Gold fell $10.80 to $1,352.10 an ounce. Benchmark U.S. crude rose 63 cents, or 1 percent, to $66.14 a barrel in New York.

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

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The New York Times

Business/Financial Desk; SECTB
**2.6% Growth Last Quarter Signals Vigor In Economy**

By PATRICIA COHEN
1,347 words
27 January 2018
The New York Times
NYTF
Late Edition - Final
1
English


The American economy finished off last year on a firm footing, and is poised for more vigorous growth in the months to come.

Preliminary estimates released by the government on Friday showed that the nation's output increased at an annual rate of 2.6 percent in the final quarter of 2017. Although that performance amounts to less than the heady 4 percent annual growth that President Trump has promised, it is further evidence -- along with a sinking jobless rate and surging consumer confidence -- of the economy's resilience.

''The year-end is solid,'' said Joel Prakken, chief United States economist at Macroeconomic Advisers by IHS Markit. Details within the report, about climbing business investment and depleted inventories, suggest more economic strength than the bare-bones headline number might indicate. ''It portends well for 2018 demand,'' he said.

In the year ahead, hefty tax cuts, particularly for businesses, are expected to encourage more investment and spending, although many economists predict ballooning deficits will overtake the positive effects in the longer term. One-time quirks that could affect growth measurements this year could also end up artificially pumping 2018's figures.

Even analysts with ambitious forecasts for the next year, however, agree that the United States is unlikely to sustain annual growth of much more than 2 percent given a smaller, aging work force; sluggish productivity growth; and soaring deficits.

''The economy's sustainable trend is around 2 percent,'' Mr. Prakken said.

The Commerce Department's report on the gross domestic product -- which showed growth for all of last year at 2.3 percent -- is a rough draft. The fourth-quarter estimate will be revised twice in the next couple of months, and it could increase or drop by as much as a percentage point, based on previous recalculations. After all, government statisticians have to put together the fourth-quarter estimate without complete data on construction, trade and inventories.

Mr. Trump inherited an improving economy, and during his first year in office, the trend continued and growth accelerated. Supporters credit Mr. Trump with revving up business and consumer confidence, and say tax cuts and eased regulation are fueling capital investment and job creation. They also point to a booming **stock market**, though market gains are not necessarily a gauge of economic underpinnings.

The president ticked off those items on Friday when he hailed America's economic strength at the World Economic Forum's annual meeting in Davos, Switzerland, where global leaders have been sharing encouraging economic news all week.

The American economy recovered from a plodding start in the first three months of 2017, when sharp cuts in consumer spending limited G.D.P. growth to 1.2 percent on an annualized basis. It sprang back over the next six months, with the rate reaching 3.1 percent in the second quarter and 3.2 percent in the third.

In the fourth quarter, holiday shoppers were enthusiastic, and spending on business and residential housing was up. A persistent appetite for foreign goods continued to widen the trade deficit -- it reached nearly $72 billion for goods alone in December -- and dragged down gains. But inventory declines that detracted from G.D.P. last quarter should rebound over the next as businesses refill empty shelves.

The American economy's performance has also been buoyed by simultaneous growth in nations around the world, which has fueled trade and enabled foreign consumers to buy more American-made products.

For several years after the recession, the United States' steady if unremarkable growth was a bright spot compared with struggling economies abroad. Under President Barack Obama, who took office when the economy was floundering, yearly growth averaged 2.1 percent during the recovery. After a high of 2.9 percent in 2015, it dropped to 1.5 percent in 2016.

But in 2017, more than eight years into the nation's recovery, the expansion spread to at least 120 countries, according to a report released this week by the International Monetary Fund. In several, growth rates outpaced that of the United States. Among large economies in the Group of 7, the United States ranked fifth, according to a report from the World Economic Forum. On a list of 29 advanced economies, it ranked 10th, though it sank close to the bottom in terms of equitably sharing the gains.

Exhilarating **stock market** gains have also been a worldwide phenomenon. Lawrence H. Summers, the Harvard economist and former Treasury secretary, pointed out that the major stock indexes in Japan, Hong Kong, Germany and South Korea registered gains comparable to the **Standard & Poor's 500-stockindex**, if not better.

"The U.S. performance doesn't stand out relative to the rest of the world," he said.

The I.M.F. warned against assuming that the current economic cycle would go on indefinitely, however, particularly given the towering debt of the United States and other countries. By borrowing so much, the government can crowd out other investors and drive up interest rates. At the same time, giant deficits crank up pressure to cut government spending on health care and housing, policing and schools. With less money to go around, spending dries up and consumer demand -- the economy's primary engine -- slows.

"Political leaders and policymakers must stay mindful that the current economic momentum reflects a confluence of factors that is unlikely to last for long," said Maurice Obstfeld, the I.M.F.'s chief economist.

Despite all the attention that the growth statistics engender, economists warn against reading too much into G.D.P. figures. In recent years, more and more experts have noted the increasing difficulty in measuring a knowledge-based economy where services like Facebook and Google are free and innovations and improvements often lack an accurate price tag.

An additional, unexpected flaw in recent United States data may come more sharply into focus this year. G.D.P. figures may have been artificially lowered over the last decade because of tax policies that encouraged domestic-based multinationals to shift billions of dollars in domestic profits overseas.

After Ireland became a tax haven, its growth rate suddenly rocketed to more than 25 percent in 2015. At least a portion of what was counted, however, had been generated in the United States and should have been counted toward American growth, said Alan J. Auerbach, an economist at the University of California, Berkeley. A significant chunk of the United States trade gap has been caused by companies overstating imports from their foreign subsidiaries and underreporting exports, Mr. Auerbach said.

One analysis estimated that such accounting methods subtracted $280 billion from the tally of the nation's output in 2012. The new tax law reworks many of those international provisions. Those changes "should somewhat temper the incentives" to book money offshore, said Fatih Guvenen, one of the authors of the analysis, "but still doesn't eliminate them."

The tax-code changes could muddy attempts to measure growth in 2018, and possibly 2019, though. If enough companies stop disguising significant domestic profits as foreign, G.D.P. in the United States would suddenly expand -- without any underlying change in output.

"Over the next couple of years, I think there will be a one-time jump in the level of G.D.P. because the profits that Apple, Google, Facebook and others attributed to an offshore tax haven affiliate will now appear in their U.S. accounts," said Mr. Guvenen, an economics professor at the University of Minnesota.

"If it happens at a larger scale, it will give the appearance of faster G.D.P. growth," he said.

Follow Patricia Cohen on Twitter: @PatcohenNYT.

 

H&M in Herald Square in Manhattan. A rise in consumer spending over the holidays was part of a continuing economic recovery. (PHOTOGRAPH BY CHRISTOPHER LEE FOR THE NEW YORK TIMES) (B2) CHART: Real Economic Growth: Annual rate of change in the gross domestic product, based on quarterly figures adjusted for inflation and seasonal fluctuations. (Source: Commerce Department) (B2)

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THE WALL STREET JOURNAL.
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**Banking & Finance: A VIX Correlation Gets a Bit Jumbled**

By Gunjan Banerji
205 words
27 January 2018
The Wall Street Journal
J
B10
English


The relationship between market **volatility** and stocks is getting complicated.

A yardstick of expected stock swings, the Cboe **Volatility** Index, or VIX, has started darting higher even as the **S&P 500** has risen in January. Strategists say that the correlation can't last forever.

The gauge, which is based on **S&P 500** options prices, tends to rise when investors are jittery and stock markets are declining. It happens so regularly that the index has been dubbed the **stock market**'s "fear gauge." But that hasn't been the case this year.

In an unusual occurrence, the VIX has moved in the same direction as the **S&P 500** on half the trading days in January. The VIX has risen 0.5% this year, while the S&P has jumped 7.5%.

Some attribute the moves to investors springing for **bullish** call options on the **S&P 500** in an effort to keep up with the stock rally. There appears to be little hedging against market drops, with some investors more fearful of missing out on the rally than of portfolio declines, analysts say.



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REVIEW & OUTLOOK (Editorial)
**Thank You for Tax Reform**

763 words
27 January 2018
The Wall Street Journal
J
A12
English


The "secular stagnation" thesis is having a bad year. Readers will recall that this idea, popularized by former Obama White House economist Larry Summers, held that America is fated to endure slow economic growth. This conveniently justified the Obama era's historic slow growth as an inevitable deus ex machina, and Mr. Summers's policy advice was for government to borrow more money to spend on public works.

A year after the Obama economists left town, stagnation may be following them back to Harvard. The Commerce Department announced Friday that the U.S. economy grew 2.6% in the fourth quarter of 2017, below what most economists expected but the third straight quarter of solid growth.

The details of the GDP report were stronger than the top line that was reduced by the **volatile** categories of trade and inventories. A fall in inventories accounted for most of the decline in growth from the third quarter, but inventories ebb and flow and the measure will rebound in future quarters. Exports rose more slowly (6.9%) than imports (13.9%), which reduced the trade contribution to GDP.

Consumer spending rose a healthy 3.8% in the quarter, while business nonresidential investment climbed 6.8%. The latter continues the trend during 2017 of rising capital spending, which underperformed across the Obama years. It's not too much to say that capital was on strike as CEOs and small-business owners tried to avoid becoming a target of new taxes or Obama regulators.

Growth for all of 2017 came in at 2.3%, mainly due to the slow first quarter of 1.2%. But the middle two quarters rose above 3%, and the faster growth momentum continued into the fourth. All of this took place before Congress passed tax reform in late December, and the fourth-quarter dip shows how important the tax reform is to maintain growth momentum in 2018 and beyond.

The rapid corporate response to reform has surprised even many of its most ardent supporters. FedEx on Friday became the latest company to commit to major new spending and wage increases in the wake of tax reform. The giant package shipper will spend $1.5 billion to expand its hub in Indianapolis and modernize its home-base hub in Memphis. It will also spend $200 million in raises for employees, most of it for hourly workers, and another $1.5 billion for employee pensions.

Americans for Tax Reform is keeping a tally of companies making new commitments, and the number as of midafternoon Friday was 263. At least three million Americans are receiving bonuses in the wake of tax reform, which are separate from wage or benefit increases. (It's good that Republicans ignored Americans for Tax Reform's president Grover Norquist's apologia for a stealth tax rate of 45.6% on certain taxpayers in the original House bill and instead cut the top marginal rate to 37%.)

The buoyant business mood even extended to Davos, Switzerland, this week, where CEOs like J.P Morgan's Jamie Dimon praised a more "competitive tax system." Mr. Dimon said he wouldn't be surprised if the U.S. economy grew 4% this year, which hasn't happened since 2000. The economy hasn't grown by even 3% since 2005. Even Lloyd Blankfein, the Goldman Sachs CEO, said in Davos that while he has some problems with Donald Trump, he likes the results of the President's economic policies. Mr. Blankfein had better stay away from Manhattan dinner parties for a few weeks.

Faster growth isn't preordained, and there are risks to the 2018 outlook from trade policy, widespread labor shortages and monetary policy if it misses signals about rising prices. This week featured threats from all of those corners: washing-machine and solar-cell tariffs, polarized immigration politics, and a Treasury declaration that a weak dollar is good for the U.S. The good news is that both Mr. Trump and Treasury Secretary Steve Mnuchin walked back the weak-dollar talk later in the week.

But the point is that economic policies matter. The growth rebound in 2017 shows that secular stagnation isn't destiny; it was the result of policy choices by the previous Administration. The Obama Democrats put income redistribution ahead of growth and got more inequality and less growth. Mr. Trump and the GOP Congress have made growth a priority, and that's where they need to keep their focus if they want to keep the expansion going.



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The New York Times

Fact Check
U.S.; Politics

**In Davos Speech, Trump Mixes Facts With Fiction**

By LINDA QIU
1,354 words
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NYTFEED
English


WASHINGTON — In a speech on Friday to world and financial leaders at the World Economic Forum in Davos, Switzerland, President Trump mixed facts, falsehoods and claims that could use context.

Below are some statements from the speech about the economy and Mr. Trump's place in history.

Mr. Trump's accurate claim of 2.4 million jobs added "since my election" requires more context.

The economy has added almost 2.4 million jobs in the 14 months since Mr. Trump was elected in November 2016 — but it is worth noting that this number includes the last three months of Barack Obama's presidency.

Also, as a point of comparison, the economy added 2.8 million jobs in the 14 months before Mr. Trump's election.

During the first 11 full months of Mr. Trump's presidency, 1.8 million jobs were added. And in the 11 months before he was inaugurated, 2.1 million jobs were added.

It is also debatable whether Mr. Trump, or any first-year president, can take full credit for a strong economy (or be censured, were it to happen, for weak economic performance). As my colleague Neil Irwin has explained: "If you think the economy is driven by concrete, specific policies around taxes, spending, monetary policy and regulation, the answer is no. If you think that what really matters is the mood in the executive suite, then just maybe."

Mr. Trump falsely claimed that his tax cuts, which he called "the most significant in history," were the first "in close to 40 years."

The $1.5 trillion tax cut enacted in December does not amount to the largest in history, nor is Mr. Trump the first president to pass tax cuts since President Ronald Reagan.

President Bill Clinton signed the Taxpayer Relief Act of 1997. President George W. Bush enacted two major tax cuts in 2001 and 2003. The stimulus passed under Mr. Obama included hundreds of billions of dollars in tax cuts, and he later extended the Bush tax cuts with the American Taxpayer Relief Act of 2012.

Mr. Reagan's 1981 tax cut, Mr. Obama's stimulus package and extensions of Mr. Bush's tax cuts would all place ahead of Mr. Trump's tax cut as a share of the economy and in inflation-adjusted dollars.

Mr. Trump's claim that "there's never really been a businessman or businessperson elected president" is wrong.

Several presidents have owned, operated or worked in the field of business.

Most immediately, George Bush and George W. Bush both owned several oil companies based out of Texas. The latter was also part of an ownership group that purchased the Texas Rangers baseball team. Jimmy Carterowned a peanut farm and some other real estate in Georgia.

Herbert Hoover became wealthy after founding a mining engineer consultancy. Warren Harding was the owner and publisher of a newspaper. Calvin Coolidgeworked for a bank. Teddy Roosevelt owned and operated a ranch in the Dakotas Territory.

Looking further back, George Washington, James Madison and James Monroe all owned plantations.

Mr. Trump's claims about minority unemployment levels could use some context.

Mr. Trump is right that the unemployment rates for women and minorities are at or near historic lows. But it's worth noting that these rates had been steadily declining for years by the time he took office.

For black Americans, the unemployment rate of 6.8 percent in December was the lowest ever recorded, according to the latest monthly data that is available from the Bureau of Labor Statistics. It had already decreased to 7.8 percent in January 2017 from over 15 percent in 2010.

The December figures also do not reflect a significantly different racial unemployment gap. The black unemployment rate has consistently been double that of the white unemployment rate, and it remained at that level in December.

The Latino unemployment rate declined to 4.9 percent in December from 5.9 percent in January 2017, the second lowest — not the lowest, as Mr. Trump said — on record. It reached 4.8 percent in June, October and November 2017, as well as in October 2006 under George W. Bush.

The 4.0 percent unemployment rate for women in December is among the lowest in 17 years, as Mr. Trump said. It was lower in October at 3.9 percent, down from 4.8 percent in January 2017.

Mr. Trump is right. The **stock market** has "added more than $7 trillion in new wealth since my election." But the gains are not widely shared.

Mr. Trump is most likely referring to the rise in the Wilshire 5000 Index, a widely used metric. The index grew to 29,431.74 on Wednesday, from 22,165.78 points on Election Day 2016, according to the Federal Reserve Bank of St. Louis, a gain of more than 7,200 points. A single point on the index represents $1.15 billion, so the market has added $8.3 trillion since Mr. Trump's election.

But these gains in wealth have disproportionally benefited Americans by income bracket. Roughlyhalf of Americans do not own stock directly or in retirement accounts and mutual funds, and the richest 10 percent of households controlled 84 percent of the total value of stocks, a recent study by the nonpartisan National Bureau of Economic Research estimated.

Buoyed by **stock market** growth, net household wealth increased to $96.9 trillion in the third quarter of 2017 from $91.7 trillion in the last quarter of 2016, according to the latest data available from the Federal Reserve.

Mr. Trump is right that coalition forces have "retaken almost 100 percent of the territory" once held by the Islamic State, part of which occurred under Mr. Obama.

Pentagon officials have recently declared the defeat of the physical "caliphate" and said the Islamic State has lost nearly all of its territory in Iraq and Syria.

At its peak in January 2015, the jihadist group controlled 35,000 square miles of territory in the Middle East. By the time Mr. Trump took office in January 2017, their holdings had shrunk to about 23,000 square miles. It further dwindled to 2,500 square miles in January 2018, according to IHS Markit, a research firm that has tracked territory held by the Islamic State.

So while fighting has certainly escalated under Mr. Trump, the Islamic State had begun losing territory under Mr. Obama, and experts have cited this trend and the efforts of local troops when analyzing whom to credit for these gains.

Mr. Trump exaggerated the effect of his tax cuts on employee bonuses.

"It's a fight for who's going to give the most," Mr. Trump said. "It started at $1,000, and now we have them up to $3,000."

More than 260 companies have announced employee bonuses, raises or investments since the tax bill was passed in December, according to an anecdotal list compiled by Americans for Tax Reform, a group that advocates lower taxes. The group's president, Grover Norquist, worked with the White House to develop the legislation.

Many have said they will give one-time employee bonuses of $1,000 to $2,000. According to the list, only one, a private insurance company, announced $3,000 bonuses for 700 employees in a news release on Dec. 21, the day before Mr. Trump signed the tax bill.

 

It’s worth noting that most of these businesses are financial institutions and, as my colleague Jim Tankersley has reported, “The payouts to workers reflect a small slice of the windfall that banks large and small are in line to receive.”

Justin Bank contributed reporting.

* A Sober Trump Reassures the Davos Elite

* Wynn Resorts Slides on Report of Sexual Misconduct by C.E.O: DealBook Briefing

* In Signing Sweeping Tax Bill, Trump Questions Whether He Is Getting Enough Credit

* Should Trump Get Credit for Good Jobs Numbers?

President Trump spoke Friday at the World Economic Forum’s annual meeting in Davos, Switzerland. | Tom Brenner/The New York Times

Document NYTFEED020180126ee1q000y1

Op-Ed Columnist
Opinion
**The Spendthrift Economy**

By PAUL KRUGMAN
370 words
26 January 2018
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English


I haven't been paying a lot of attention to quarterly GDP numbers. For one thing, they do tend to bounce around a lot; for another, claims that a good number in a particular quarter somehow validates the Trumpian claim to be able to achieve high growth for a decade are almost too stupid to argue with.

But there are a couple of points I think are worth making about growth over the past year.

First, as Jason Furman notes, a good part of the 2.5% growth seems to be cyclical – the result of the economy moving closer to full employment, not a pickup in the underlying growth rate of potential output, which looks more like 1% than the 3% Trump et al need to make their numbers work.

Second, as Jason also notes, that cyclical expansion doesn't look too healthy when you look at it closely. It is not being driven mainly by rising business investment. Here's biz investment as a share of GDP in recent years: it bounces around some, largely because of the rise, fall, and partial recovery of fracking, but is not especially high:

What we see instead is a large decline in personal savings, which are now down to levels not seen since before the financial crisis:

Why is saving down? Maybe it's the **stock market** (which is starting to feel more like a bubble than it did even a few months ago), maybe it's eat, drink, and be merry, for tomorrow we have a constitutional crisis/a nuclear war/Skynet kills us all. Whatever: saving can't keep falling, and you wonder whether households are getting overstretched again.

I'm not predicting a crisis; this doesn't look nearly as bad as the U.S. economy in the housing bubble years. (And I'm trying extra hard, given my election night freakout, not to let my political dismay distort my economic judgment.) But as I said, this growth doesn't look very healthy.

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The New York Times

Business Day
**Trump Arrived in Davos as a Party Wrecker. He Leaves Praised as a Pragmatist.**

By PETER S. GOODMAN and KEITH BRADSHER
1,309 words
26 January 2018
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English


DAVOS, Switzerland — No one was declaring President Trump a changed man. Privately, executives and global leaders who had gathered in Davos continued to worry that the American president could yet indulge his worst instincts — and his penchant for shock on Twitter — to deliver a geopolitical crisis, open up a new front in trade hostilities or offend a vast group of people.

But a rough consensus emerged over Mr. Trump's two-day visit that his administration had shown itself to be more pragmatic than advertised. Many were inclined to view the president's most extreme positions as just aggressive bargaining postures.

"There's a very constructive mind-set in the Trump administration to find the best path forward," said Vas Narasimhan, global chief of drug development for Novartis, who attended a dinner Mr. Trump hosted on Thursday night with leaders of more than a dozen European companies. "I'm optimistic that, with other world leaders, most of these issues can be tackled in a productive way for the global economy and for global businesses."

During the dinner, Mr. Trump made the rounds, stopping to ask executives how they plan to increase investment in the United States, according to attendees.

In his speech, Mr. Trump took credit for a booming American **stock market** and strong economic growth, pointing to the regulations his administration has slashed, as well as the $1.5 trillion package of tax cuts he championed and navigated through Congress. He left the impression that he was above all eager to woo foreign investment, as if he were leading some amped-up American Chamber of Commerce.

"Over the past year, we have made extraordinary strides in the United States," Mr. Trump said. "After years of stagnation, the United States is once again experiencing strong economic growth."

Economists note that the American economy is into its ninth year of expansion, a trend that speaks to how the aftermath from the 2008 financial crisis has finally run its course. A surge of cash delivered by the Federal Reserve has stimulated commercial activity.

The International Monetary Fund this week lifted its forecasts for American growth in large part because of Mr. Trump's tax cuts. Economists note that the benefits fall overwhelmingly on corporations and wealthy American households, exacerbating economic inequality.

But Mr. Trump framed the tax cuts as a broad source of what will be better days for all Americans. And he gained the unbridled endorsement from the man who heads the World Economic Forum, Klaus Schwab, whose eagerness to flatter his interlocutors is legendary.

"On behalf of the business leaders here in this room let me particularly congratulate you for the historic tax reform," Mr. Schwab said, adding that the tax cuts were "fostering job creation while providing a tremendous boost to the world economy."

Whatever the optics of the head of an institution dedicated to reducing economic inequality offering his unqualified support for Mr. Trump's tax cuts, Mr. Schwab was indeed speaking for business.

Jeffrey Rosen, deputy chairman of the financial advisory firm Lazard, said: "U.S. tax reform makes it more economic to do business in the United States. Deregulation makes it easier. These messages appear to be resonating with C.E.O.s of businesses outside the U.S."

Privately, corporate executives have continued to voice discomfort that the White House is under the control of a figure who, on any given day, can offend an entire continent of people, stoke worries of nuclear apocalypse or threaten to tear up a trade deal that is central to the global supply chain. But many departed Davos with an enhanced sense that there might be more method to Mr. Trump's fits of pique than they assumed.

In the days before Mr. Trump's arrival, European leaders, as well as India's prime minister, Narendra Modi, devoted speeches to mounting defenses of the global trading system in what resonated as an advance rebuttal of the American president.

Many worried that Mr. Trump's attacks on the World Trade Organization, his threats to pull the United States out of the North American Free Trade Agreement and his frequent intonations of a trade war with China could undermine the global economic expansion.

But some European leaders suggested that Mr. Trump's bellicose rhetoric — so long as it does not seep into policy — could play a useful role in forcing countries that breach trading rules to take measures to restrain subsidies for favored industries.

In a briefing with reporters on Thursday, Cecilia Malmstrom, the European Union trade minister, expressed concerns about the Trump administration's threats of a trade war with China. But she added that Europe has its own problems with China and would welcome a chance to coordinate its response.

"There are some grave concerns on China, who are massively subsidizing state-owned companies," Ms. Malmstrom said. "And there, yes, we could work with the U.S."

Other European officials suggested that Mr. Trump's rhetoric might have the effect of pressuring China to roll back production of steel, alleviating a global glut that has depressed prices. It might spur China to limit subsidies for solar panels and other manufactured goods.

One senior German official noted that the president needed to be measured by his deeds, not just his words, adding that China is not the embodiment of free trade and that countries shouldn't necessary just accept what China does.

The director general of the World Trade Organization, Roberto Azevêdo, told reporters that he was focused on what actually emerged in the realm of trade policy, rather than worrying about every rhetorical volley.

"I haven't seen anything at this point that we are in a trade war," he said.

Those inclined to the view that protectionism is an intensifying threat have pointed to the Trump administration's decision this week to slap punitive tariffs on imported solar panels and washing machines — a step that ratcheted up fears of a hostile Chinese response.

The World Trade Organization chief dismissed that view. "The tensions between the U.S. and China are not new," he said. "They have been there for some time."

Mr. Trump's reception here appeared to signal a normalizing phase of his presidency among the business elite. Many of those who absorbed his speech were struck by his restraint, his apparent desire to ingratiate himself.

"It was not what people would have expected," said Ishmael Sunga, chief executive of the Southern Africa Confederation of Agricultural Unions, a trade group. "He made no controversial statements. He was talking to the crowd of people that he's been brought up to be part of."

Not that the charm offensive worked on everyone.

As she departed Mr. Trump's speech, Lyn Cobley, chief executive of Westpac Institutional Bank, Australia's oldest bank, took home the message that the United States was eager for investment. But she could not shake her discomfort with the messenger.

"As a female, the things we found out about him prior to his taking office, I find very disturbing," she said. "It was a very pro-business speech, but you're always left questioning his intent."

* A Sober Trump Reassures the Davos Elite

* Trump, in Davos Speech, Sticks to Script as He Declares America Open for Business

 

* When the Stranger Who Calls Is the American President

* Trump Leads the World, Backward

At the World Economic Forum, President Trump left the impression that, above all, he was eager to court foreign investment. | Gian Ehrenzeller/European Pressphoto Agency | Speaking for the first time at the World Economic Forum, President Trump said that the world was witnessing the resurgence of a strong, prosperous United States that is competitive once again. | By THE ASSOCIATED PRESS

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THE WALL STREET JOURNAL.
U.S. EDITION

**Streetwise: The Global Economy Is Great; Be Afraid**

By James Mackintosh
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26 January 2018
The Wall Street Journal
J
B1
English


Cognitive dissonance is in the air. This year's mental split allows finance chiefs to believe that everything's **bullish**, the world economy is finally in synchronized growth mode and markets are quite rightly on fire -- while worrying that it is all just too good to last.

"Everybody's making money, and the clouds on the horizon don't look very threatening," said Stephen Schwarzman, chairman and chief executive of private equity group Blackstone Group LP. "That's enough to create a positive environment."

Mr. Schwarzman is **bullish** on the economy but like many others isn't going all-in; the risks are just too great with asset prices already so high. Geopolitics and trade are the fears most often aired at the World Economic Forum this week, while an end to the easy money from central banks has a few concerned. Another danger comes from big investors buying into a rally they don't really believe in, leaving them more tempted to race for the exit if there is any negative surprise.

"The consensus here is very, very upbeat," said Michael Sabia, who runs $300 billion as CEO of Caisse de depot et placement du Quebec. "This is a great period we're in, but enjoy it while it lasts. I don't think it will go away in a hurry, but over the long term the laws of gravity will come back."

Standard Chartered PLC Chairman Jose Vinals said things will probably be fine, and central banks are likely to stay dovish. "But there may be inflation surprises so that increases in rates are faster than the market's pricing, and that concerns me," he said.

The twin questions are how far equities could rise before falling back, and when it might happen. Scott Minerd, chief investment officer at Guggenheim Partners, said he expects the Federal Reserve to increase rates four times this year instead of its forecast of three, and a recession is a danger next year as higher rates hit indebted corporate issuers. But in the meantime, he said, equity markets have "all the trappings of a mania" that could take the **S&P 500** to 3600 this year, up 27% from 2839.25 on Thursday.

Mr. Minerd's solution is to buy long-dated bonds to protect against the economy falling back, while buying cheap call options to capture a rise in share prices.

A simpler strategy can be followed by those who think things will probably be fine, but that there is a serious risk of Fed increases derailing the market: Buy banks and insurers, avoid technology and growth stocks that will be hurt by higher discount rates. Banks should do well in a growing economy and should benefit from rising interest rates and bond yields, at least until money gets so tight it hits corporate creditworthiness.

Nick Moakes, chief investment officer at British foundation Wellcome Trust, said he is "subtly altering the shape" of the trust's GBP 23 billion ($32.7 billion) portfolio after riding the market boom for the past nine years. That means taking a little of the profit on the trust's hefty technology-company holdings and liking banks -- in part because others will start buying them too to hedge against inflation risk.

"You would expect banks to become very well-owned," he said.

The problem with this thesis, of course, is that it might already have happened. U.S. bank stocks are up a quarter since the start of September, handily beating the market. Yet, for the past three years -- broadly since investors started to believe that their capital problems were fixed -- they have been an almost perfect leveraged bet on falling **10**-**year Treasury** yields. Banks outperformed the wider **stock market** when bond yields rose and underperformed when they fell.

Still, inflation and higher rates are minority concerns. The predominant concern -- aside from whether the next-door party might be better -- is that no one is worried.

"The complacency is what's really alarming," said Martin Gilbert, co-CEO of Aberdeen Standard Asset Management. "Everyone's worried about not being worried."

It is hard to hedge against self-satisfaction. But investors who think everything's wonderful are prone to be disappointed.

The market's been rising as it prices in a better economic and earnings outlook, and picks up momentum. There is no way to know when the economic outlook might change -- but the less investors fear bad news, the harder any unpleasant surprise will hit stock prices.


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THE WALL STREET JOURNAL.
U.S. EDITION

**Trump's Remarks Give the Dollar a Boost**

By Ira Iosebashvili and Chelsey Dulaney
858 words
26 January 2018
The Wall Street Journal
J
B1
English


The dollar staged a powerful late-day comeback Thursday after President Donald Trump said the U.S. currency would get "stronger," appearing to contradict comments made only the day before by his Treasury secretary.

The mixed messages from the administration sent the dollar on a wild ride over the past two trading sessions, first reeling against major currencies like the euro and yen before rebounding on Thursday to finish higher. The dollar's sudden turnaround also roiled commodities markets, sending oil and metals prices tumbling.

"The dollar is going to get stronger and stronger, and ultimately I want to see a strong dollar," Mr. Trump said during a CNBC interview at the World Economic Forum in Davos, Switzerland.

Mr. Trump added that he thought remarks by Treasury Secretary Steven Mnuchin, who said on Wednesday at Davos that a "weaker dollar is good for trade," had been taken out of context by investors who fled the dollar.

Their remarks represented a break from past administrations, which have worried that any comments about the value of the world's reserve currency risked disrupting global investment flows or influencing interest rate movements.

Stock and bond markets have mostly shrugged off Mr. Trump's comments on the Russia investigation, threats against North Korea and his public feuding with members of Congress and his own administration.

But the sudden foreign-exchange **volatility** suggests that the president's thoughts on the dollar can have a greater impact on **financial markets**, making U.S. policy harder to predict and raising the prospect of more price swings ahead.

The spate of commentary from top U.S. officials on the dollar's value "is unusual, in a historical context," said Christian Lawrence, senior market strategist at Rabobank. "But we know that Trump likes to speak his mind. If he wants to talk about the dollar he will talk about the dollar."

Mr. Mnuchin's comments drew criticism from European Central Bank President Mario Draghi on Thursday, as the euro broke $1.25 for the first time in three years.

Mr. Draghi attributed some of the euro's recent gains to "the use of language that doesn't reflect the terms of reference that have been agreed," although he didn't name Mr. Mnuchin. He warned at a press conference that such language violated longstanding international agreements designed to prevent currency wars.

The currency **volatility** "represents a source of uncertainty, which requires monitoring with regard to its possible implications for the outlook for price stability," Mr. Draghi said.

A stronger euro makes the ECB's task of increasing the rate of inflation harder because cheaper imported goods weigh on prices.

Eurozone inflation has remained below the central bank's target of just under 2% for five years.

Yet some analysts believe the ECB's options for tamping the euro's strength against the dollar are limited.

The eurozone economy has started 2018 strong, and the ECB is preparing to unwind years of extraordinary monetary stimulus, a move that investors expect to boost the euro.

The dollar may have a harder time weakening against the currencies of some countries in Asia, where monetary authorities are expected to fight the appreciation of their own currencies, some analysts said.

"Historically, many export-dependent Asian economies have actively intervened to keep their currencies weak . . . and there is evidence that they are doing the same now," said Brad Setser, a senior fellow at the Council on Foreign Relations and a former top U.S. Treasury official in the Obama administration.

Several large Asian economies, including South Korea and Thailand, appear to have already weakened their currencies in the past few weeks, Mr. Setser said. The Bank of Thailand bought some $3 billion in the first two weeks of the year in a bid to weaken their currency, the Thai baht, Mr. Setser estimates. The Bank of Korea purchased $1.5 billion on Jan 8, as the Korean won rallied to a three-year high against the dollar, Reuters reported.

Those interventions are likely to continue if the dollar weakens further, Mr. Setser said.

The dollar's yearlong slide so far has had mixed effects on the $500 billion annual U.S. trade deficit that Mr. Trump has railed against since taking office. Multinationals such as International Business Machines Corp. and Coca-Cola Co. have touted the impact of a weaker dollar on their earnings recently, a benefit that analysts say is helping to support U.S. stocks' record run.

In November, the U.S. trade deficit widened to a nearly six-year-high, according to the Commerce Department's most recent data.

While a weak dollar helped propel exports to a record high that month, growth failed to keep pace with the rising demand for imported goods in the U.S.

Meanwhile, there was a drop in U.S. exports to nations that Mr. Trump has accused of using unfair trade practices, including Mexico and China, despite the weaker U.S. currency.

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Tom Fairless and Mike Bird contributed to this article.


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THE WALL STREET JOURNAL.
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**Forecasts Heat Up Natural-Gas Prices --- Recent surge follows predictions of another deep freeze, which could strain already depleted supplies; shift catches some speculators off guard**

By Alison Sider
820 words
26 January 2018
The Wall Street Journal
J
B12
English


The threat of another blast of bitterly cold arctic air bearing down on the U.S. is sending natural-gas futures prices to their highest level in more than a year.

Traders and investors who had bet on falling natural-gas prices are being squeezed and have had to scramble to buy back contracts they once sold to close out their positions, pushing prices this week to their highest level since late 2016.

The February contract gave up some of those gains Thursday, falling 1.8% to $3.4470 a million British thermal units. Natural gas for March delivery -- which will become the front-month contact next week -- rose 0.6% to $3.099 per million BTUs.

The surge came as weather forecasts predicted that the warm temperatures in the latter part of January will abruptly give way to another wave of intense cold from the Midwest down to Texas and eastward, as a high-pressure ridge over Alaska appears set to send arctic air down through North America.

"The market was antsy, waiting for that first clear sign of cold. [Tuesday] it arrived," said Jacob Meisel, chief weather analyst at Bespoke Weather Services.

The cold could strain natural-gas supplies, which have already been depleted by record-low temperatures across much of the country early this month. A severe winter storm known as a "bomb cyclone" hammered the East Coast in the first days of the year. Then, in the Southern U.S., snow, sleet and freezing rains scuttled flights, canceled school days and created hazardous driving conditions.

That resulted in record demand for gas: During the first week of the year, 359 billion cubic feet was withdrawn from storage, according to the U.S. Energy Information Administration. The demand, coupled with infrastructure bottlenecks, prompted a swift run-up in natural-gas prices on the spot market in some places. At a New York hub, for example, prices rose as high as $175 per million BTUs during trading on Jan. 5, according to S&P Global Platts.

That is prompting some usual movements of superchilled liquefied natural gas, making shipments from as far away as Siberia look economical.

Engie SA bought a cargo of LNG from a facility in the U.K. to supplement the regular supply at its Boston import terminal. The cargo likely includes gas from Russia's new LNG export facility, an Engie spokeswoman said -- the first time the U.S. has imported gas from Russia, according to U.S. Department of Energy data.

Another wave of bitter cold could prompt a repeat, analysts said. "The concern is in February, deliverability gets even more constrained versus the January event," said Joel Stier, a trader at StierBull Trading LLC.

The amount of natural gas in storage is 17.5% below the five-year average, after another big withdrawal from inventories last week. Supplies are particularly tight in the South and the East, where temperatures are expected to plunge early in February. The amount of gas sitting in the Southeast's underground salt caverns was recently at its lowest for this time of year since 2014.

"Storage is low -- precariously low," said Bill Perkins, who runs the natural-gas-focused fund Skylar Capital Management LP.

That has some end users, such as utilities, trying to stock up so they have enough gas available to keep their customers' homes warm if the predicted cold arrives, analysts and traders said.

Mr. Perkins said he is cautiously **bullish** on gas prices, "with both eyes on the weather."

The latest shift in weather forecasts has caught some speculators flat-footed. Winters have been mild the last two years, leading to tepid demand for heating fuel. At the same time, natural-gas production has been surging to new records -- something that investors believed would keep the market well supplied even in cold weather.

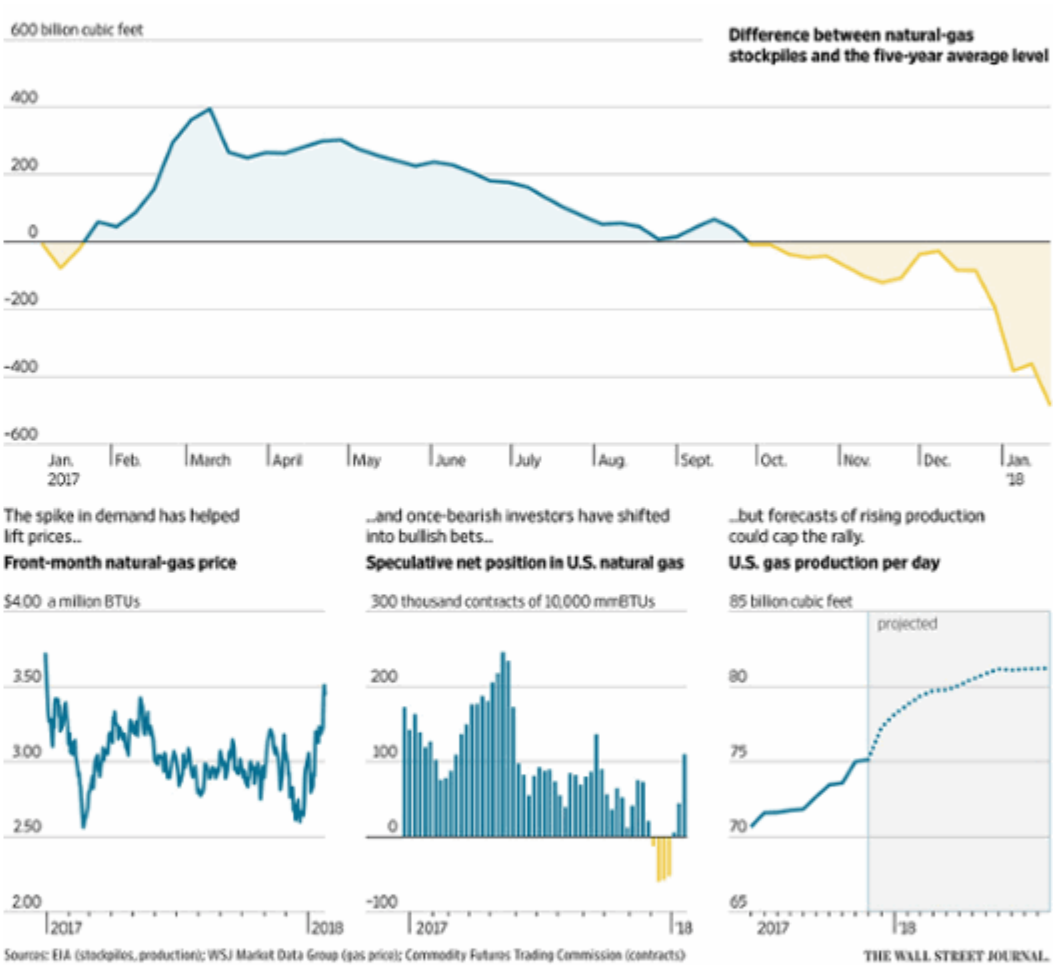
John Woods, president of JJ Woods Associates and a Nymex trader, said he was taken aback by how high prices rose. He sold when prices rose to around $3.22 to $3.25 per million BTUs.

"That one hurt," he said of missing the rest of the run-up.

At the end of 2017, hedge funds and other money managers were betting that natural-gas prices would fall: Short bets on natural gas outnumbered long ones by more than 50,000 contracts. Natural-gas prices fell to a 10-month low of $2.598 a million BTUs in late December. Since then, though, these investors have become more **bullish**.

What market participants weren't thinking about was demand, said Kyle Cooper, an analyst at Ion Energy Group.

"The whole mantra has been supply, supply, supply," he said. "Mother Nature just squeezed you again."

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**Tax Overhaul Rips Through U.S. Business Landscape --- Firms quickly dust off plans for new investments, stock buybacks**

By Theo Francis, Peter Loftus and Heather Haddon
1,979 words
26 January 2018
The Wall Street Journal
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English


Just weeks after the federal government adopted the biggest tax overhaul in three decades, the effects are rippling through corner offices and boardrooms, with companies large and small dusting off once-shelved plans, re-evaluating existing projects and exploring new investment in factories and equipment.

Specialty drugmaker Amicus Therapeutics Inc. has decided to spend as much as $200 million on a new production facility in the U.S. instead of Europe. Kimberly-Clark Corp., maker of Kleenex tissues, is spending hundreds of millions of dollars to put new machinery in one of its U.S. factories, even as it closes others and cuts thousands of jobs. Aramark, the catering and uniform giant, expects to save nearly $500 million on two recently completed acquisitions.

The rapid adaptation goes well beyond the early announcements of $1,000 bonuses or minimum-wage increases for rank-and-file workers. And this is just the beginning. The U.S. Treasury and the Internal Revenue Service have offered guidance on just a few of the two dozen provisions in the law that will likely require formal regulations. Companies must navigate complex rules imposing minimum taxes on foreign income, tax breaks for partnerships, faster deductions for capital spending and new limits on interest and operating-loss deductions.

"We're only 30 days into the tax reform process," Lowell McAdam, chief executive of Verizon Communications Inc., told investors on Tuesday. "We're all trying to understand the implications."

Along with announcing its repatriation of cash held overseas last week, Apple Inc. pledged to invest $30 billion in the U.S. that it had held abroad, despite having to pay $38 billion under a one-time tax on those accumulated foreign profits. Goodyear Tire & Rubber Co. now estimates it won't pay cash taxes until 2025, because its existing credits will stretch out an additional five years when used to offset taxes at new, lower corporate rates.

That the tax bill will have significant effects on corporate finances is certain, though the effects can vary widely by company. Already, analysts expect the legislation to provide a 7% to 8% boost in aggregate per-share profits for the companies in the **S&P 500** this year, said Joseph LaVorgna, chief economist for the Americas at Natixis, an international financial-services arm of France's Groupe BPCE.

A big part of that comes from companies spending more, feeding revenues to other firms in what can become a virtuous cycle, Mr. LaVorgna said. He believes analysts and the market may be underestimating the effect.

"Somebody else's capital outlay is another company's income," he said. "If there's a surprise, things may actually be better."

Some economists caution the economic impact may not quite measure up to the growth in profits. Oxford Economics, a forecasting and consulting firm, estimates the legislation will contribute 0.4 percentage points to already-robust economic growth in 2018, and another 0.1 to 0.2 points in 2019, said Gregory Daco, head of U.S. economics for the consultancy.

About half of that is likely to come from business spending, and the rest from households, Mr. Daco said. Oxford estimates that each $1 of corporate tax cut will lead to 40 cents of spending, based on historical precedent, Congressional Budget Office studies and conversations with corporate executives.

That's mostly a one-time gain. A reduction in taxes frees up profits to spend, but that then becomes the new normal, with further growth coming from general economic expansion or other factors.

At Amicus Therapeutics, the new tax law solved a geographic dilemma. The Cranbury, N.J., company is developing an experimental drug to treat Pompe disease, a rare inherited disorder that causes muscle weakness and can be fatal.

After early results for a new drug proved promising, Amicus wanted to increase production for further clinical testing and potential commercial sales.

Amicus, which had been using Chinese contract manufacturer WuXi Biologics to supply the drug, decided in August to build its own facility. The U.S. was at a disadvantage to Europe, due to its 35% statutory federal income-tax rate for companies. Ireland's corporate tax rate, by contrast, is 12.5%.

Those financial considerations threatened to overshadow other advantages that a U.S. plant would offer.

"Our strong assumption was that it would be very challenging to establish a new bio-manufacturing facility in the U.S.," Chief Executive John Crowley said in an interview.

As the tax legislation advanced in Congress last fall, however, building in the U.S. began to look more attractive. Mr. Crowley recommended to his board the company focus on finding a U.S. site. The company has narrowed its choice to three East Coast cities Mr. Crowley declined to identify. It expects the plant to cost $150 million to $200 million, and to employ at least 200 people at an average pay of $100,000 a year.

The rules of deal making, too, are changing. In the past two months, Aramark completed two acquisitions with a price tag of $2.35 billion as it snapped up hotel procurement and supply firm Avendra in December and uniform-rental and linen-supply firm AmeriPride Services Inc. last week.

Both are a kind of deal that, thanks to the new tax law, has become cheaper. One provision lets companies deduct the cost of buying some sorts of assets immediately, instead of over several years as prior tax law required -- and expanded this treatment to used assets as well as new ones.

That essentially lets a buyer like Aramark get an immediate discount on the cash cost of part of its deals, the portion that reflects the acquisition of equipment, machinery and other tangible property.

Aramark's acquisition of Avendra, a partnership, is automatically treated as an asset purchase, New York tax consultant Robert Willens notes, while deal documents indicate Aramark and AmeriPride agreed to treat that acquisition as an asset purchase as well for tax purposes.

"The cost of deals structured in this manner have taken a turn for the better," Mr. Willens said. "You're getting a full 21% discount."

In news releases, Aramark described its after-tax cost for the two deals as $1.86 billion, 21% less than the pretax price. Aramark said in a statement that it continues to evaluate the impact of the new tax law with accounting firm KPMG LLP, and plans to update investors on the acquisitions when it reports quarterly earnings on Feb. 6.

The same provision, speeding up tax deductions for capital spending, has prompted Kimberly-Clark, the diaper- and tissue-maker, to accelerate at least one major project, CEO Tom Falk said. The company's board votes next month on a U.S. factory retooling expected to cost hundreds of millions of dollars. There wasn't a timeline for the project previously.

"It gives us more incentive to invest, particularly in the U.S.," Mr. Falk said in an interview. "The project made sense before the tax benefit. It makes more sense after the tax benefit."

Similar reconsiderations are under way elsewhere. At United Natural Foods Inc., a grocery distributor with about 10,000 employees and more than $9 billion in annual revenue, the tax law has prompted a wholesale re-evaluation.

Projects previously viewed as risky are being given new consideration, Mike Zechmeister, the company's finance chief, said in an interview. The return on investment improved by 4 percentage points on a warehousing project in the Pacific region of the U.S. that the company had already decided to pursue, he said, primarily because of the new lower tax rate.

"It's going to impact all the decisions we make," Mr. Zechmeister said.

The tax break comes at a particularly good time for United Natural Foods, which has struggled to keep pace with surging demand for natural and organic goods. The company's net sales rose 8% year-over-year during its last quarter to $2.5 billion, driven largely by Whole Foods, the chain acquired by Amazon.comInc. last year and United Natural's biggest customer.

That sudden growth proved costly. The Providence, R.I., company had an additional $25 million in lost sales from out-of-stock goods during its last quarter, along with higher labor costs and storage fees. Any expansion would help ease capacity bottlenecks that the company intends to resolve in coming months.

Some companies are holding pat, either because they want to see how the new rules shake out, or because they are worried about moving too fast.

Verizon said it would use most of its tax savings -- $3.5 billion to $4 billion in extra cash in 2018 -- to pay down some of its $117 billion debt, rather than increase investments. It will also donate to its charity and give employees company stock.

Mr. McAdam, the Verizon CEO, said the wireless giant would remain disciplined about capital spending. "It's very inconsistent that just because tax reform comes through, we are all of a sudden going to draw the line at a different place or lose that discipline," he said.

Bank of America Corp. is exploring how it might invest in branches, technology and its workforce, CEO Brian Moynihan told investors last week. "However, to be clear, we'd expect most of the benefits from tax reform will flow to the bottom line through dividends and share buybacks over time," he added. A spokesman said payouts to shareholders will also help local economies.

The tax overhaul is altering corporate operations in sometimes surprising ways. Netflix Inc., for example, has changed the compensation it will pay three of its top officers, raising their salaries by a combined $19 million.

Its reasoning: The new tax law prevents companies from deducting any sort of pay over $1 million apiece for key executives. Prior law allowed companies to deduct that pay if it was tied to performance. So, having lost the benefit of a tax deduction for paying performance-based bonuses instead of salary, Netflix announced days after the tax law was passed that its board was scrapping the performance measures and converting the pay into straight salary instead, as it used to do before 2014.

The tax-law change is likely to eliminate tax deductions on $92 billion of pay, according to an analysis of Russell 3000 firms by Equilar. Several large companies -- including Johnson Controls International PLC and drugmaker AmerisourceBergen Corp. -- have said their boards are considering how the tax change affects their approach to compensation.

The ripple effects are hitting small businesses, too. Matthew Wells, president of Western Mechanical Contractors Inc. in Federal Way, Wash., is considering whether to restructure how his business is organized to maximize his benefits under the new tax law.

The 32-person plumbing and mechanical contracting firm is currently set up as an S corporation, a so-called pass-through structure in which the business itself isn't taxed and its income goes to the owners, who reflect it on their individual tax returns.

Mr. Wells is trying to determine whether his tax bill would fall if he switched to a C corporation, which pays its own income taxes directly to the Internal Revenue Service -- now at a 21% rate, down from a top rate of 35% before the new law.

Mr. Wells' accountant is still poring over the new law, but has suggested the potential benefits may not be as great as the contractor initially believed. "I think they are going to try and talk us out of it," said Mr. Wells. "But it is certainly something we are looking into."

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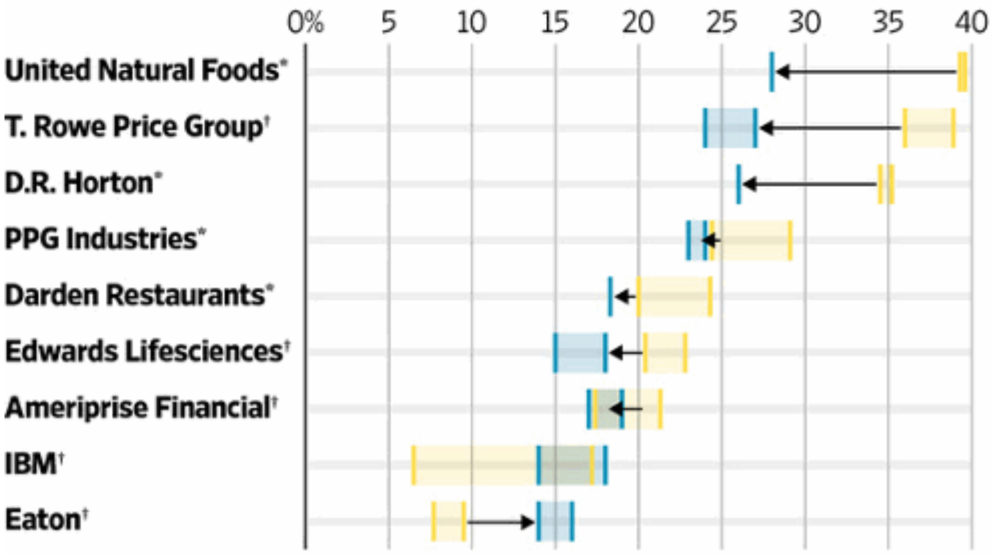
Sharon Terlep, Ruth Simon and Ryan Knutson contributed to this article.

## Effective Tax?

Large U.S.-traded companies are generally forecasting declines in their effective tax rates in the wake of December's federal tax overhaul.

Effective tax rate forecast under new tax law

Effective tax rate range over two most recently reported years




Sources: Company filings; company conference calls; interviews

Two most recently reported years: *2016-17 †2015-16

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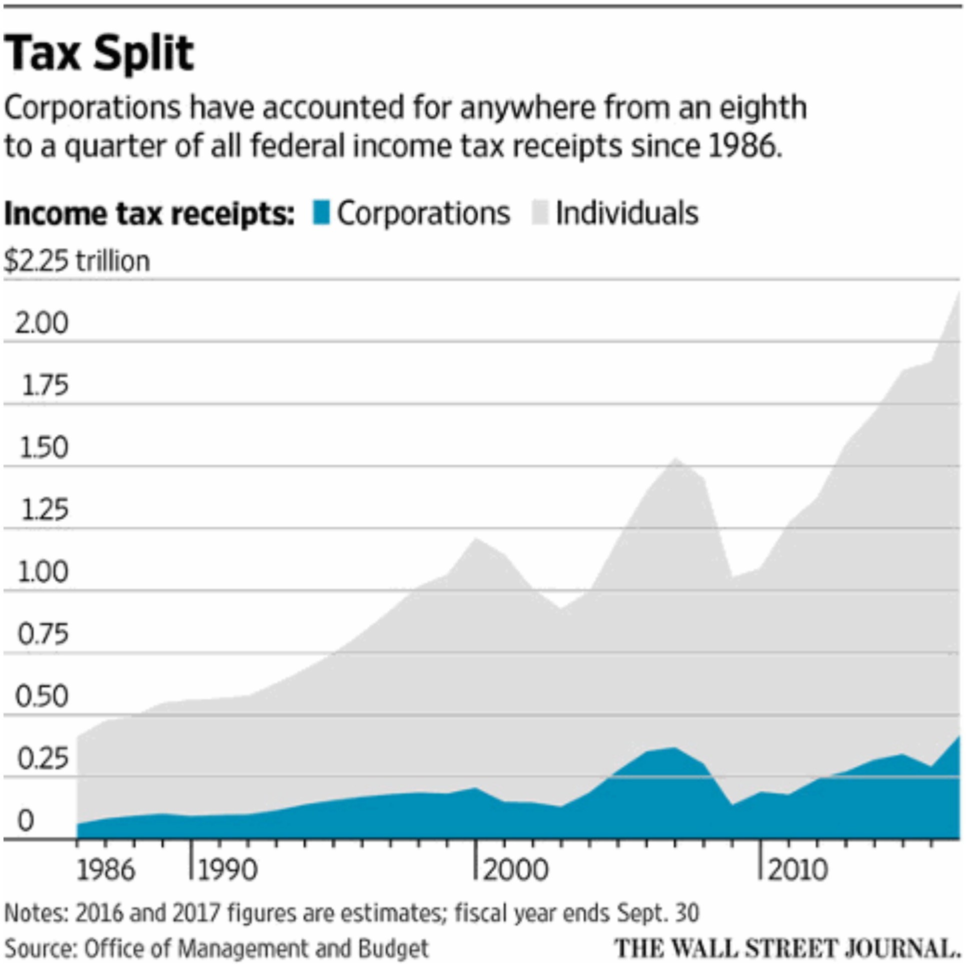


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The New York Times

Business/Financial Desk; SECTB
**Markets Mixed as Investors Scrutinize U.S. Posture for Clues**

By THE ASSOCIATED PRESS
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26 January 2018
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NYTF
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English


Stocks in the United States spent a second day flipping between small gains and losses Thursday as investors again looked for hints about the Trump administration's stance on international trade and the dollar. Major indexes ended the day mixed as airlines plunged while biotech drugmakers climbed.

Homebuilders fell sharply after the Commerce Department said sales of new homes dropped in December. Airlines suffered a second day of sharp losses as investors worried about rising costs and the possibility of lower air fares. Retailers and technology companies slipped, but health care companies including Biogen and Celgene rose.

High-dividend stocks such as utilities rallied as bond yields fell, making those stocks more attractive to investors seeking income.

The dollar made a small recovery in the afternoon after President Donald Trump said he wants to see a stronger currency. The dollar has fallen to three-year lows, and it fell further on Wednesday after Treasury Secretary Steven Mnuchin said there were advantages to the dollar's weakness over the last year.

Investors took that to mean the administration would not do much to prop up the dollar. Mnuchin said Thursday that he supports a stronger dollar over a longer term.

The **Standard & Poor's 500-stockindex** and **Dow Jonesindustrial average** still rose enough to set more records, but stocks have wobbled this week as investors monitored the World Economic Forum in Davos, Switzerland, to get a sense of how the Trump administration's nationalist stance might affect global trade. Trump is scheduled give a speech there at around 7 a.m. Eastern time Friday.

Julian Emanuel, chief equity and derivatives strategist for BTIG, said investors have mostly tuned out political news in the last year, but it might be time for that to change because after a stretch of historic calm in the markets, **volatility** is rising slightly.

''Economies and earnings are the drivers of the market long term, but politics needs to be respected,'' he said.

The **S.&P. 500** inched up 1.71 points, or 0.1 percent, to 2,839.25. The Dow average climbed 140.67 points, or 0.5 percent, to 26,392.79. The **Nasdaq composite** fell 3.89 points to 7,411.16. Most of the stocks on the New York Stock Exchange closed lower.

The dollar edged up to 109.41 yen from 109.05 yen and the euro rose slightly to $1.2404.

Among airlines, Alaska Air lost $2.62, or 4.1 percent, to $62.07 and Southwest Airlines sank $2.02, or 3.2 percent, to $60.19. They took even bigger losses Wednesday after United Continental said it plans to add passenger capacity at a faster pace over the next few years. That could increase the chances of a glut of flights and lower fares at the same time airlines are dealing with higher fuel expenses and higher labor costs.

The Commerce Department said sales of new homes fell more than 9 percent in December, partly because of severely cold weather. NVR sank $237.20, or 6.6 percent, to $3,350 while Lennar fell $2.35, or 3.3 percent, to $68.47. Those stocks have made huge gains over the last year because of strong demand for homes and rising prices.

**Bond prices** edged up. The yield on the **10**-**year Treasury** note fell to 2.62 percent from 2.65 percent.

The European Central Bank did not make any changes to its stimulus programs. ECB head Mario Draghi said the eurozone economy still needs support to keep raising the rate of inflation toward healthier levels. It will continue to buy 30 billion euros ($36 billion) in bonds per month until at least September.

Benchmark United States crude lost 10 cents to $65.51 a barrel in New York.

Gold picked up $6.50 to $1,362.40 an ounce, and after recent strong gains is at its highest price since August 2016.

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Thursday. (Source: Reuters); Jobless Claims: Weekly number of people who have filed for unemployment benefits for the first time. (Source: Labor Department, via Reuters)

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The New York Times

Business/Financial Desk; SECTB
**E.C.B. Chief Draghi Chides U.S. Treasury Secretary Over Dollar Drop**

By JACK EWING
1,112 words
26 January 2018
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NYTF
Late Edition - Final
3
English


FRANKFURT -- Mario Draghi, the president of the European Central Bank, directed unusually sharp criticism at Steven Mnuchin, the United States Treasury secretary, on Thursday, effectively accusing Mr. Mnuchin of violating agreements among nations against starting currency wars.

Mr. Draghi, speaking at a news conference here, said he objected to ''the use of language in discussing exchange rate developments that doesn't reflect the terms of reference that have been agreed.'' He then quoted from an agreement reached in Washington in October under which countries promised to ''refrain from competitive devaluations.''

Mr. Draghi did not mention Mr. Mnuchin by name, but he was clearly referring to the Treasury secretary's remarks on Wednesday at a World Economic Forum panel in Davos, Switzerland, that a weaker dollar was good for United States trade. The comment was interpreted as an effort to talk down the dollar, which would breach the international nonaggression pact on currency rates.

On Thursday, Mr. Mnuchin told reporters in Davos that his comment had been misunderstood.

''I thought it was actually balanced and consistent with what I've said before,'' he said, ''which is we're not concerned with where the dollar is in the short term. It's a very, very liquid market and we believe in free currencies. And that there's both advantages and disadvantages of where the dollar is in the short term.'' (After arriving in Davos, President Trump said during an interview that he wanted ''to see a strong dollar'' and that Mr. Mnuchin's remarks had been misinterpreted.)

Central bankers usually refrain from rhetorical fisticuffs with government officials, but Mr. Mnuchin's initial remark arrived at a sensitive time for the eurozone.

Europe's economy is performing better than anyone had expected it would be just a few months ago. But the growth has brought some unwelcome side effects. In particular, the euro has reached a three-year high against the dollar as investors anticipate the European Central Bank dialing back its economic stimulus efforts sooner than previously expected, which would mean higher interest on the euro.

A strong euro makes products manufactured in the 19-country eurozone more expensive abroad, which could hurt exports and ultimately create a drag on economic growth.

Mr. Draghi has already struggled to contain investor expectations about when the central bank would end the money-printing program known as quantitative easing. He was obviously unhappy that a top official in the Trump administration was inciting **volatility** in currency markets.

Mr. Draghi portrayed Mr. Mnuchin's comments as part of a broader deterioration in international etiquette. At a meeting of the central bank's Governing Council that preceded the news conference, Mr. Draghi said, ''Several members expressed concern, and this concern was broader than simply the exchange rate. It was about the overall status of international relations right now.''

The central bank signaled no changes in policy on Thursday, reiterating that it would continue its stimulus program at least through September in order to hold down market interest rates and to nudge inflation toward the official target of 2 percent. And policymakers left open the possibility of increasing the stimulus efforts if conditions worsened.

A statement by the Governing Council included several phrases that would normally be taken as indications that the central bank was in no hurry to put the brakes on the growth of the eurozone economy. Among the relevant phrases:

''Domestic price pressures remain muted overall and have yet to show convincing signs of a sustained upward trend.''

''The recent **volatility** in the exchange rate represents a source of uncertainty.''

''An ample degree of monetary stimulus remains necessary.''

Still, the euro rose against the dollar as traders effectively ignored attempts to convince them that there had been no change in the bank's stance.

''Without saying anything new,'' Mr. Draghi moved the markets, Carsten Brzeski, an analyst at ING Bank in Frankfurt, said in a note to clients. ''But probably not in the intended direction.''

Investors and analysts had been even more keenly attuned than usual on Thursday to any changes in Mr. Draghi's tone or language that might hint at an end to the stimulus program. Comments by some Governing Council members suggested that a growing faction favored an abrupt end to stimulus after September, rather than a gradual withdrawal.

Since December, the indicators of eurozone growth have steadily gotten stronger. Surveys of business and consumer confidence find both at their highest levels in more than a decade. Unemployment, at 8.7 percent, is at its lowest level since early 2009. The leading survey of business confidence in Germany is at a record high, according to data published on Thursday.

As a result, expectations have risen that the quantitative easing program, in which the central bank creates new money and uses it to buy government and corporate bonds, will end after September. Such a move would set the stage for the bank to begin raising its key interest rate, currently at zero, sometime in 2019.

A majority of the 25-member Governing Council probably lean toward a gradual end to quantitative easing. But some members who are not usually considered hard-liners on the issue of inflation have lately questioned whether it made sense to prolong the stimulus program.

Among those doing the questioning is Benoît Coeuré, one of six members of the central bank's executive board, which oversees its operations. (The other council's other 19 members are the leaders of the national central banks in the eurozone.) Mr. Coeuré has generally been seen as a proponent of quantitative easing.

Recently, though, he has sounded very **bullish** about the eurozone economy, a sign that he might join those who think the bond-buying should come to an end. As one of the Governing Council's most influential members, Mr. Coeuré could help tip the balance of power.

''The current economic expansion in the euro area is stronger than it has been for a decade,'' he said in Bangkok last month, ''and broader than for two decades.''

Mr. Draghi, in effect, said on Thursday the appearance of increasing disagreement among Governing Council members was not significant.

''I don't think the differences between the various members of the Governing Council are as substantive as they were on other occasions,'' he said. ''We are not talking about deep existential differences.''

Follow Jack Ewing on Twitter: @JackEwingNYT.

Mario Draghi, the president of the European Central Bank, in November. On Thursday he urged caution in talking about currencies. (PHOTOGRAPH BY ARNE DEDERT/DPA, VIA ASSOCIATED PRESS)

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**U.S. News: New-Home Sales Slide but Cap Off Solid 2017**

By Sarah Chaney
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26 January 2018
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English


WASHINGTON -- New-home sales lost steam in December but wrapped up a solid year in a market segment that has faced tight inventory and fast-rising prices.

Purchases of newly built single-family homes -- a relatively narrow slice of all U.S. home sales -- decreased 9.3% to aseasonally adjusted annual rate of 625,000 in December, the Commerce Department said Thursday.

Economists say a posthurricane bounce drove strong sales through the fall, and some of the December drop could mark a reversal from those gains.

Sales rose 8.3% in 2017 from the prior year to 608,000, the highest level since 2007, signaling momentum for 2018.

"We do expect new-home sales to pick up over the next year," said Aaron Terrazas, senior economist at Zillow. "Home builders do sense that there is demand out there, particularly at more affordable price points, and are doing what they can to try to meet that demand."

Sales in November jumped to a postrecession high, at a 689,000-unit rate.

Despite solid growth in 2017, sales still remain below the levels seen before the 2007-09 financial crisis and recession.

In December, new-home sales dropped in all regions.

Inventory has been tight in the wider housing market, in part because of lackluster construction, contributing to a run-up in prices.

The median sale price for a new home sold in December was $335,400. At the current sales pace, there was a 5.7-month supply of new homes on the market at the end of the month. Though the figure was up from 4.9 in November, supply remains tight.

New-home-sales data can be **volatile** from month to month. December's decrease comes with a margin of error of plus or minus 11 percentage points.

Sales of previously owned homes, which represent the bulk of the U.S. market, fell in December but rose in 2017 as a whole to their highest level since 2006, the National Association of Realtors said on Wednesday.



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**Banks Put Obstacles On Path To Bitcoin**

By AnnaMaria Andriotis and Paul Vigna
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26 January 2018
The Wall Street Journal
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B11
English


Some banks and credit-card companies have begun restricting customers' purchases of bitcoin, shutting down a popular way to buy the **volatile** digital currency.

This month, Capital One Financial Corp. decided it would no longer let its customers use credit cards it issues when buying bitcoin or other cryptocurrencies such as ether "due to the limited mainstream acceptance and the elevated risks of fraud, loss and **volatility**." The bank said it would "regularly evaluate the decision as cryptocurrency markets evolve."

The firm's decision followed Discover Financial Services' move in 2015 to effectively prohibit purchases of digital currencies with its cards.

Bank of America Corp. allows bitcoin purchases with the credit cards it issues. "At this point there is nothing that would block a transaction, but we are carefully reviewing our policy," said a bank spokeswoman.

Citigroup Inc., which allows bitcoin purchases with its credit cards, is also reviewing its policy, according to a person familiar with the matter. TD Bank, the U.S. unit of Toronto-Dominion Bank, said that as a result of security measures some bitcoin transactions aren't being processed.

The moves could put a crimp in one way to buy bitcoin, which soared 1,375% last year and attracted widespread new interest before falling about 20% this year. Despite bitcoin's popularity, some card companies are expressing concerns about consumers using credit cards to buy the currency.

Funding investments with credit cards isn't usual in traditional markets. Among brokerage firms, Charles Schwab Corp. and TD Ameritrade Holding Corp. don't allow it, and E*Trade Financial Corp. lists several funding methods it accepts on its website, but doesn't mention credit cards.

With bitcoin, some 18% of buyers funded purchases with a credit card, according to a survey released in December from lending marketplace LendEDU. Of those, 22% said they didn't pay off their credit-card balance after the purchase. Nearly 90% of that group expected to eventually pay off the balance using profits from the investment, the survey found.

Funding those investments with debt only adds to the risk of investing in bitcoin. The **volatile** asset could result in card holders being underwater before the bill comes due.

Investors need to cover what often are double-digit-percentage interest rates on credit cards if they don't pay the bill in full, in addition to fees on the bitcoin transactions. To offset those costs, borrowers need bitcoin to rise substantially in value. That can increase the chances of borrowers not paying credit-card bills if they owe more on the asset than it is worth.



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REVIEW & OUTLOOK (Editorial)
**The Mnuchin Dollar and the Draghi Euro**

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English


As if on cue, Mario Draghi on Thursday demonstrated one consequence of the weak-dollar philosophy espoused by Steven Mnuchin on Wednesday. Mr. Draghi indicated that the European Central Bank he leads may delay normalizing monetary policy thanks to the weak greenback favored by the U.S. Treasury Secretary.

"The recent **volatility** in exchange rates represents a source of uncertainty which requires monitoring with regard to its possible implications for the outlook for price stability," Mr. Draghi told the press after the ECB's January meeting.

As a result, the ECB will continue buying bonds worth 30 billion euros ($38 billion) a month through September "or beyond if necessary," and interest rates won't rise "for an extended period of time." That's central-bank-speak for Mr. Draghi getting nervous about earlier plans to dial back his unconventional monetary policies because he's afraid of triggering an excessive rise in the euro.

Mr. Draghi is right to worry, up to a point. Over the past year the euro has appreciated against the dollar to above $1.25 from $1.07 when Donald Trump took office. That's well short of the nearly $1.40 in 2014 before Mr. Draghi began quantitative-easing bond purchases, but it's still a blow to the ECB since competitive devaluation has been one of its main, though unacknowledged, goals.

Without mentioning the Treasury Secretary by name, Mr. Draghi also complained about "use of language in discussing exchange-rate developments that doesn't reflect the terms of reference that have been agreed." He meant an IMF communique last year in which governments including Washington promised to eschew competitive devaluation.

Now Mr. Draghi is in a pickle. Having started down the QE road, he finds it as difficult as other central bankers to return to normal policy without spooking markets. So he keeps delaying announcing a formal end to QE despite strong eurozone economic growth -- 2.6% year-on-year as of the third quarter last year -- and healthy business confidence. That should be a sign it's time to wean the eurozone off QE, but inflation is falling, to 1.4% year-on-year in December from 1.5% in November, in part thanks to the stronger euro.

Some of us saw this coming, and Mr. Draghi is largely responsible for his own fate whatever Messrs. Trump and Mnuchin say about the dollar. Mr. Draghi has always said that the eurozone needs policy reforms from elected leaders more than it needs monetary pyrotechnics. Sure enough, economic growth has finally picked up as reviving optimism in the U.S. and the election of a reformer to France's presidency stirred animal spirits.

Still, Mr. Mnuchin -- and his boss -- could help Mr. Draghi now by aiming for stability in the world's most important exchange rate rather than pursuing a weak-dollar gambit. Mercantilists in the White House might think eurozone monetary policy isn't their problem. But it will be if their greenback gimmicks goad Mr. Draghi into diverging too far from the Federal Reserve's modest attempts at normalization, with unpredictable consequences for exchange rates and the world economy.



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REVIEW & OUTLOOK (Editorial)
**The Andrew Cuomo Tax Campaign**

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New York Gov. Andrew Cuomo is running for re-election this year and President in 2020, and apparently he thinks his killer app is opposition to the GOP tax bill. Judging by his proposals so far, we'd say this is going to be harder than he thinks.

The Governor last week released his 2018 budget along with proposals to "reform" New York's taxes that on their face appear to conflict. On the one hand, Mr. Cuomo wants to minimize the effects of the GOP bill's $10,000 state-and-local-tax deduction limit on his state's high earners. At the same time he's squeezing them for more dough.

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A roaring **stock market** usually bodes well for Albany's coffers, yet the state is running a $4 billion deficit this year. Revenues have increased by a mere 4% over the past two years, especially from high earners. The top 1% of earners pay more than 40% of New York's income taxes, and the top 0.1% account for a quarter.

As the budget notes, "recent weakness in bonuses highlights the risk posed by [finance and insurance] to the State economy and revenues." Financial institutions scaled back bonuses after the 2008 panic, but they have also shifted some operations out of the Northeast while expanding in lower-tax states.

Between 2012 and 2016, personal income from finance declined by 0.6% in New York while growing 1.5% nationwide, 5.1% in Florida and 6.2% in Utah, according to the Bureau of Economic Analysis. In 2016 Citibank said it would hire 800 more employees at its Jacksonville office and bought a 5,600-employee service center in Tampa.

Mr. Cuomo has doled out billions of dollars in subsidies to revive New York's upstate rust belt. Yet New York's manufacturing GDP growth has slipped 0.3% since 2012 while growing 0.7% in the Mid-Atlantic region, 1.2% nationwide and 3.8% in Florida. Overall, New York has averaged 1% GDP annual growth since 2012, half the national average.

While Mr. Cuomo rails that the GOP tax bill is a "dagger at the heart of New York," its economy and budget could benefit. Banks headquartered in New York are projecting a substantial boost in earnings and have announced bigger bonuses. Though he won't admit it, even Mr. Cuomo's budget predicts a nearly 20% increase in business tax revenue over the next two years largely due to surging corporate profits.

But there's also a danger that New York may miss the party. Businesses may instead invest at the margin in low-tax and low-cost states where they can get a better return on capital. In addition to its punishing tax burden, New York has among the nation's highest energy prices and employment costs.

The $10,000 deduction cap could also drive high earners in New York City (top marginal rate: 12.7%) and the upper-middle class in the suburbs out of the state. The average property tax bill in Westchester County is $10,000 compared with $4,610 in Bucks County outside Philadelphia and $2,453 in Miami-Dade.

Mr. Cuomo's finance department issued a report last week outlining myriad ways to mitigate the deduction cap. One idea is a new state payroll tax that corporations could deduct on federal taxes. Mr. Cuomo suggested several variations, all of which would be fearsomely complex. Businesses might have to reduce employee wages by the amount of the new payroll tax, and the state would make them whole with a "wage credit."

But workers won't like a cut in take-home pay, which may also be prohibited by labor contracts. Maintaining tax progressivity -- as Mr. Cuomo says he'd do -- would also be a challenge. This also wouldn't help high earners with substantial investment income. New York taxpayers making more than $1 million draw on average only a third of their income from wages.

Yet while Mr. Cuomo tries to mitigate the federal tax burden on high earners, he is also taking them to the cleaners. As E.J. McMahon of the Empire Center for Public Policy recently noted, state law allows New Yorkers to conform their federal itemized deductions (aside from a few exceptions such as for state-and-local income taxes) to state returns. Because the GOP tax bill capped the deduction for property taxes at $10,000 and axed others, the state could reap a $700 million windfall. This is a stealthy tax grab that Mr. Cuomo didn't cite in his budget.

He was less abashed in calling for a 17% "fairness tax" on the carried-interest income of hedge funds, private equity and venture capital. This surcharge would raise the tax rate that New York City investment managers pay on their capital gains to 53.5%. Mr. Cuomo said the surcharge would only take effect if Massachusetts, New Jersey, Connecticut and Pennsylvania do the same. We doubt Bay State Gov. Charlie Baker will sign this suicide pact.

All of which shows that Mr. Cuomo doesn't understand how tax competition could hollow out his state fisc. He should import low-tax policy to New York, not try to impose high-tax New York on the rest of America.



Document J000000020180126ee1q0001e

THE WALL STREET JOURNAL.
U.S. EDITION

**Race Is On for $1 Trillion**

By Ben Eisen
477 words
26 January 2018
The Wall Street Journal
J
B11
English


Some Wall Street analysts are betting it won't be too much longer before there is a trillion dollar company in the U.S. **stock market**.

The **S&P 500** technology sector is up 39% over the past 12 months, including a benchmark-beating 7.1% rise to start 2018. Some of the technology-focused titans, which are among the biggest companies in the **S&P 500** by market cap, are up even more, spurred by expectations of growing market share and profits. Amazon.com Inc. has risen 18%, Alphabet Inc. is up 12%, and Microsoft Corp. has climbed 7.9%.

If the **stock market** keeps rising at its current pace, it won't take long for Apple Inc., Alphabet, or Microsoft to obtain a trillion dollar market value, something that has never happened in the U.S. Depending on how you calculate it, it could also be the world's first public trillion-dollar firm.

Apple is the only U.S.-listed company to have topped $900 billion in market cap, and it was recently the highest with $870 billion.

The average 12-month price target for the stock among the 37 analysts tracked by FactSet is $193.50, which would bring its market cap to just over $984 billion based on the company's most recent share count.

Analysts generally factor in share buybacks when making their forecasts, which reduce the number of shares outstanding, so the exact target that would send Apple over $1 trillion would likely be higher in a year's time.

Google parent Alphabet has a market value of $817 billion. To get to a trillion, the share price would have to climb by more than $250 from its current level, based on its current share count.

Microsoft, the **S&P 500**'s third-biggest company, might be considered a dark-horse candidate because its market cap is just $712 billion. But it isn't out of the realm of possibility, according to Canaccord Genuity analyst Richard Davis.

"A trillion dollars. That's a big number," he writes. "However, if you believe, as we do, that it is reasonable to expect MSFT to appreciate between 10-20% annually for the next five years, you get to the Big T as early as calendar Q4 2019, or more like sometime in early 2020."

And don't forget Amazon. Its market cap lags behind a bit at $664 billion, but isn't out of contention. D.A. Davidson analyst Tom Forte this week called for the stock to rise to $1,800, a particularly **bullish** bet on the company, which is currently at $1,377.95 a share.

That wouldn't quite get Amazon to a trillion dollars, but it would bring the company much closer.



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THE WALL STREET JOURNAL.
U.S. EDITION

**NYSE, Nasdaq Fight Cboe's Auction Plan**

By Alexander Osipovich
604 words
26 January 2018
The Wall Street Journal
J
B11
English


The New York Stock Exchange and Nasdaq Inc. are making a last-ditch effort to retain their grip on the crucial 4 p.m. closing auctions that determine end-of-day prices for thousands of stocks.

The two big exchange groups will appeal a regulator's decision that would allow a rival, Cboe Global Markets Inc., to siphon off trading activity from the closing auctions for NYSE- and Nasdaq-listed securities, threatening the two firms' revenues from trading fees. The duo revealed their plans to keep fighting Cboe's plan in filings posted late Wednesday on the website of the Securities and Exchange Commission.

Last week, SEC staff gave Cboe the green light for its closing-auction proposal despite fierce opposition from the NYSE, which is owned by Intercontinental Exchange Inc., and Nasdaq. With their latest move, the two exchange groups will seek to have the SEC's five commissioners reconsider that decision.

Under Cboe's proposal, traders would get a new way to execute "market-on-close" orders, in which they agree to buy or sell shares at whatever end-of-day price is determined in the auction. Instead of sending such orders to the NYSE or Nasdaq, traders could send them to Cboe, which would seek to fill them using the day's final price published by its competitors.

A NYSE spokeswoman said in an emailed statement that Cboe's plan was "not in the best interest of issuers and investors." A Nasdaq spokesman said: "Issuers, indexers and investors have all filed comment letters against this proposal . . . it is our duty to ensure they are heard and accounted for." The SEC declined to comment.

Earlier, the NYSE and Nasdaq had argued that Cboe's plan would harm the integrity of their closing auctions and enable market manipulation. Cboe, the No. 2 U.S. stock-exchange operator by volume, has dismissed such worries as "fearmongering." The Chicago-based firm says it is trying to help traders save money after both the NYSE and Nasdaq increased fees for participating in the closing auction in recent years.

Such benefits will be delayed as a result of the NYSE's and Nasdaq's appeals, said Bryan Harkins, head of U.S. equities and global FX at Cboe. "We look forward to working with the Commission on a prompt resolution," he said in an emailed statement.

The squabble comes as closing auctions have grown more important to the functioning of U.S. markets, largely due to the rising popularity of exchange-traded funds and passive investing strategies. That is because index-fund managers will typically seek to track the daily settlement price of the stocks that comprise their index. That often leads them to buy or sell shares in the closing auction.

Last year, 6.5% of the volume in NYSE-listed securities took place at the close, up from 3.6% in 2012, according to the exchange. For Nasdaq-listed securities, the share of volume at the close rose to 5% from 3% over the same period, according to Nasdaq.

During regular trading hours, from 9:30 a.m. to 4 p.m. Eastern time, a stock can be traded on any of a dozen U.S. exchanges and numerous off-exchange "dark pools." But at the close, it reverts to the exchange where it is listed. That means the NYSE has an effective monopoly on closing auctions for shares of companies listed on the Big Board, while Nasdaq has a similar grip on closing auctions for Nasdaq-listed stocks.



Document J000000020180126ee1q0000v

THE WALL STREET JOURNAL.
U.S. EDITION

**Stocks' Rising Tide Buoys Junk Bonds**

By Sam Goldfarb and Ben Eisen
815 words
25 January 2018
The Wall Street Journal
J
B14
English


Corrections & Amplifications

Netflix shares were up more than 80% over the past year, as of Wednesday. A Markets article on Thursday incorrectly said the change was over the past month.

(WSJ Jan. 29, 2018)

(END)

The extra yield that investors demand to hold junk-rated corporate bonds has shrunk to its lowest level in more than a decade, marking another milestone in the U.S. economy's recovery from the financial crisis.

The average gap in yield between junk-rated corporate bonds and U.S. Treasurys, adjusted for the option that companies have to redeem bonds earlier than their maturity date, hit 3.16 percentage points on Monday, its lowest level since July 2007, according to Bloomberg Barclays data. It settled Tuesday at 3.17 percentage points.

Low yield premiums, or spreads, show that investors are demanding less compensation to bet on chancier companies. It is a sign that investors believe the economic expansion will continue at a robust enough pace for these companies to make good on their debt, a view that has also been pushing stock prices to record highs.

In certain cases, stocks and bonds have been able to feed off each other, with lofty market capitalizations supporting debt prices, which in turn lead to low borrowing rates and a benign environment for equities, analysts said. While such a dynamic can be a boon to businesses and investors, it is raising some concerns that it could exacerbate selling in a downturn.

"On some level, it's a rising tide," said Matt Freund, co-chief investment officer and head of fixed-income strategies at Calamos Investments. "To the degree that equity valuations fill in or swell underneath the debt," that is generally good for **bond prices**, he added.

In a recent example, Netflix Inc.'s market value blew past $100 billion for the first time on Tuesday, after the company said Monday that it added a record amount of streaming subscribers in the final three months of year, despite price increases. The company's stock has shot up more than 80% in the past month, riding a wave of investor excitement about rapidly growing companies with technology focuses.

Netflix is a also junk-rated company that received a B-plus grade from Standard & Poor's Global Ratings when it last sold debt in the fall. The company had negative free cash flow of $2 billion last year, a burn rate that it expects to widen this year as the company continues to invest in its business.

Still, Netflix's high market value helps bolster that debt because equity value typically must evaporate entirely before the company's debt gets hit, some analysts said.

"Even if the Netflix story deteriorates fundamentally, that creates a lot of headroom before Netflix is under stress," said Lindsay Gibbons, a senior analyst at CreditSights.

That isn't lost on Netflix executives, who referenced the layer of security in their quarterly letter, which read: "We are striving to make the right choices and investments to grow the value of the firm, and that is what also ultimately secures our debt. High yield has rarely seen an equity cushion so thick."

Netflix's recently issued 4.875% notes due 2028 traded Wednesday afternoon at 99.25 cents on the dollar, up from 98.25 cents at the end of last year, according to MarketAxess. The company said in its letter that it anticipates "continuing to raise capital in the high-yield market."

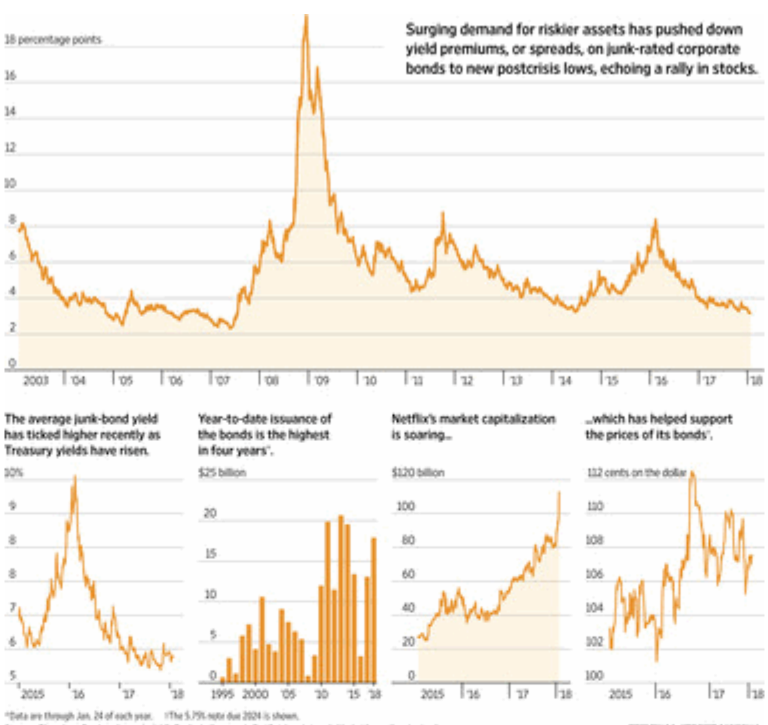
With its negative free cash flow and ambitious growth plans, Netflix is somewhat unusual for a junk-rated business. Many debt investors, moreover, are hesitant to place too much weight on a company's market capitalization because it could evaporate quickly in a **bear market**.

Unlike stocks, there is a limit to how much corporate bonds can rally. Though yields fall when **bond prices** rise, analysts said investors will always demand some extra payment above prevailing Treasury yields to be compensated for the risk that companies will default.

The recent plunge in spreads has raised concerns that investors aren't being paid enough for the risks they are taking on and that the market could be ripe for a reversal when economic conditions change or major stock indexes decline. Still, many high-yield investors say they aren't too concerned at the moment, largely because there are no clear signs of a recession on the horizon.

The U.S. speculative-grade default rate was 3.3% in December, according to Moody's Investors Service, down from 5.8% at the start of 2017. As of the third quarter, the average earnings of junk-rated companies before interest, taxes, depreciation and amortization outstripped interest costs by 3.5 times, the largest amount in nearly three years, according to BofA Merrill Lynch Global Research.

With the economy in good shape, "spreads are clearly tight with regard to the historical range," but they "are tight for a reason," said Patrick Flynn, portfolio manager at Neuberger Berman.

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White House Memo
U.S.; Politics
**Trump's Enthusiasm for Stock Market Collides With His Trade Plans**

By MARK LANDLER and MAGGIE HABERMAN
1,118 words
24 January 2018
08:20 PM
NYTimes.com Feed
NYTFEED
English


WASHINGTON — He boasted about it at a banquet given by the Communist president of Vietnam. He crowed about it during a pep rally for anti-abortion marchers in the Rose Garden. He even slipped it into his Thanksgiving Day greeting to American troops serving abroad.

No president has taken more delight, or claimed more credit, for the roaring **stock market** than Donald J. Trump. The **Dow Jonesindustrial average** has become for him what the Rasmussen Poll was during the 2016 presidential election: a daily source of validation.

"Had the other side gotten in, the market would have gone down 50 percent from where it was," Mr. Trump told a gathering of women at the White House last week, diplomatically avoiding the name Hillary Clinton. "Remember that."

Now, though, Mr. Trump's fixation with Wall Street is colliding with one of his most cherished legislative projects — a more protectionist trade policy — and it is not clear which one will win.

Mr. Trump, for example, has repeatedly threatened to pull the United States out of the North American Free Trade Agreement and the Korea Free Trade Agreement. But two top economic advisers, Gary D. Cohn and Treasury Secretary Steven Mnuchin, have warned him that withdrawing from those deals would hurt the **stock market**, several officials said.

Tellingly, those threats have receded. On Wednesday, at the World Economic Forum in Davos, Switzerland, Mr. Trump's commerce secretary, Wilbur Ross, expressed optimism that the United States would be able to renegotiate the deal with Canada and Mexico.

The president himself is scheduled to speak in Davos on Friday, and Mr. Cohn promised that his message would reassure the market makers who flock there every January. "America first is not America alone," he said. "When we grow, the world grows; when the world grows, we grow. We're part of it, and we're part of a world economy."

And yet other people briefed by the White House said they expected Mr. Trump to use the occasion to deliver a defiantly nationalist speech. While Mr. Ross was conciliatory about Nafta, he also said that "U.S. troops are now coming to the ramparts" to wage other potential trade wars, including with China. Those remarks briefly rattled markets.

Presidents have generally avoided talking about the **stock market** — for good reasons. Their words have the power to move markets, and not always in the direction they want. Moreover, if they claim credit for a **bull market**, they find it harder to evade blame for a **bear market**.

In March 2009, President Barack Obama made a foray into market analysis during an appearance with Prime Minister Gordon Brown of Britain. The **stock market**, he said, is "sort of like a tracking poll in politics."

"It bobs up and down day to day, and if you spend all your time worrying about that, then you're probably going to get the long-term strategy wrong," he said.

At the same time, he observed, stocks had fallen so far after the financial crisis that their price-to-earnings ratios were nearing their bottom. Given that, and the government's enormous fiscal stimulus program, Mr. Obama said it might be a good time to get back into the market.

“He got substantial blowback for those comments and was advised — and took the advice — not to prognosticate on the market again,” said Jason Furman, who was one of Mr. Obama’s economic advisers.

For all the mocking he got, Mr. Furman noted that Mr. Obama was right. The **stock market** bottomed out six days after his remarks and had bounced back 21 percent a month later. Mr. Obama mentioned the market several other times during his presidency, but Mr. Furman said he stayed away from commenting on day-to-day gyrations.

President Bill Clinton also presided over a bubbly **stock market** but resisted the urge to gloat about it. Former aides said he was repeatedly invited to ring the bell at the New York Stock Exchange to open trading, but they always told him to decline. That reluctance proved wise when the bubble in technology stocks began bursting almost a year before Mr. Clinton left office.

“We had a view that markets could go up, markets could go down, markets could be overvalued, markets could be undervalued,” said Gene Sperling, an economic adviser to Mr. Clinton. “But it would take your eye off the ball to focus on that rather than on the real economy.”

Not that these presidents or their aides are shy about their contributions to the market: Mr. Sperling said Mr. Clinton’s 1993 budget plan, and the ensuing decline in long-term interest rates, helped power the **bull market** of the 1990s. Even with the bursting of the tech bubble, he said, investors were way ahead at the end of the Clinton years.

But all of them, said Robert Dallek, a presidential historian, were mindful that what goes up can come down. Mr. Dallek, who recently published a biography of Franklin D. Roosevelt, noted that Roosevelt rarely talked about the **stock market**, which rose steadily during his presidency until 1937, when the Federal Reserve abruptly tightened the money supply — one of the factors that plunged the United States into recession.

“All these presidents have paid attention to the **stock market**,” Mr. Dallek said. “But he finds it irresistible, if finds any sign of strength in his administration, that he is going to seize on that and publicize it.”

No president has tied his fortunes so directly to the market as has Mr. Trump. “We’re setting a record literally all the time,” he said last week. “And I’m telling you, we have a long way to go.”

Sometimes, Mr. Trump does not even wait for the market to open to claim victory. Before the opening bell in New York on Nov. 29, he tweeted, “Looks like another great day for the **Stock Market**. Consumer Confidence is at a Record High. I guess somebody likes me (my policies)!”

The **Dow Jonesindustrial average** closed 104 points higher that day.

Gary D. Cohn, President Trump’s economic adviser, promised that the president’s message would reassure the market makers who descend on Davos, Switzerland, for the World Economic Forum every year. “America first is not America alone,” he said. | Doug Mills/The New York Times | President Trump likes to take credit for the rise of the **stock market**. It surged after he was elected in 2016 and has reached record highs. He has mentioned its performance at least 25 times this month alone. | By CHRIS CIRILLO

Document NYTFEED020180125ee1p000p3

 

The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
**Tech Companies, Airlines and the Dollar Sink on an Up-and-Down Trading Day**

By THE ASSOCIATED PRESS
1,054 words
25 January 2018
The New York Times
NYTF
Late Edition - Final
7
English


Stocks in the United States bounced up and down and finished mostly lower Wednesday as technology companies slumped. Commerce Secretary Wilbur Ross discussed a more nationalist trade stance, with uncertain effects for the market. The dollar, already at three-year lows, got even weaker.

Stocks got off to a strong start, but technology companies took heavier losses as the day wore on, led by chipmakers after Texas Instruments gave a disappointing forecast for the current quarter. Apple also fell.

The dollar sagged against other currencies after Treasury Secretary Steven Mnuchin said the currency's decline is good for U.S. exporters, suggesting he isn't likely to try to stop its slide. Airlines plunged after United Continental said it plans to ramp up passenger capacity.

Mnuchin and Ross are at the World Economic Forum in Davos, Switzerland. Mnuchin's comments sent the price of gold and silver higher, as investors often buy precious metals when they're concerned about inflation or softness in the dollar. Weakness in the dollar usually helps companies that export a lot of goods from the U.S., but it can hurt smaller, more domestic companies by driving up the costs of imported components.

"Small caps are much more domestically focused than large caps are, but (they are) still buying from foreign companies," said Mark Hackett, chief of investment research at Nationwide Investment Management.

Hackett said smaller U.S. companies will report faster profit growth this year than larger ones. That's because the benefit those companies will get from the recent corporate tax cut will outweigh the pain from the weaker dollar.

The **Standard & Poor**'**s500 index** lost 1.59 points, or 0.1 percent, to 2,837.54. The **Dow Jonesindustrial average** rose 41.31 points, or 0.2 percent, to 26,252.12. In the morning the Dow rose as much as 181 points and later fell as much as 103 points before turning higher again. That's an unusually large swing for the Dow given the market's recent lack of **volatility**.

The **Nasdaq composite** fell 45.23 points, or 0.6 percent, to 7,415.06. The Russell 2000 index of smaller-company stocks skidded 11.10 points, or 0.7 percent, to 1,599.61.

Investors have focused on global trade issues the last few days. On Tuesday, the administration placed tariffs on imported solar power components and washing machines.

On Wednesday Ross said the U.S. is fighting back against countries that have taken advantage of trade deals in the past.

"Trade wars are fought every single day," Ross said. "Unfortunately, every single day there are various parties trying to violate the rules, and trying to take unfair advantage of things ... the difference is that U.S. troops are now coming to the ramparts."

European stocks dropped. Germany's DAX slumped 1.1 percent and the French CAC 40 fell 0.7 percent. The British FTSE 100 fell 1.1 percent.

Texas Instruments fell $10.19, or 8.5 percent, to $109.70 after analysts were disappointed with its revenue forecast for the current quarter. Competitor Applied Materials gave up 88 cents, or 1.5 percent, to $56.91 and Nvidia fell $3.11, or 1.3 percent, to $235.80.

Chipmakers have made huge gains in recent months, and Nvidia has more than doubled over the last year. Citi Investment Research analyst Christopher Danely said business conditions for chipmakers are weakening after a run of strong results.

United Continental plunged after it said it's planning more aggressive growth over the next few years. It's aiming to increase its passenger-carrying capacity by 4 to 6 percent a year through 2020. United has done better recently at handling competition with lower-cost carriers, but investors worried that more flights will mean reduced prices and hurt its profits. The stock plunged $8.9, or 11.4 percent, to $69.05.

The dollar dropped to 109.05 yen from 110.30 yen. The euro advanced to $1.2405 from $1.2294. The ICE US dollar index fell almost 10 percent in 2017 and is down 3 percent so far this year.

Gold climbed $19.60, or 1.5 percent, to $1,356.30 an ounce and silver rose 58 cents, or 3.4 percent, to $17.49 an ounce. Copper rose 12 cents, or 3.8 percent, to $3.23 a pound.

**Bond prices** fell. The yield on the **10**-**year Treasury** note rose to 2.64 percent from 2.62 percent. That helped banks because higher yields let them charge higher interest rates on loans. JPMorgan Chase rose $1.46, or 1.3 percent, to $115.67.

Appliance maker Whirlpool, which gets most of its revenue overseas, continued to rally as the falling dollar could boost its sales and aid its earnings. The stock rose 3.5 percent Tuesday after the tariffs were announced, and on Wednesday it made its biggest gain in 18 months as it rose another $6.99, or 4.1 percent, to $178.97.

Benchmark U.S. crude rose $1.14, or 1.8 percent, to $65.61 a barrel in New York. Brent crude, used to price international oils, added 57 cents to $70.53 a barrel in London.

Wholesale gasoline rose 1 cent to $1.92 a gallon. Heating oil picked up 2 cents to $2.11 a gallon. Natural gas gained 7 cents to $3.51 per 1,000 cubic feet.

Asian stocks were mixed. Japan's benchmark Nikkei 225 slipped 0.8 percent while the Hang Seng in Hong Kong index rose 0.1 percent. South Korea's Kospi gained 0.1 percent.

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AP reporters Jamey Keaten and Pan Pylas contributed to this story from Davos, Switzerland.

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

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

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Wednesday. (Source: Reuters); 5-Year Treasury Notes: High yields at auction. (Source: Treasury Department)

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THE WALL STREET JOURNAL.
U.S. EDITION

**Banking & Finance: Hedge Funds Tap the Brakes on Bitcoin**

By Gregor Stuart Hunter and Laurence Fletcher
678 words
25 January 2018
The Wall Street Journal
J
B12
English


Corrections & Amplifications

Bletchley Park Asset Management is domiciled in the Cayman Islands, and Lewis Fellas, the hedge fund's manager, is based in Hong Kong. A Business & Finance section article Thursday about hedge funds turning cautious on cryptocurrencies incorrectly said Mr. Fellas's fund is based in Hong Kong.

(WSJ Jan. 26, 2018)

(END)

Hedge funds that rode the wave as cryptocurrencies surged last year have turned cautious, the latest sign of doubt among investors that the red-hot rise of bitcoin and its ilk can be sustained.

Bitcoin's rise of more than 13-fold in 2017 helped fuel a stellar year for the still-small number of hedge funds dedicated to cryptocurrency investing. An index of about 17 cryptocurrency hedge funds from data provider HFR Inc. rose almost 3,000% in 2017, light-years ahead of the 8.7% average return across the global hedge-fund industry.

Several crypto-focused funds now say it is time for a break.

"You need to sit down and put a towel on your head and have a think about things," said Lee Robinson, founder of Monaco-based hedge-fund firm Altana Wealth, whose $45 million cryptocurrency fund returned roughly 1,500% last year.

Mr. Robinson said he became concerned when the time taken for the price of cryptocurrencies to double was halving late last year, a sign the market was overheated.

He said the fund is now positioned to profit from price falls on stocks associated with bitcoin and blockchain technology, and cut back its bet on rising cryptocurrency prices. Blockchain is the technology that underpins bitcoin and other cryptocurrencies and records transactions on a public ledger.

The change of heart among investors like Mr. Robinson has coincided with other factors now buffeting bitcoin's fortunes. Financial regulators have become concerned about the bubbly prices of cryptocurrencies and their association with illegal activity, particularly in Asia, where much of the world's trading in bitcoin and its peers takes place.

Late Wednesday, the price of bitcoin rose 2%, to $11,208.38, according to news and research site CoinDesk, down from a peak of $19,283 on Dec. 16. It started 2017 at $892.

Few cryptocurrency funds have established much of a track record, and many private banks have been reluctant to offer them to clients, said Mohammad Hassan, head of hedge-fund research at Eurekahedge Pte. Ltd. in Singapore.

Most cryptocurrency funds use a simple strategy of buying cryptocurrencies and selling them after they appreciate, he said.

"What they're doing is pure market timing," he said. "For me, the question is, why would anybody pay 20% fees for this?"

But professional fund managers are interested, as the launch of bitcoin futures markets in the U.S. late last year gave investors concerned about those markets' highly speculative nature some confidence they are becoming more mainstream. They have also made it easier to bet on falling -- not just rising -- prices.

Now, some money managers are leaving lucrative positions on Wall Street and other financial centers to set up funds.

Lewis Fellas, a former portfolio manager at Harvard Management Co., which manages the university's endowment, left Boston in 2016 to set up cryptocurrency-focused Bletchley Park Asset Management, based in Hong Kong.

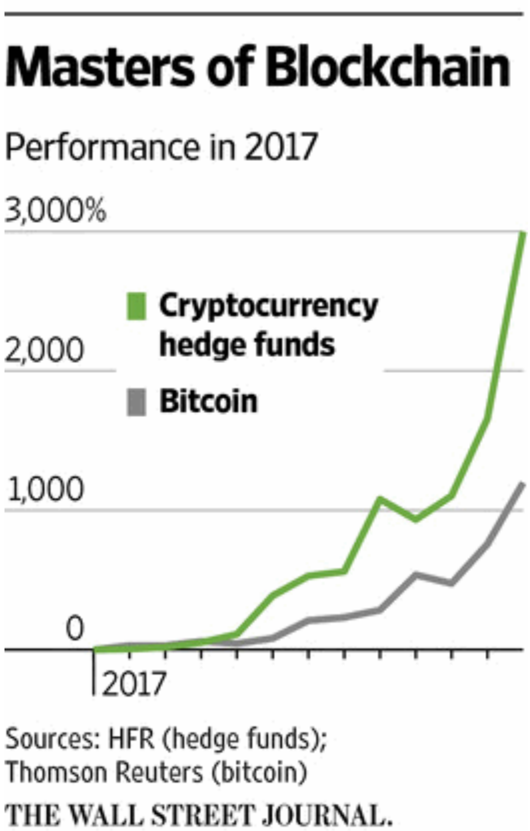
The fund returned 106% last year, basing its investing decisions on technical analysis of cryptocurrency markets and by comparing digital currencies to social networking companies like Facebook Inc. and Twitter Inc., which it believes share similar characteristics.

But Mr. Fellas said he has turned cautious on cryptocurrencies this year, and is currently 50% invested, down from 90% in December.

"We felt the market was looking pretty stretched across most coins," he said.

Data from the Commodity Futures Trading Commission show that hedge funds overall entered 2018 with bets bitcoin prices would fall, known as short positions. Those short bets outweighed those wagering it would rise by a factor of four. As of Jan. 16, such short positions still outnumbered those taking the opposite bet, the data show.

Still, some funds remain **bullish**. California-based Pantera Capital wrote in a note to clients last month that bitcoin could rise to $50,000 by 2019 and to a "fair value" of $500,000 in the next 10 years.



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THE WALL STREET JOURNAL.
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**U.S. News -- Capital Account: Pro-Business Populists Flummox Davos Man**

By Greg Ip
861 words
25 January 2018
The Wall Street Journal
J
A2
English


Davos man feels conflicted.

The global business elites swarming this year's World Economic Forum are reveling in the best economy in years and an epic **bull market**.

Yet their joy seems oddly muted, checked by anxiety over spreading populism and nationalism, sky-high asset prices, and slow-burning ills such as inequality and climate change.

Part of this anxiety is legitimate: Stock prices really are priced for perfection.

Part of this is an affect: The World Economic Forum likes to dwell on mankind's most profound challenges, and sometimes it overthinks. Among the potential shocks a WEF report warns of are "AI-piloted drone ships [that] wipe out a large proportion of global fish stocks."

And part of this is because Davos men and women are grappling with a type of politician they haven't seen before: the pro-business populist.

This isn't a contradiction in terms. Populists typically don't define themselves according to economic issues of the left or right, but cultural questions such as national identity and sovereignty. They oppose free trade, immigration, multiculturalism and multilateral arrangements like the euro, all things Davos man (a euphemism for global business elites credited to the late political scientist Samuel Huntington) fervently believes in.

Populist policies are generally not good for growth; some, in the long run, can be disastrous. Yet a populist can more than offset those negatives by also pursuing a conventional pro-business agenda. That combination defines the two leaders bookending Davos this year: Indian Prime Minister Narendra Modi and U.S. President Donald Trump.

The similarities aren't superficially obvious. Mr. Modi opened the conference with a keynote speech that, like Chinese President Xi Jinping a year earlier, took a veiled shot at Mr. Trump: "Protectionism and its forces are rearing their heads." The audience ate it up.

But Mr. Modi's defense of globalization, like Mr. Xi's, is disingenuous. India, like China, is highly protectionist. It took more trade-harmful actions than any other major country save the U.S. between 2008 and last June, according to Global Trade Alert, a trade monitoring group. It has regularly stymied the rest of the world's efforts to deepen international trade pacts.

Mr. Modi's version of populist nationalism long predates Mr. Trump's. Since leading the Bharatiya Janata Party to power in 2014, he has sought to "shift the definition of Indian national identity from the inclusive liberal one established by Mahatma Gandhi and Jawaharlal Nehru to one based on Hinduism," the political scientist Francis Fukuyama notes in an essay commissioned by Credit Suisse for Davos. Like Mr. Trump and Mr. Xi, he has built support by "attacking the existing elite, although they themselves are very much part of that elite."

Yet the attention to their nationalist rhetoric masks the more consequential impact of their economic policies. Mr. Modi is, in fits and starts, tackling India's chronically inefficient and burdensome public services, such as by unifying the sales tax and simplifying how to open and close a business or settle a commercial dispute. The International Monetary Fund projects Indian growth at 7.4% this year, faster than any major economy, including China.

Meanwhile, while Mr. Trump has left or threatened to leave multilateral trade pacts, stepped up trade enforcement and raised barriers to immigration, yet these matter less to business than his rollback of regulations covering a host of activities from greenhouse-gas emissions and internet transmission to overtime pay and bank lending. At a lunch in Davos organized by The Wall Street Journal, Roger Crandall, chairman and chief executive of Massachusetts Mutual Life Insurance Co., enthused, "The change in the regulatory environment in the U.S. is the greatest we've seen in 30 years." Pharmaceutical executives credit the Food and Drug Administration with helping to get new drugs to market faster.

Mr. Trump's tax cut has been panned for increasing the deficit and favoring the rich and corporations. Yet whatever its flaws, it is unambiguously pro-growth: It pares back distortionary tax breaks and lowers tax rates to incentivize work and investment, precisely what economists have prescribed for years.

What will the ultimate economic consequences be? Eventually the boost from reduced tax and regulations will peter out, and the drag from higher trade barriers and less immigration will show. Yet the most important determinant is monetary policy. Historically populists promised favors to their constituents, then forced central banks to finance the resulting deficits by printing money. Venezuela today is a prime example.

Both Mr. Trump and Mr. Modi have so far resisted the temptation. Though they jettisoned highly regarded central bankers, they replaced them with known faces likely to follow much the same policy. Inflation in the U.S. has for years been too low, which explains both low interest rates and high asset prices. Nothing would vindicate Davos anxiety more than the inflation genie escaping the bottle. Right now, though, that's nowhere to be seen -- suggesting this pro-business populist moment has a ways to run.



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THE WALL STREET JOURNAL.
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**Banking & Finance: New ETFs That Invest in Blockchain Technology Are Hot**

By Asjylyn Loder
320 words
25 January 2018
The Wall Street Journal
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B12
English


In the absence of bitcoin exchange-traded funds, investors are snapping up the next best thing.

Investors have poured almost $180 million combined into two week-old ETFs that buy companies that have invested in blockchain, the technology behind the cryptocurrency. They are the first such ETFs to launch and have capitalized on the demand for investments pegged to digital currencies. U.S. regulators have resisted other efforts to create bitcoin-linked products.

Through Tuesday, the Amplify Transformational Data Sharing ETF, an actively managed fund, raised $121 million in its first week on the market, according to research firm FactSet. The Reality Shares **Nasdaq** NexGen Economy ETF has raised $57.9 million.

Through Tuesday, the Amplify ETF is up 6.4% since its inception net of fees, while the Reality Shares fund is up 3%. The **S&P 500** has risen 2.3% in those five trading sessions through Tuesday.

The funds are off to a strong start despite erasing blockchain from their names after a last-minute intervention from the Securities and Exchange Commission. The SEC insisted on the name changes amid a speculative frenzy for anything associated with bitcoin or blockchain.

The Amplify Transformational Data Sharing ETF was going to be called the Amplify Blockchain Leaders ETF until the SEC stepped in. Its Reality Shares competitor had been slated to be called the Reality Shares **Nasdaq** Blockchain Economy ETF.

Last year, the agency rejected proposals for funds that would own bitcoin directly and this month rebuffed several companies who had filed to launch ETFs pegged to new bitcoin futures contracts.

The Amplify and Reality Shares ETFs buy stock in companies that have invested in blockchain, such as online retailer Overstock.com Inc. and chip company Nvidia Corp. and Jack Dorsey's payment-processing firm, Square Inc.



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THE WALL STREET JOURNAL.
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**Strategists Trail Climbing Market**

By Ben Eisen
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25 January 2018
The Wall Street Journal
J
B13
English


The year is less than a month old and already the **stock market** has put in almost a full year's worth of gains.

The **S&P 500** has climbed 6.1% this year to close at 2837.54 on Wednesday.

That is near the average year-end target among Wall Street strategists of about 2850 from around the turn of the year. And it is far above the lowest of the 20 targets, HSBC Holdings PLC's prediction of 2650.

Some analysts are revising their targets higher. Bank of America Merrill Lynch upped its end-of-2018 target to 3000 from 2800 this week, saying in a research note that "sentiment may be most relevant" for stocks this year.

It isn't unheard of for stocks to blow past their year-end targets before the year is out, especially when earnings are increasing briskly and the economy is kicking into a higher gear. In 2017, the **S&P 500** passed the average year-end target at the beginning of March.

But the speed of the rally this year has raised some concerns that stocks are vulnerable to a sudden reversal. The recent surge further increases "the risk of a significant correction," said Adam Slater, lead economist at Oxford Economics, in a note to clients.



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The New York Times

Business Day
**Ford Says It’s a New Era. Wall Street Isn’t Buying It.**

By NEAL E. BOUDETTE
1,034 words
24 January 2018
04:41 PM
NYTimes.com Feed
NYTFEED
English


Eight months after taking over as chief executive of Ford Motor, Jim Hackett is still trying to accomplish one of his most important tasks: convincing Wall Street that he has a compelling plan to reinvigorate the automaker.

Mr. Hackett, 62, a former chief executive of the office-furniture supplier Steelcase, has taken several shots at it. In October, he and the new team of top executives he selected appeared before financial analysts in New York to outline a plan to cut costs — improve Ford’s “fitness,” in Mr. Hackett’s words — and to accelerate development of trucks, electric cars and self-driving vehicles.

He pressed his case further this month before large audiences at the Consumer Electronics Show in Las Vegas and the Detroit auto show.

But so far investors and analysts remain uninspired. The company’s stock is virtually unchanged since late September, while the **Standard & Poor**’**s 500**-**stockindex** has gained 13 percent.

“Ford is basically saying, ‘We have a lot of inefficiencies, and it’s going to take a lot of time to fix,’” said David Whiston, a financial analyst at Morningstar. “I thought a lot of these inefficiencies were taken care of a long time ago. It’s disappointing.”

The latest disappointment arrived on Wednesday, when Ford reported fourth-quarter net income of $2.4 billion, or 60 cents a share. That was an improvement over a loss in the comparable period a year ago, but its adjusted earnings were 39 cents a share, about 4 cents less than analysts expected.

Profit fell in North America as sales slowed in the United States, and the company lost about $200 million in the rest of the world. Sales in China fell 6 percent.

The company forecast a decline in earnings this year, mainly as a result of rising commodity costs and unfavorable exchange rates. Ford also said it would have higher costs related to the introduction of new models — 23 are coming this year globally, compared with 11 in 2017.

“We need to be fitter,” said Ford’s chief financial officer, Robert L. Shanks.

Mr. Shanks told reporters that he didn’t think analysts were unconvinced about Ford’s turnaround plan. “With the exception of Tesla, the market is skeptical about the sector’s ability to be successful in the world that’s ahead of us” he said.

In a conference call, analysts pressed Mr. Hackett to talk about initiatives to improve profitability, but he declined to discuss them in detail, except to say they are “up and running.”

Just a few years ago, Ford was considered the healthiest of the three Detroit automakers, having escaped the government-engineered bankruptcies that engulfed General Motors and Chrysler. With Alan Mulally as chief executive, Ford slimmed down, focused on its Ford and Lincoln brands, and roared to record profits.

After Mr. Mulally retired in 2014 and passed the baton to Mark Fields, however, Ford began to drift as new technologies started reshaping the industry; as new challengers emerged in Tesla, Google and Uber; and as a revived G.M. and a merged Fiat Chrysler Automobiles provided increased competition in the high-margin business of trucks and roomy sport-utility vehicles. Its stock slumped, and Ford directors began wondering if Mr. Fields had the right strategy.

In May, Ford's board ousted Mr. Fields and called on Mr. Hackett, who had previously served on the board and then joined the company to run its activities in autonomous vehicles and related efforts.

Mr. Hackett took three months to dive into Ford's troubles and found that Ford was spending too much time and money developing new vehicles, and that costs for steel, other materials and components were rising. His prescription called for Ford to refocus investments on growing markets like China and highly profitable vehicles like trucks and S.U.V.s, while cutting back on initiatives in less promising areas like Europe and passenger cars.

"We are intensely focusing on fixing the fundamental health of our company," Mr. Hackett said on Wednesday.

To ensure that Ford will be a player down the road, the company is also ramping up plans to introduce 40 electrified vehicles by 2022 and a driverless car for taxi fleets, ride-hailing services and delivery companies by 2021.

At the Detroit show, Ford said it planned to spend $11 billion on electric vehicles by 2022.

But neither the plan nor Mr. Hackett himself has generated much excitement. His appearance in Las Vegas, where Mr. Mulally shined in the past, fell flat. At a conference known for gee-whiz demonstrations of new technologies, Mr. Hackett gave a presentation about how to rethink transportation and cities of the future.

"It was very philosophical," said Mr. Whiston, who was in the audience. "He might be appealing to a nonautomotive audience, but financial analysts want more."

More troubling to Wall Street is that Ford's new strategy is likely to have little immediate impact on its bottom line.

Brian Johnson, a financial analyst at Barclays, wrote in a note to clients issued before Ford reported its fourth-quarter results that "the path ahead in shifting Ford's strategy will be rather long."

G.M. has been ahead of Ford in adding trucks and S.U.V.s to its lineup. At the Detroit show, Ford unveiled a midsize pickup truck, the Ranger. G.M.'s Chevrolet and GMC brands have had midsize trucks for nearly three years.

"There was a really stark contrast between Ford and G.M. presentations" given to financial analysts at the show, Mr. Whiston said. "G.M. was all about optimism, and Ford talked about fitness and efficiency."

* Detroit Auto Show May Be Celebrating an Era About to End

* Ford Chooses a Detroit Base to Take On Silicon Valley

* China Will Lead an Electric Car Future, Ford's Chairman Says

Jim Hackett, Ford's chief executive, at the Detroit auto show this month. He has called for the company to focus more on growing markets like China and to shift production to larger, more profitable vehicles. | Carlos Osorio/Associated Press

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THE WALL STREET JOURNAL.
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**World News: Qatar Says Rivals Meddled in Markets --- Central bank writes to regulators, calling for an investigation into alleged manipulation**

By Bradley Hope
558 words
24 January 2018
The Wall Street Journal
J
A8
English


Qatar alleged that Gulf countries with which it is involved in a political dispute have attacked its currency through "blatant, unlawful market manipulation," according to letters sent by the Qatar Central Bank to global regulators on Monday.

It also accused its rivals, including Saudi Arabia and the United Arab Emirates, of planning to target its bonds and coordinating efforts to pull funds from Qatari banks to create a liquidity shortage, the letters said.

"They have caused damage to **financial markets** world-wide, including in the U.S., where Qatari government bonds are traded over the counter," wrote Daniel Kramer, a lawyer at the New York firm Paul, Weiss, Rifkind, Wharton & Garrison LLP, and other attorneys for Qatar in a letter to the U.S. Securities and Exchange Commission on behalf of the central bank.

"They should be halted immediately, and we ask that the Securities and Exchange Commission to immediately investigate the issues presented." The SEC declined to comment.

The letters -- also sent to regulators in the U.K. and Luxembourg -- pointed to what they called "extremely suspicious movements in the currency markets that are only explained by attempts to manipulate the markets."

Beginning in June 2017, several financial institutions began posting offers to buy and sell Qatari riyals at levels significantly higher than the 3.64 rate Qatar has pegged to the U.S. dollar.

The activity "reinforced the manufactured narrative that Qatar's currency was increasingly **volatile** and its economy was too unstable for investment," the letters said.

The allegations are a sign of the hardening standoff between Qatar and a coalition of Gulf and Middle Eastern states that began last year. The U.A.E. and Saudi Arabia cut ties with Qatar, accusing it of supporting extremist organizations and terrorist groups.

Qatar denies it supports terrorism and has refused demands from its rivals to curb diplomatic relations with Iran, sever ties with the Muslim Brotherhood and shutter the Al Jazeera television network. Multiple mediation efforts have so far failed, leading both sides to dig in for a long battle, said people advising both sides on the matter.

Qatar's financial system is under pressure. Fitch Ratings in August downgraded the country's credit rating to double-A-minus from double-A because of geopolitical risks related to the diplomatic standoff, which it said was "unlikely to be resolved for some time."

Qatar's Central Bank filings show a flood of money out of its financial system after the diplomatic standoff began.

Qatar's Finance Minister Ali Al Emadi told The Wall Street Journal in November that Qatar authorities were investigating the possible manipulation of its currency. "These tactics are not only unethical, but they give misleading information for international investors . . . about how the economy is doing," he said at the time.

Mr. Emadi and the Qatar Central Bank declined to comment on the letters sent Monday.

An adviser to a Gulf country said regional banks were wary. "Financial institutions have most definitely reacted to the increased political and economic risk in Qatar and Qatari-denominated assets, resulting in some distinct market dynamics," the adviser said.

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Summer Said and Nikhil Lohade contributed to this article.



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THE WALL STREET JOURNAL.
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**World Economic Forum: Warning Signs Dent Growth Confidence --- Davos attendees point to geopolitical risks, market complacency and length of recovery**

By Stephen Fidler
531 words
24 January 2018
The Wall Street Journal
J
A7
English


DAVOS, Switzerland -- The world economy is accelerating and the **financial markets** are going gangbusters. But there is an undertone of anxiety among delegates at the annual meeting of the World Economic Forum.

The Davos meeting is famous for failing to anticipate political events: Only a tiny minority of the business, political and academic leaders that attended the forum in recent years foresaw Brexit and the election of Donald Trump. But there is strong awareness this year that geopolitical risks -- including that of a potential conflict with North Korea and a U.S. trade war with China -- aren't adequately reflected in financial-asset prices.

In a reminder of the risks of a trade war, the Trump administration this week levied steep tariffs on imports of solar panels, aimed mainly at China, and washing machines, hitting mainly South Korea.

At an address at the start of the four-day event, India's Prime Minister Narendra Modi called for greater international cooperation on issues such as climate change and cited the rise of protectionism as a threat facing the world. "Many societies and countries are becoming self-focused. Globalization is shrinking," Mr. Modi said.

Geopolitics aren't the only factor driving caution. Even as the International Monetary Fund stepped up its growth projections for this year and next, Maurice Obstfeld, its chief economist, warned here Monday that "the next recession may be closer than we think," describing policy-maker complacency as the "overarching risk." He called on governments to extend the recovery by enacting further economic overhauls and bolstering defenses against financial instability.

His message was echoed by others close to the **financial markets**. "Complacency in the markets is a key risk: Valuations are at unprecedented levels," said Axel Weber, chairman of UBS AG, the Swiss bank, at a lunch Tuesday of The Wall Street Journal's CEO Council.

Andre Bourbonnais, chief executive of PSP Investments, which manages close to $140 billion Canadian dollars (US$112 billion) of Canadian pension-fund assets, said. "Everyone feels, despite the exuberance in the market, that we need to dial down on the risk."

Driving the **financial markets** is a synchronized economic recovery in the U.S., Asia and Europe. "Markets are focused on the business cycle rather than politics," said Michael O'Sullivan, chief investment officer for international wealth management at Credit Suisse.

Economists point out that the U.S. recovery is getting long in the tooth. Europe, meanwhile, has seen its economic momentum recently pick up after its long-delayed emergence from the euro crisis.

"The question is sustainability," said Angel Gurria, secretary-general of the Organization for Economic Cooperation and Development. "It's the difference between a boom and a recovery."

The key to extending the recovery is generating more investment, he said. Growth in investment and international trade is now roughly equal to the speed on overall economic expansion, he said. But to pull along the global economy, as a rule of thumb, trade and investment growth should be double that of the overall economy.



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THE WALL STREET JOURNAL.
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The Property Report
**Market Rally Skips REIT Shares**

By Peter Grant
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24 January 2018
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J
B6
English


While stock investors are loading up like kids in a candy store, shareholders of real-estate investment trusts are more like sad street urchins pressing their faces up against the window.

Last year, while the **S&P 500 index** soared 21.8%, the FTSE Nareit All Equity REITs index rose just 8.7%. So far this year, the S&P is up more than 6%, while the REIT index is down 2.4%.

REIT executives are feeling frustrated.

"We certainly wish we were participating" in the rally, said Brad Case, a senior vice president with the National Association of Real Estate Investment Trusts, or Nareit, the trade association whose members own nearly $3 trillion in property assets.

The poor share performance has triggered a debate in the REIT world about whether the market's shabby treatment is justified. Some analysts point to such explanations as rising interest rates and a swelling development pipeline of new office buildings, apartment complexes and self-storage facilities.

But some REIT proponents say the sector has become collateral damage to the general exuberance on display on Wall Street.

"It's not that people now are looking closely at REITs and saying prospects are poor," Mr. Case said. "They're being entirely diverted. The tech stocks are taking up all of their attention."

In a new report, Nareit points to the similarities between today's market and the 1999 tech bubble, which led to the dot-com bust in 2000. That era was "a time like today when REITs had become 'overlooked and undervalued' as the tech stock bubble inflated relentlessly," last week's Nareit report points out.

If Nareit is right, REITs would be a screaming buy about now, Mr. Case said. In 2000, the REIT index soared 25.9%, far outperforming the S&P, which fell 9%.

But not everyone agrees with Nareit's historical analysis. After all, the tech stocks leading the rally today are large-cap companies like Apple Inc. and Amazon.com Inc. Back in the late 1990s, the dot-com bubble involved startups with absurd valuations that flamed out and disappeared.

"I watched biotech stocks go up 10% to 20% a day," recalls Steve Sakwa, an analyst with Evercore ISI.

Mr. Sakwa points out that companies like Apple are still being analyzed on a "pretty rational" basis. "There are always going to be some things that are bubbly -- like bitcoin," he said. "But it doesn't feel to me quite like the '99-2000 tech bubble."

Regardless of whether the broad market is getting frothy, REITs these days don't have many of the features that investors like. Companies that are in favor are those enjoying more of a clear benefit from faster economic growth. Also, REITs won't benefit from a lower corporate tax rate because, by definition, they don't pay corporate taxes.

"It seems like there's been a broad selloff of defensive-type industries like real estate into other industries that will benefit more from rising rates, tax reform and faster growth in the economy," said Matt Kopsky, a REIT analyst at Edward Jones.

The outcome of the great REIT debate of 2018 will partly come down to the performance of the REITs in terms of occupancy, rents and income. Analysts point out that with a **bull market** in real estate now in its ninth year, headwinds are picking up in the form of new supply and declining rents.

Some sectors are getting hammered. Retail REITs, for example, have lagged behind because of the growing popularity of online shopping. Suburban office buildings have been hurt by the move of many businesses to downtown areas.

But REIT earnings season is starting this week and so far the initial reports are good. Prologis, an industrial REIT, on Tuesday reported that in the fourth quarter earnings were $373 million, up from $345 million during the period in 2016. The company's shares rose 3% to $64.97 on the New York Stock Exchange on Tuesday.



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Heard on the Street
**Central Bank Inaction Is Seen as Shift**

By Richard Barley
275 words
24 January 2018
The Wall Street Journal
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B14
English


[Financial Analysis and Commentary]

The Bank of Japan stuck to its policy guns Tuesday. The European Central Bank is likely to do the same on Thursday. But even a lack of immediate action can't stop market perceptions of shifting.

Government-bond yields have moved higher in 2018. Last year, such rises were generally quickly reversed, often in response to reassuring messages from central bankers.

But nerves have been jangled in January. First, a small tweak to the BOJ's government-bond purchases raised questions about a shift in policy. Then the account of the ECB's December meeting was perceived as more hawkish than the tone struck by President Mario Draghi in his news-conference comments. One concern is that there is a growing gap between crisis-era negative interest rates and asset purchases and a buoyant global economy, and jubilant asset markets. Leaving monetary-policy settings unchanged is providing more and more stimulus.

That leaves a narrow path for central banks to walk. JPMorgan Chase economists now think the ECB will stop bond purchases in September and have moved forward the first rate rise in 2019 to March.

For markets, that means bond yields could remain higher. Crucially, however, equity markets have powered on. The **S&P 500** sports a total return above 6% this year while U.S. Treasurys are down 1.2%.

Ultimately, higher bond yields would be a sign of success for central banks. But equally, they signal a fresh test, raising questions about just how long policy can stay so loose.



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THE WALL STREET JOURNAL.
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**World Economic Forum: IMF Cautions Global Boom Is Too Reliant on Easy Money**

By Greg Ip
436 words
24 January 2018
The Wall Street Journal
J
A7
English


DAVOS, Switzerland -- The world is enjoying its broadest, strongest growth in years, and everyone has an explanation, from the U.S. tax cut to the recovery in **oil prices**.

But for the International Monetary Fund, the answer is simple and disturbing: easy monetary policy.

In its outlook for the global economy released in Davos on Monday, the IMF credited the slow pace of interest-rate increase in the U.S. and the still-large balance sheet of the European Central Bank for why it believes growth rose 3.7% in 2017, its strongest gain since 2011, and will rise 3.9% this year. Both are up slightly from projections released in October.

Coupled with the booming **stock market**, that growth has produced head scratching among the business and political leaders gathered here, preoccupied by risks ranging from populism to climate change.

"It is a puzzle," said IMF chief economist Maury Obstfeld. The tax cut explains nearly all of the upgrade in the U.S. growth projection this year to 2.7% from 2.3%, and smaller amounts for the U.S.'s trade partners, thus less than half of the world's upward revisions.

The tax cut explains some of the **stock market**'s run-up. But Mr. Obstfeld notes, "Stock markets are booming in a lot of countries that have not had tax cuts." Moreover, the regions with the most striking upgrades to their growth outlooks were Europe and Asia, not the U.S.

This leads him to attribute the pickup to central banks' still-highly stimulative monetary policy. This seems odd given that the Federal Reserve has been raising interest rates and several other central banks are preparing to do so. But the fact bond yields had been so low until recently suggests the pace of tightening has still been historically modest.

One result is extremely high valuations for stocks. At a low enough interest rate, almost any valuation can be justified.

But, Mr. Obstfeld noted, that makes the market acutely vulnerable to a shift in perception about rates that would hurt valuations. And, he added in a related blog post, the current upturn "is unlikely to become a 'new normal.'"

Markets, he said in an interview, "are excessively sure that central banks can solve every problem, and they can't, and they've been telling us they can't. We need fiscal policy,and governments are so indebted now the fiscal space they have is much more limited than a decade ago."



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THE WALL STREET JOURNAL.
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**Banking & Finance: Platform Aims to Ease Cryptocurrency Trade**

By Laurence Fletcher
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B7
English


A former Goldman Sachs Group Inc. banker plans to launch a digital currency platform that will make it easier for investors to bet against a cryptocurrency, the latest step in potentially bringing the nascent market closer to the financial mainstream.

Alex Grebnev, who worked at Goldman Sachs for almost a decade in various roles in equities and derivatives structuring before joining Merrill Lynch, is working with an existing cryptocurrency exchange called Changelly.

He plans to launch a platform for digital currencies later this year that will allow private or institutional investors to strike repurchase agreements, or repos, with one another.

The platform, called Oxygen, will let investors earn money by lending out cryptocurrencies. In return, they get another cryptocurrency, which they agree to take as collateral until the original currency is returned. It will charge a fee for transactions and will target Changelly's existing 1.6 million clients and other cryptocurrency holders.

"We are at the very beginning of the journey, but the journey is happening very fast," said Mr. Grebnev of the development of cryptocurrencies as an asset class.

Mr. Grebnev predicts the platform will stabilize the cost of borrowing cryptocurrencies, whose **volatile** fluctuations -- ranging from a few percentage points annually to perhaps 100% or more -- can deter investors who want to wager on falling prices, known as a short bet.

For example, using a tactic common among hedge funds, an investor can borrow and then sell the cryptocurrency, hoping to buy it back later at a lower price and pocket the difference. Meanwhile, they are betting the cryptocurrency they handed over as collateral doesn't fall by as much as the one they borrowed.

Mr. Grebnev expects the cryptocurrency repo agreements to be struck for periods ranging from hours to a year or two.



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THE WALL STREET JOURNAL.
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**How to Invest in an Overpriced World**

By Burton G. Malkiel
937 words
23 January 2018
The Wall Street Journal
J
A17
English


What should an investor do when all asset classes appear overpriced? The 10-year U.S. Treasury bond currently yields about 2.6%, much lower than the 5% historical average and only slightly higher than the Federal Reserve's 2% inflation target. Yields of lower-quality bonds are unusually meager compared with those of traditionally safe Treasurys.

For equities, the cycle-adjusted price/earnings ratio, or CAPE -- the valuation metric that does the best job in predicting future 10-year rates of return -- is about 34. That's one of the highest valuations ever, exceeded only by the readings in 1929 and early 2000, prior to crashes. Today's CAPE suggests that the 10-year equity rate of return will be barely positive.

Investors have reason to worry, but they need to be aware of two basic facts. First, no valuation metric can dependably forecast the future. CAPEs were unusually high in the mid-1990s, and Alan Greenspan gave his famous "irrational exuberance" speech in late 1996. An investor who bought equities then and held on would have enjoyed a generous 8.5% annual return despite the punishing **bear market** of the early 2000s. CAPEs were close to 30 at the start of 2017, prompting many market gurus to say stocks were overvalued. The **S&P 500 index** returned 19% in 2017.

A corollary is that no one can consistently time the market. Proper market-timing involves making two decisions -- when to get out and when to get back in. Timing both correctly is virtually impossible. As Jack Bogle, founder of the Vanguard Group, has written, "After nearly 50 years in this business, I do not know of anybody who has [timed the market] successfully and consistently. I don't even know of anybody who knows anybody who has done it successfully and consistently." Investors who try to outsmart the market more often get it wrong than right.

What, then, can an investor do to control risk? The two strategies that work are broad diversification and rebalancing.

Broad diversification is rightly known as "the only free lunch" offered by **financial markets**. By holding a wide variety of asset classes, investors have historically enjoyed smoother gains during bull markets and gentler losses during bear markets. In a diversified portfolio, declines in stocks are often partially offset by stability in fixed-income markets. Real estate equities, available through real estate investment trusts, or REITs, have also tended to stabilize portfolio returns.

Most investors fail to realize the benefits of broad international diversification. The world is currently enjoying a synchronized expansion, but economic conditions and stock performance are not perfectly correlated across nations. Internationally diversified portfolios tend to see less **volatile** returns over time and better risk-adjusted performance.

Most stock investors suffer from a "home country" bias. They concentrate their holdings in domestic equities. While U.S. companies do business all over the world, many leading companies are based abroad. The U.S. accounts for well under half of the world's economic activity. Much of the world -- particularly emerging markets, with their younger populations -- is growing faster than the American economy.

Another reason to consider greater international diversification is that foreign stocks are more attractively valued. The CAPE ratio for emerging-market stocks is less than half the equivalent valuation in the U.S. The emerging-market CAPE is still below its historical averages, despite 2017's superior market performance. All investors should hold at least 10% of their stocks in emerging-market equities, and allocations up to 25% would not be imprudent today.

A final technique to control risk is rebalancing. It's a good idea to examine your portfolio periodically to ensure your asset allocation has not strayed far from your desired levels. If the strong U.S. **stock-market** performance over the past year lifted the proportion of domestic stocks in your portfolio to levels that are riskier than desired, it would be appropriate to reduce your equity share. Often capital-gains taxes can be avoided by directing new cash investments (including dividends and interest payments) into asset classes whose portfolio shares have declined.

In general, staying the course in a broadly diversified portfolio is the best strategy when all asset classes appear overpriced. If rebalancing is required to constrain portfolio risk, consider REITs and preferred stock. Good-quality preferred stocks yield about 5%, and many have yields that float with interest rates, so that they offer some protection if rates rise in the future. Mid-single-digit returns may seem unattractive relative to recent asset returns, but with valuations at current levels, low-single-digit returns could end up looking good.

Perhaps the best advice for investors is to examine your costs. If you are paying an investment adviser 1% and your mutual funds have a 1% annual expense ratio, then fees will eat up a large part of that low-single-digit return. The one thing I'm certain of is that minimizing costs is a winning strategy. The less I pay to the purveyor of an investment service, the more there will be for me. Thus I continue to recommend passive index funds and exchange-traded funds, now available at virtually zero expense ratios, as the best investment vehicles for all investors.

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Mr. Malkiel is author of "A Random Walk Down Wall Street" and chief investment officer of Wealthfront.

(See related letter: "Letters to the Editor: Here's a Way to Limit Costs And Losses in a **Bear Market**" -- WSJ Feb. 5, 2018)



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The New York Times

U.S.; Politics
**Senate Confirms Jerome H. Powell as Fed Chairman**

By BINYAMIN APPELBAUM
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WASHINGTON — Jerome H. Powell sailed to Senate confirmation on Tuesday to become the 16th chairman of the Federal Reserve with a final vote of 84 to 13. He will replace the outgoing Fed chairwoman, Janet L. Yellen, on Feb. 3.

Mr. Powell is a moderate Republican who has served on the Fed's board since 2012 and voted in favor of every policy decision during that period. He emphasized during his confirmation hearing that he was not planning to push for sharp changes in monetary or regulatory policy.

He will take the helm of the central bank during a period of relative economic tranquillity, in the ninth year of one of the longest uninterrupted expansions in American history. He has said he plans to continue the Fed's gradual retreat from its postcrisis stimulus campaign and is expected to continue its slow but steady pace in raising interest rates.

Mr. Powell will also take the helm as the Trump administration considers rolling back many of the rules imposed on the financial industry in the wake of the 2008 crisis. Mr. Powell has said he supports keeping many of those regulations in place but thinks some could be loosened or improved.

Mr. Powell, 64, will become the first Fed chairman since the late 1970s who does not hold a degree in economics, but he is deeply versed in finance and public policy. He spent years as an investment banker and private equity investor and also worked in the Treasury Department under President George H.W. Bush.

He won confirmation by a much wider margin than Ms. Yellen did four years ago, as most Democrats embraced Mr. Trump's selection. Senator Sherrod Brown, Democrat of Ohio and the ranking member of the Senate Banking Committee, endorsed Mr. Powell on the Senate floor Tuesday.

"His track record over the past six years shows he is a thoughtful policymaker," Mr. Brown said.

Among those voting in opposition were several Democrats considering presidential bids in 2020, and several Republicans who have long opposed the Fed's stimulus campaign. Senator Dianne Feinstein, Democrat of California, initially voted for Mr. Powell's confirmation but later changed her vote to no, explaining that she had meant to vote against confirmation.

The bipartisan support for Mr. Powell was a sharp break from another Fed hearing earlier on Tuesday, when Mr. Brown and other Democrats questioned the qualifications of Marvin Goodfriend, a conservative economist nominated by Mr. Trump for a seat on the Fed's board.

Mr. Goodfriend repeatedly predicted after the 2008 financial crisis that the Fed's actions were about to unleash higher inflation. That did not happen. Inflation has consistently remained below 2 percent.

At a confirmation hearing Tuesday, Mr. Goodfriend was flustered by questions about his predictions. He conceded that some had been wrong, but defended others and declined to explain his thinking.

Senator Elizabeth Warren, Democrat of Massachusetts, said, "I think based on the kind of judgment you have demonstrated, American families are very lucky that you weren't on the Fed board over the last several years." She added that she hoped Mr. Goodfriend would not be confirmed to the Fed job.

The rocky performance is unlikely to hurt Mr. Goodfriend's confirmation prospects, as Republicans do not require Democratic support.

Mr. Goodfriend, 67, is a professor of economics at Carnegie Mellon University. He also spent 25 years as an economist and monetary policy adviser at the Federal Reserve Bank of Richmond, Va. He is widely regarded as a leading exponent of the conservative view that the Fed should focus on controlling inflation using a minimal set of tools, thus limiting its interference with **financial markets**.

After the crisis, Mr. Goodfriend repeatedly criticized the Fed's stimulus campaign as likely to generate inflation rather than economic revival. He told Bloomberg in 2012 it was "really doubtful" the Fed could reduce unemployment, which was then hovering above 8 percent, to 7 percent. Furthermore, he said, even if the Fed succeeded in doing so, "it would give rise to rising inflation in the next few years, which would be disastrous for the economy."

The unemployment rate has fallen consistently over the past several years, hitting 4.1 percent in December, while inflation has remained sluggish.

Senator Mike Crapo, Republican of Idaho, said Mr. Goodfriend was "well qualified." As a member of the Fed's board, Mr. Goodfriend would hold a vote on the Fed's monetary policymaking committee, and he would participate in decisions about regulatory policy.

Democrats took a different view, reading some of Mr. Goodfriend's old statements into the record.

"Why were you so wrong so many times?" Mr. Brown asked.

Mr. Goodfriend responded that the Fed needed to prioritize low inflation.

He said he was committed to the Fed's "dual mandate" of maximizing employment and stabilizing inflation, but added the best way to maximize employment was to stabilize inflation. In recent years, under Ms. Yellen and her predecessor, Ben S. Bernanke, the Fed has sought to maximize employment by stimulating economic growth, and not only by maintaining stable rates of inflation.

Mr. Goodfriend has continued to criticize the Fed in recent years. In March, he told a House committee that the Fed's benchmark interest rate was "too low," and he endorsed the adoption of a monetary policy rule that would limit the role of human judgment in raising and reducing interest rates.

On Tuesday, Mr. Goodfriend said he remained in favor of a policy rule, but he was less critical of current Fed policy, which he described as being "more or less on the right path going forward."

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

* Trump Nominates Conservative Economist for Fed Board

* Democrats Add Momentum to G.O.P. Push to Loosen Banking Rules

Marvin Goodfriend, President Trump's nominee for the Federal Reserve board, was asked why he incorrectly predicted higher inflation after the 2008 financial crisis, but he did not explain his reasoning. | Jacquelyn Martin/Associated Press

Document NYTFEED020180123ee1n007hh

THE WALL STREET JOURNAL.
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**World Economic Forum: Outlook 2018 (A Special Report) --- Nations Are in Rare Economic Harmony: The world's biggest economies are all growing -- setting the stage for more growth**

By Josh Zumbrun
916 words
23 January 2018
The Wall Street Journal
J
R3
English


The International Monetary Fund estimates that the world's seven biggest economies -- the U.S., China, Germany, Japan, France, the U.K. and India -- each grew more than 1.5% in 2017. That kind of synchronicity is uncommon, and it might set the world economy up for more solid growth in 2018.

It might sound surprising because it has been nearly a decade since the world's economy began growing again following the global financial crisis. But rather than petering out -- or succumbing to forces of protectionism and nationalism, as many had feared a year ago -- economies around the world gained strength in 2017 and appear poised to strengthen a bit further.

Economic data for 2018 already shows some of that strength. The JPMorgan Chase and IHS Markit global purchasing managers index this month was the strongest it has been in nearly seven years. Official industrial production gauges are also near their strongest levels since early 2011, showing a global economy that's getting a second wind.

"Global manufacturing output is booming," says David Hensley, director of Global Economic Coordination at JPMorgan. "The acceleration in output has been very broad-based by region and sector, powered by impressive gains in global retail sales and capital expenditures."

The phenomenon of globally synchronized economic growth became apparent in 2017 when a number of large commodity-producing nations emerged from recessions caused largely by the collapse of **oil prices**. As commodity prices bottomed out, those nations found their footing.

Moreover, no major economies stumbled into recession in 2017, leading to the remarkable situation where all 45 major economies tracked by the Organization for Economic Cooperation and Development were growing at the same time, for the first time since the global financial crisis.

U.S. growth was stronger in 2017 than in 2016, and record levels reached by U.S. equity indexes suggest a bright future to investors. Forecasters in The Wall Street Journal's monthly survey of economists place just a 13% chance on a recession occurring in the next year, the lowest estimate since mid-2015 when U.S. consumers were benefiting from lower **oil prices**.

Global equity indexes have roared upward in the past year. The Global Dow Index, which tracks 150 of the world's leading companies, was up 26% over a one-year period through Jan. 19, while the **Dow Jones Industrial Average** of 30 U.S. blue chips was up 31%.

But despite U.S. market strength, the biggest surprise in recent months for growth has been the eurozone, which appears to have surpassed the growth rate of the U.S. last year, although final numbers have not yet been released. The OECD estimates that the eurozone grew 2.4% in 2017, compared with 2.2% growth for the U.S. in the same period.

While the numbers are not huge in historical terms, their stability is mutually reinforcing.

"The U.S. expanding causes European exports to strengthen, causes their economy to strengthen, which feeds back and leads to higher demand for our exports," said Jay Bryson, global economist for Wells Fargo Securities. "For the U.S. that effect is relatively small, but for other countries, those feedbacks on a global basis can be very, very important."

Indeed, synchronized economic expansions, like the one we're in now, tend to be self-reinforcing. And they can carry on for extended periods.

According to the IMF's latest estimate, among 176 countries for which it gathers data, 150 managed to increase their exports last year. That means more than 85% of the world's nations increased their exporting last year, the highest share of nations on record.

The previous times all the world's economies got in sync tended to last for several years. From 2004 to 2007, all the world's major economies were growing; that was also the case for several years in the late 1980s. Of course those booms ended -- and badly in the 2000s -- but not before posting a series of strong years globally. The global economy grew at about 4% a year from 1984 to 1989 and again from 2004 to 2007.

"Assuming the geopolitics don't turn nasty, I would think the expansion probably continues" for at least a couple more years, Mr. Bryson says.

An extended period of synchronized growth helps, but it won't solve all the world's economic challenges. In addition to geopolitical risks, such as trade wars, actual wars and a turn toward more nationalist policies, many governments around the world are carrying unprecedented debt burdens. Aging populations and slowing productivity growth have raised questions about whether the world's nations have the potential to grow all that much faster.

From 2012 to 2016 the global economy grew only about 2.5% a year, according to World Bank data. That pace rose to 3% in 2017 and is expected to climb a bit further in 2018, reaching the highest level in seven years.

"When you have a global recession, you can't export your way out," says Ayhan Kose, director of the World Bank's division that produces economic forecasts. By contrast, a country that started to stumble now could turn to nearly any trading partner for a boost. "This creates its own momentum, feeding its own cycle."



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THE WALL STREET JOURNAL.
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**At 25, the ETF Has Become a Behemoth --- A democratizing force with growing pains, the product last year drew $466 billion in the U.S.**

By Asjylyn Loder
825 words
23 January 2018
The Wall Street Journal
J
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English


The first exchange-traded fund was born 25 years ago this week, enabling investors for the first time to buy or sell the **S&P 500 index** in a single publicly traded share. Over the years since then, ETFs have come to dominate the financial landscape.

Today, there are almost 7,200 exchange-traded products world-wide with $4.8 trillion in assets, according to London-based research firm ETFGI.

Growth is accelerating as investors forsake active money managers in favor of passive, index-tracking funds. Last year, U.S. ETFs raked in a record net of $466 billion, a 61% increase over the 2016 inflow, according to Morningstar Inc.

Originally conceived as a trading tool for sophisticated institutional investors, ETFs have evolved into a democratizing force, lowering costs and giving retail investors access to trading strategies that once were available only to professionals.

The fast-growing market has also been blamed for inflating asset prices and exacerbating price swings in markets ranging from gold mining stocks to oil futures. ETFs notoriously contributed to haywire trading on Aug. 24, 2015, when mismatches between ETF prices and their underlying stocks snarled markets for hours.

"I tend to think the good has outweighed the bad, but there's no question that there have been growing pains in the ETF market," said Christian Magoon, an industry veteran and chief executive officer of Amplify ETFs.

The money invested in mutual funds still dwarfs ETFs. There was $14.7 trillion of assets in U.S. mutual funds at the end of 2017, excluding money-market funds and fund of funds, compared with $3.42 trillion in U.S. ETFs, according to Morningstar.

The first ETF, originally named the Standard & Poor's Depository Receipts Trust and nicknamed SPDR or "spider," gave investors easy access to the broad market by packaging all stocks in the **S&P 500** into a single share.

While similar to index mutual funds, ETFs offer three important advantages: They can be traded all day long, buy-and-hold investors don't bear the cost of taxable gains generated when other investors sell, and ETFs don't have the kind of sales commissions that raised the cost of many mutual funds.

The SPDR **S&P 500** ETF Trust, best known by its ticker SPY, is now a $283 billion behemoth, and broadly diversified **stock-index** funds still dominate the market.

As newcomers scramble to set themselves apart, the market has expanded into commodities futures, options strategies and financial derivatives such as the Cboe **Volatility** Index, a measure of the speed and severity of price moves in the **S&P 500**.

In addition, there are funds that use leverage to amplify gains and losses, and funds that seek to profit from price declines.

The results of all that innovation have been mixed for investors.

In 2012, regulators fined several brokerage firms for pitching leveraged ETFs to investors who didn't understand the risks.

Some of the most popular recent launches include an ETF that buys marijuana stocks and two funds that invest in companies involved with blockchain, the technology behind digital currencies such as bitcoin.

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A Dinner Changed

The Investing World

As the first U.S. exchange-traded fund was being launched, the fund's backers gathered for a casual dinner at the American Stock Exchange's headquarters. Ivers Riley, an exchange executive, made opening remarks to the small crowd.

Leadership from Amex and its partners at trading firm Spear Leeds & Kellogg LP and custodial bank State Street Corp. hoped that selling the SPDR **S&P 500** ETF would help vault the Amex back into the center of rapidly changing global **financial markets**. But few viewed the fund, known as the Spider, as a sure thing, and fewer still forecast that such products would transform the investing world. "No one had the vision of this," said Jim Ross, chairman of State Street's global SPDR business.

The dinner was the culmination ofyears of creative ferment. Nathan Most and Steven Bloom, who worked on new-product development at the Amex, are typically credited with piecing together the idea for an ETF. Mr. Riley, who died in 2015, was also the driving force behind the product. They started thinking about the concept in the wake of the 1987 market crash and spent months tinkering with the product's structure and recruiting the service providers to support it. Mr. Most died in 2004. Mr. Bloom couldn't be reached for comment.

Joe Stefanelli, who was in charge of marketing and sales for derivatives products at the Amex and who retired from the Amex in 2002, says: "Not one of us expected [the Spider] to grow to the magnitude that it has."

-- Ben Eisen and Sarah Krouse



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THE WALL STREET JOURNAL.
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**World Economic Forum: Outlook 2018 (A Special Report) --- For CEOs, Strong Growth -- and Turmoil**

By Sharon Terlep
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R4
English


After a decade of slow growth, corporate chieftains have good reason to feel buoyant.

In the U.S., the economy grew 3% in the third quarter and Federal Reserve officials in December increased their forecast for 2018 growth to 2.5%, up from 2.1% in September. Bulls on Wall Street boosted the market cap for **S&P 500** companies last year by 18%, unemployment stood at a 17-year low, and a big tax cut and regulatory rollbacks portend more gains.

Europe, meanwhile, is also bouncing back after an all-but-lost decade. Asia's continued growth makes it a rare moment -- after the extended hangover of the downturn -- when the world's major economies are all pointing up.

Yet plenty of anxiety lingers -- also with good reason. CEOs continue to grapple with the ever-accelerating pace of technology change. Meanwhile, they face growing pressure from investors and boards, and greater scrutiny from customers and even their own employees in the age of social media. Consumer habits and tastes continue to shift drastically. While a GOP-led Washington has been generally more favorable to business, political turmoil, and the risks it brings, has only increased, at times drawing executives into debates they'd just as soon avoid.

"In my 37 years at General Motors, the amount of technology is changing more than ever," Chief Executive Mary Barra says, discussing GM's efforts to bring to market fully electric vehicles and cars that drive themselves. "We've made cultural changes, we've changed where we do business, we're developing transformative technologies," says Ms. Barra.

Whether it's GM trying to take the shape of a tech company, General Electric Co. considering a breakup, or PepsiCo Inc. struggling to sell soda, corporate mainstays are trying to right themselves after becoming vulnerable to market forces they once ably navigated. CEOs are overhauling business models, forging unexpected alliances and giving concessions to activist shareholders who criticize how their companies are being run.

CVS Health Corp., the largest U.S. drugstore chain, will spend much of this year trying to cement its acquisition of insurance giant Aetna Inc., a deal that creates an almost unprecedented health-care enterprise. Procter & Gamble Co., the maker of Tide and Pampers, has said it will admit activist investor Nelson Peltz to the board in March after spending at least $60 million trying to stop him and his strategy for overhauling the company. P&G agreed to add Mr. Peltz to the board after winning a shareholder vote by a historically narrow margin.

AT&T Inc. and Time Warner Inc. are prepared to fight at least until June a Justice Department lawsuit trying to stop a merger that would turn the phone company into a media giant. Big food companies, meanwhile, continue to grapple with dramatic shifts in what people eat and where they shop, as retailers scramble to reinvent a business model decimated by Amazon.com Inc.

"Some say that it's more change in the last three years than in the last 10 or 20 years," Home Depot CEO Craig Menear says of the changing retail landscape and his company's plans to upend an online-sales strategy laid out just five years ago. "It's imperative that we address these evolving needs with increased speed," says Mr. Menear.

Kurt Simon, JPMorgan Chase & Co. global chairman of mergers and acquisitions, worked on deals last year including Walt Disney Co.'s agreement to acquire most of 21st Century Fox Inc. for $52 billion. "How and who companies compete with are rapidly changing in a number of industries due to technology and the emergence of disruptive new entrants," Mr. Simon says. "For incumbents, you have the opportunity to either be disrupted or go on the offensive."

No longer is size synonymous with growth and profitability. Some of the world's biggest corporations are hemmed in by their own size, incapable of moving quickly enough to adapt to fast-changing markets and consumer tastes. GE, which last year saw its shares drop by one-third amid a reset of long-term financial projections, embodies the dilemma. The industrial giant is refocusing on three core business lines -- the aviation, power and health-care divisions -- while exiting most of its other business. CEO John Flannery, who took over last summer, this month said that GE is evaluating carving out its major divisions into separately traded units.

About 40% of companies in the **S&P 500** are becoming less profitable as they grow, says Stephen Wilson, managing partner of advisory firm Wilson Perumal & Co., whose analysis measured revenue growth and operating income at the top companies. A company whose operating income grew more slowly than its revenue, according to the analysis, experienced so-called diseconomies of scale, as opposed to leveraging desirable economies of scale.

"In the industrial age, the biggest company was the most competitive," Mr. Wilson says. "Today, companies are trying to get bigger to get economies of scale, but to get bigger they are becoming more fractured, and that means less economies of scale. Companies are realizing that they can't just add new products and grow, that they can't just go into more countries and grow."

Adding to all of this turbulence, companies are increasingly transparent, giving investors and consumers greater ability to look under the hood and compare operations, even as new technologies continue to transform such economic fundamentals as how people get around and shop.

This changing business landscape in turn is altering the nature of how companies produce goods and deliver services, and is affecting everything from human-resources departments to the supply chain.

A need for radical action will likely lead to more deals that cross industry lines, like the CVS-Aetna deal or Amazon's $13.7 billion deal in June to acquire Whole Foods Market Inc.

"Earlier rounds of M&A were simply competitors buying each other and getting the synergies out of a deal," says Frank Aquila, a partner at law firm Sullivan & Cromwell LLP. "While that's still an important part of M&A, we're going to see many more combinations going forward that may not be what people expect."

Despite a recognition that change -- often radical change -- is needed, perhaps the trickiest part will be where to be radical and where to be more cautious.

"The hardest thing for chief executives is to figure out where to make changes and how radical to be in different parts of the business," says Andy Eversbusch, a managing director at consulting firm AlixPartners LLP. Ideally, Mr. Eversbusch says, a company can pull off a "healthy turnaround" in which it overhauls itself before crisis strikes.

"The leaders that I see who are very good at this," he says, "are ones who routinely invest themselves in questioning every aspect of their business."



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**World Economic Forum: Outlook 2018 (A Special Report): Streetwise --- After Years of Investing Magic, What's Next**

By James Mackintosh
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23 January 2018
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English


The perfect investment is one that only goes up. Almost as good is an investment that does well when the rest of your portfolio hits a rough patch, but over time still makes money.

Such a perfect investment shouldn't exist. Yet, for the past two decades, government bonds have offered exactly this free insurance, moving in the opposite direction of shares in the short run but producing gains almost as good as equities in the long run.

The scale of the magic is stunning: From the start of 2000 to the end of last year, holding the latest **10-year Treasury** and reinvesting coupons returned 155%, the **S&P 500** with dividends 158%, while a 60-40 equity-bond portfolio beat both.

But the magic can't continue forever. If the link between equity and **bond prices** were to return to what once counted as normal, the magic disappears -- and there are good reasons to fear that could happen soon.

The danger is that bond yields rise without any corresponding strength in the real economy to protect profits and stock prices. The two most obvious causes would be the return of inflation or a shift of stance by the Federal Reserve to stop protecting investors from losses.

Both of those possibilities are worth worrying about.

Start with how shares and bonds behave. Prices of the two biggest asset classes have tended to move in opposite directions since the late 1990s, measured as a strong negative correlation.

This pattern is so well-established it seems like the natural order of things. But since the start of the 19th century, there has been only one other significant period where stocks and bonds behaved this way, according to Ian Harnett of Absolute Strategy Research. The late 1950s and early 1960s had a similar stock-bond relationship to the past few years, and were also the last time inflation was quiescent.

The stock-bond link is complex, but depends to a large extent on inflation, uncertainty about inflation and more recently the central bank.

When investors are confident that inflation is under control, they focus instead on the real economy, and economic news pushes bonds and equities in different directions. A strong economy generally means bond yields rise (and so **bond prices** fall) in anticipation of higher inflation and higher interest rates, while share prices rise in anticipation of higher profits. When there are fears of slowing growth, investors dump stocks and buy bonds.

Fear of inflation alone usually has the same upward effect on bond yields (and so downward effect on **bond prices**) as economic growth. But inflation doesn't help corporate profits much, while higher yields mean a higher discount rate applied to future profits, which -- in theory at least -- should push down stock prices.

It's too soon to be sure that inflation is awake again after lying dormant for a decade, but there are signs that the tight U.S. jobs market is leading to higher wages. Technological advances such as online shopping still weigh on prices, but with little spare capacity, inflation should pick up. If investors switch focus from the economy to inflation, the nightmare would be higher bond yields and lower share prices.

Inflation itself isn't the only concern. Alongside low inflation has come a belief that inflation has been conquered. The extra yield on Treasurys that investors demand to compensate them for inflation uncertainty, known as the term premium, is extremely low.

Inflation options are pricing the lowest chance of inflation being badly behaved over the next five years -- that is, inflation being above 3% or below 1% -- since at least 2009, according to Minneapolis Fed calculations.

It's hard to see how investors could be much less concerned about inflation, so the risk is that anxiety returns, bringing with it higher bond yields and arriving with enough force to pummel share prices.

The final risk is the Fed. Almost everyone thinks that the Fed's multitrillion-dollar bond purchases succeeded in lowering yields and pushing up stock prices. Quantitative easing has only just been put into reverse, and the Fed's $4 trillion balance sheet ended last year only $3 billion smaller than it started.

As the balance sheet shrinks this year, the effects the Fed had on stocks and bonds should also go into reverse, creating upward pressure on bond yields and downward pressure on stock prices.

Worse would be if the Fed's new leadership decided that investors have had it too easy. The late-1990s switch in the stock-bond relationship came as investors realized the Fed would bail out the market with rate cuts in bad times, while letting the good times roll. This asymmetric "Greenspan put" has continued, and will probably become the "Powell put" when Jerome Powell takes over this year. However, if Mr. Powell wanted to take a hawkish tone, he could make clear that the Fed will no longer mollycoddle the markets.

None of these dangers is sure to materialize in 2018. Inflation can stay low for longer. The economy can improve even further. The Fed can keep feeding its friends on Wall Street. Or correlations might be overwhelmed by a new market mania; after all, the **S&P 500** managed a near-20% gain in 2017 even as bond yields ended the year where they began. But high on the list of things to worry about is that higher bond yields will finally arrive in 2018, and bring with them not even more new **stock-market** highs but a correlation crisis.



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THE WALL STREET JOURNAL.
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**World Economic Forum: Outlook 2018 (A Special Report) --- As Easy Money Ends, Uncertainty Rises: Strong economic indicators allow officials to pull back from stimulus policies of recent years**

By Tom Fairless
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R6
English


The tide of easy money that lifted advanced economies out of recession will recede in earnest in 2018, opening a new phase in the global economic expansion.

From Frankfurt to Tokyo, central-bank officials are seizing on stronger economic indicators, including tentative signs of higher inflation, to signal an exit from stimulus policies that were rolled out after the financial crisis. Asset purchases by the four major central banks -- the Federal Reserve, European Central Bank, Bank of Japan and Bank of England -- will shrink by more than 70% by the end of 2018, to around $50 billion a month, after peaking at $182 billion in March 2017, according to Deutsche Bank. And some banks are planning or signaling possible interest-rate increases this year.

The coordinated retreat by some of the biggest buyers in global **financial markets** raises the prospect of increased **volatility** and a possible correction in asset prices. Adding to the uncertainty, the generation of central bankers who handled the crisis is stepping aside, and it's unclear if their successors will share their desire to continue with aggressive monetary stimulus to support global growth.

Some central-bank officials worry that investors are failing to price in the new policy course, and may get hit hard. Meanwhile, there may be tougher times ahead for business and consumers, who are currently benefiting from ultralow borrowing costs.

"It is indeed surprising that long-term interest rates are now lower than they were in the summer, although growth has surprised very positively and growth and inflation forecasts have been adjusted upwards," Yves Mersch, a member of the ECB's six-member executive board, told German reporters in an interview published on the ECB's website in late December. "It doesn't really follow."

The reversal from major central banks comes as economic growth accelerates and inflation starts to approach targets after years of staying below projections.

Growth accelerated in about three-quarters of all countries last year, the highest share since 2010, the International Monetary Fund said in December. In the U.S., growth recently hit a three-year high of 3.3%, while the Fed's preferred inflation measure climbed 1.5% on the year in November, up from a 1.4% rate over the previous two months.

Higher U.S. inflation is a key risk for stock markets, because the Fed would likely raise rates more quickly than expected to cool the economy. Outgoing Fed Chairwoman Janet Yellen has suggested that the period of weak inflation is likely to prove temporary.

The Fed has projected another trio of quarter-point rate rises this year and two more in 2019, but some investors think it might act more aggressively given strong growth and the likely economic boost from recent tax cuts.

In the eurozone, the ECB signaled on Jan. 11 it might move sooner than expected to phase out its giant bond-buying program, surprising investors and sending the euro higher. The change of course comes amid a rebound in the eurozone economy, where business and consumer confidence are at their highest levels in more than 17 years. Average inflation, at 1.4% in December, remains too weak for the ECB to raise rates, but it is expected to edge up over the coming months and recently hit a five-year high in Germany.

German 10-year government-bond yields have started to edge up since mid-December, a possible harbinger of higher market interest rates.

In the U.K., the Bank of England raised rates in November for the first time in 10 years in response to higher inflation, and officials have signaled more rate increases could be coming.

In Japan, too, inflation is edging up. Core consumer prices, excluding **volatile** fresh-food prices, rose 0.9% in November from a year earlier, up from 0.8% in October. Bank of Japan Governor Haruhiko Kuroda has said he expects companies will soon start passing the higher labor costs that stem from worker shortages on to consumers.

While major central banks have done all they could to push up consumer-price growth, which has lingered below target in recent years, a sudden increase in inflation would force them to change course, which could prove destabilizing for **financial markets** and the world economy.

"What is unthinkable today is [higher] inflation [in the U.S. and Europe], that's what scares me the most," says one top ECB official. "Markets would react incredibly."

Another concern is the debt market. In response to record-low bond yields, global debt issuance by companies and governments reached a high in 2017, with U.S. and European companies particularly active.

But on the demand side, purchases by the ECB under its giant bond-buying program fell by half this month, and that flow of money could dry up entirely by October. Meanwhile, the Fed is gradually reducing its $4.5 trillion balance sheet, and the Bank of Japan has slowed its asset purchases and is hinting at an exit from easy money.

All of which raises the prospect of an "enormous mismatch between supply and demand" in global debt markets this year, according to Torsten Slok, an economist with Deutsche Bank in New York.

Central-bank officials hope their large stock of assets means market interest rates will rise only gradually. But some investors worry about a sharp correction given the mismatch between supply and demand of bonds, particularly as markets have so far been slow to adjust to the new direction of central-bank policies.

"There is a regime change in what central banks are trying to tell us," says Mr. Slok. "Investor sentiment could change suddenly."



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THE WALL STREET JOURNAL.
U.S. EDITION

**World Economic Forum: Outlook 2018 (A Special Report): Heard on the Street --- Investors Need to Think Beyond Central Banks**

By Richard Barley
900 words
23 January 2018
The Wall Street Journal
J
R6
English


Who's afraid of the central banks?

This year will bring a further withdrawal of the easy-money policies that have helped to shape markets and economies since the global financial crisis. The U.S. Federal Reserve, after raising rates three times in 2017, is signaling more increases and has started to reduce the size of its balance sheet gradually; the European Central Bank will pare back the pace of its bond purchases.

All of that might be a big cause for concern if it were happening in a vacuum. But for investors to focus on central banks alone might be a mistake.

After all, the monetary supertanker has been on the turn for a while. The Fed first raised rates in the current tightening cycle at the end of 2015; the ECB already made a modest reduction in its asset purchases at the start of 2017. Yet there has been nothing like the so-called taper tantrum of 2013, which sent global markets into turmoil. By contrast, markets have taken central-bank actions of late in their stride.

There are some good reasons for that. The first and most important is the cyclical, synchronized recovery in global growth that characterized 2017. The global manufacturing purchasing managers index was near a seven-year high in December, at 54.5; subindexes for output, new orders, new exports, employment, prices and future output all pointed to expansion, too. Indeed, 2017 was the first year since 2010 when advanced and emerging economies accelerated in tandem on the International Monetary Fund's numbers. And outside the U.S., the economic cycle is less advanced, meaning there is clearly still room for the cyclical recovery to continue.

Another important factor in the prevailing calm in global markets is the extreme caution that central banks are employing both in communicating and taking actions. The Fed, for instance, is raising interest rates at a snail's pace. It has taken two years since December 2015 for the Fed to lift rates a total of 1.25 percentage points, or 0.05 point a month. That compares with an average 0.18 point a month in the previous tightening cycles since 1983, making this the slowest-moving shift in policy in four decades, JPMorgan Chase notes.

Real interest rates -- adjusted for inflation -- are extremely low. The rise in inflation from its nadir in 2015 and 2016 has eased a key source of pressure on central banks. The problem was that as inflation fell, real interest rates rose: A challenge that had previously only emerged in Japan thus became a global issue, most notably in the eurozone.

But 2017 saw inflation pick up, albeit to levels that still fall short of where central banks would feel comfortable. The upward pressure on real rates has thus receded. As a result, in the U.S., very short-term real rates are negative; in the eurozone, the ECB's negative-interest-rate policy, with banks charged 0.4% for keeping cash in the central bank's deposit facility, has become even more negative in real terms. And the ECB has started to emphasize that its bond purchases are just part of a package that is aimed at keeping monetary conditions loose. Negative interest rates may yet turn out to be more powerful than appreciated, due to their persistence.

The key swing factor is still inflation. In 2017, **financial markets** had the best of all worlds: Growth was decent, but inflation was well-behaved. The real vulnerability for markets now is a sudden, sharp rise in inflation that causes central banks to act with much more urgency not only to withdraw stimulus but to tighten policy actively. The U.S. economy and the Fed are clearly on the front line of that battle, as the recovery is well advanced. But elsewhere, central bankers are still likely to err on the side of caution.

In the absence of a clear pickup in inflation, bond yields may struggle to rise. It is not only central bank policy that has held yields low: Regulation that favors banks holding "safe" assets like government bonds and a continued search for income-generating assets have played their part, too. The modest rise in yields since 2016 has had few visible effects on the economy.

Indeed, low long-term yields actually became a source of concern in 2017. The narrowing gap between two- and 10-year U.S. Treasury yields has had some investors worried that it is signaling an economic slowdown ahead.

Ultimately, there is a subtle but important shift occurring in the role of monetary policy. For a while after the crisis, central banks were the single source of support for economies and markets. That led to their taking an unusual turn in the spotlight, when they more usually set the backdrop against which other economic actors -- individuals, companies and governments -- shape the path of the economy.

The language being used by some central bankers is shifting. ECB President Mario Draghi in December spoke of monetary policy now "accompanying the expansion." That implies providing continued support, but not taking center stage.

Investors have to pay attention to central banks, of course. But they are no longer the only game in town.



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THE WALL STREET JOURNAL.
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**World Economic Forum: Outlook 2018 (A Special Report) --- Prospect of New Sanctions Unsettles Russia's Elite**

By Nathan Hodge
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A new round of U.S. sanctions is taking aim at Russia, and the country's business elite has reason to be nervous.

At issue is the Countering America's Adversaries Through Sanctions Act, or Caatsa, signed into law by President Donald Trump in August. The tough new legislation is meant to punish the Kremlin for its alleged interference in the 2016 U.S. presidential election.

Under the law, the U.S. Treasury Department is required to issue a detailed report listing "senior foreign political figures and oligarchs in the Russian Federation," including individuals close to Russian President Vladimir Putin, their estimated net worth and known sources of income.

Speculation in Moscow is intense about the new list, due in early February. Existing sanctions already target Mr. Putin's inner circle and key enterprises, but new sanctions threaten to further cut access to foreign credit, their ability to travel freely in the West or do business in the U.S.

For now, it's not clear who will appear on the list, nor what penalties they will face. In this uncertain climate, Mr. Putin has made moves to shore up support with the business elite, such as proposing nationalist economic measures. In Washington, meanwhile, the law has sparked a flurry of activity among Russian players trying to figure out the law's potential impact.

"We have seen more Russian lobbyists and lawyers the last couple of months than we have seen for a very long time," says Anders Aslund, a senior fellow at the Atlantic Council in Washington. "There is a mass of activity."

The new sanctions come as Russia is emerging from economic troubles brought on by the Ukraine crisis and a global drop in **oil prices**. The U.S. and the European Union hit Russia with economic sanctions in response to the annexation of the Black Sea peninsula of Crimea in 2014 and Moscow's backing of separatists in eastern Ukraine. The Ukraine crisis also triggered what the World Bank described as "massive capital outflows."

The financial institution predicts GDP growth in 2017 of 1.3% after two years of recession. Despite Russia's slow economic recovery, Mr. Putin's ratings remain high. He routinely polls above 80% -- including a patriotism-fueled surge following the annexation of Crimea -- and is widely expected to win re-election in March.

Beyond popular support, the Kremlin must cater to another constituency: Russia's business elite. Mr. Putin has held two round-table discussions with Russia's top business leaders since the passage of Caatsa. The goal, says Mr. Aslund, was to shore up the support of Russia's business elite.

He has also taken official steps to reassure them. In a late-December meeting with lawmakers, the Kremlin leader said Russia needed a new "stimulus" to encourage the return of Russian capital from abroad.

"Foreign restrictions, instead of lessening, are worsening," Mr. Putin told lawmakers.

Mr. Putin has long talked about his interest in promoting "deoffshorization," repatriating the billions held abroad by Russian business owners. Dmitri Trenin, the director of the Carnegie Moscow Center think tank, said the sanctions could have an unexpected effect of accelerating this process.

"Outside pressure on Russia, understood as politically motivated and orchestrated from the U.S., leads to more national cohesion," he said in a recent comment on Twitter.

Some Russian oligarchs, Mr. Trenin added, "are already thinking of repatriating capital."

In a Dec. 21 meeting with oligarchs, Mr. Putin said business leaders had asked that new mechanisms be created for returning capital to Russia, suggesting external government bonds denominated in foreign currency as one possibility.

"The government and the Central Bank have thought out this matter," Mr. Putin said. "I instructed them to determine the necessary conditions and parameters for issuing these bonds to Russian investors and to get them into circulation already next year."

For now, however, much of the speculation centers on who will land on the list, and whether the Trump administration will follow through aggressively.

In a pair of statements released after the signing of Caatsa, Mr. Trump said the bill was "seriously flawed," as parts of the law limited his powers to lift sanctions.

The big question, then, is how the administration will comply with the law's requirement to compile the list. That has created new uncertainty in Moscow, where the U.S. government is seen as being in a decidedly anti-Russian mood.

"From the outside, Washington looks rather chaotic, and it's not clear how much real thought is going into policy decisions on Russia," says Tom Blackwell, the CEO of EM, a consultancy that advises a number of large Russian companies. "One particular concern is that this void of thinking has opened the way for individuals with an ax to grind to step up, seeing future sanctions as a chance to settle scores, or a chance to legitimize themselves in the West simply by adopting fervent anti-Kremlin positions."

Added Mr. Blackwell: "All of this makes for a rather unpredictable and unsettling environment."

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Mr. Hodge is a former Wall Street Journal reporter in Moscow.



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The New York Times

Business/Financial Desk; SECTB
**Shutdown Storm Abates, And the Market Exhales**

By THE ASSOCIATED PRESS
636 words
23 January 2018
The New York Times
NYTF
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2
English


Hefty gains for energy and technology companies helped stocks set more records on Monday. Drug makers announced two major deals worth about $20 billion, and stocks of smaller companies climbed after the Senate reached a short-term deal to end the government shutdown.

Stocks were slightly higher early in the day as strong fourth-quarter results from Halliburton buoyed energy companies, and big technology companies like Alphabet and Microsoft continued their ascent. Starting at noon, after Senate Democrats said they would support a three-week government funding bill, bond yields increased and smaller companies shook off their early losses to turn higher.

The French drug maker Sanofi is buying Bioverativ, which makes hemophilia treatments, in a deal the companies valued at $11.6 billion, while Celgene will buy the cancer treatment maker Juno Therapeutics for $9 billion. In the financial sector, the American International Group, an insurer, is buying Validus Holdings, a provider of reinsurance, primary insurance and asset management services, for $5.56 billion.

Marina Severinovsky, an investment strategist at Schroders, said health care companies were likely to find more money for deals because the Republican-backed tax package gave the companies a one-time tax break on money they have been keeping overseas. And A.I.G.'s big purchase is a sign of how far the company has come since the federal government bailed it out almost a decade ago.

''A.I.G. became synonymous with this $180 billion bailout, and here they are making a deal with cash,'' Ms. Severinovsky said. ''We've got a pretty healthy global economy, and companies are more willing to take a risk than they have been in recent years.''

The **Standard & Poor's 500-stockindex** picked up 22.67 points, or 0.8 percent, to 2,832.97. The **Dow Jonesindustrial average** rose 142.88 points, or 0.6 percent, to 26,214.60. The **Nasdaq composite** index added 71.65 points, or 1 percent, to 7,408.03. The Russell 2000 index of smaller-company stocks gained 7.54 points, or 0.5 percent, to 1,605.17.

The Senate voted 81-18 to fund the federal government until early February. That came after Republican leaders said they would soon address immigration and other contentious political issues. The government shut down after the previous funding bill expired on Friday.

Sanofi's deal to buy Bioverativ for $105 a share lifted Bioverativ $39.68, or 61.9 percent, to $103.79, while Sanofi lost $1.40, or 3.1 percent, to $43.20. Bioverativ makes Eloctate and Alprolix, which treat two different types of hemophilia.

Celgene will pay $87 a share for Juno Therapeutics. On Monday, Juno rose $18.19, or 26.8 percent, to $86, while Celgene added 26 cents to $102.91.

**Bond prices** gave up an early gain. The yield on the **10-year Treasury** note remained at 2.66 percent, a three-year high.

Benchmark United States crude rose 26 cents to $63.57 a barrel in New York. Brent crude, used to price international oils, added 42 cents to $69.03 a barrel in London.

The dollar rose to 110.95 yen from 110.76 yen. The euro edged up to $1.2258 from $1.222.

Gold slipped $3.50 to $1,328.40 an ounce. Silver lost 5 cents to $16.99 an ounce. Copper gained 1 cent to $3.20 a pound.

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

CHARTS: 3-Month Treasury Bills: High rate at weekly auction. (Source: The Bond Buyer); The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Monday. (Source: Reuters )

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WORLD ECONOMIC FORUM
SpecialSections; SECT
**Global economy is surging, but growth could stall**

By MICHAEL SCHUMAN
1,335 words
23 January 2018
The New York Times
NYTF
The International New York Times
English


Almost a decade after the financial crisis, economies in just about every corner of the world -- the United States, Europe, even perennially sluggish Japan -- are growing in unison.

But can the expansion last?

Many economists predict it will -- at least into this year. But they also fret that unresolved problems embedded in the global economy, including income inequality and stagnant productivity, could hamper further gains and stall growth once again. As the world's business leaders gather this week at the World Economic Forum in Davos, Switzerland, confronting these issues will be high on the agenda.

''We will see the momentum created by the recovery continuing into 2018,'' said Shanta Devarajan, senior director for development economics at the World Bank. ''But the biggest question is how sustainable that is going to be. That is what we are mostly concerned about.''

The World Bank forecasts that global growth this year will reach 3.1 percent, a slight improvement from its estimated 3 percent rate for 2017. That would be the fastest pace since the post-economic-crisis bump in 2011. While the world's advanced nations are expected to slow marginally, the World Bank projects emerging economies will gain speed, with 4.5 percent growth this year compared with an estimated 4.3 percent in 2017.

The robust rebound has been a long time coming. Year after painful year after the Great Recession, policymakers and economists anticipated a stronger recovery that never came. Some economists speculated that the global economy had sunk into long-term stagnation. Bouts of turmoil, including debt woes that threatened the eurozone and financial panics in some emerging markets, added to the gloom.

Last year, though, the world enjoyed what economists call a synchronized'' recovery among major economies. Joblessness has fallen, trade is strong, stock markets are soaring and, perhaps most important, companies have started to invest again, a key factor behind the improved global performance.

In some countries, including the United States, economists expect even better. The World Bank forecasts growth in the world's biggest economy to accelerate to 2.5 percent this year, from 2.3 percent last year. Fathom Consulting, a London-based research firm, is even more **bullish**, recently raising its 2018 projection to 3.1 percent, figuring that the newly passed tax reform package will give the economy a short-term pop.

Yet there is also some concern that the global growth rate may reach its peak next year. The World Bank foresees that growth of world gross domestic product will taper off in 2019, to 3 percent, and 2.9 percent in 2020.

''We ended 2017 with a lot more momentum in the economy than we had expected,'' said Janet Henry, global chief economist at HSBC. ''Momentum is likely to slow through 2018.''

Some key regions of the world are already expected to slow this year, including the eurozone and Japan. China, the world's second-largest economy, could lose steam, too. The government announced this month that growth reached 6.9 percent in 2017, but economists generally don't expect the economy to maintain that pace. The World Bank predicts a 6.4 percent expansion this year.

Policymakers in China are facing the difficult task of overhauling the economy's growth model to rely more on household spending, which remains low compared with levels in other large economies. Traditionally, China has been propelled by high investment, but that has saddled the economy with too many factories in industries such as steel and a mounting burden of debt, now at about 260 percent of national output.

Most economists do not expect China to tumble into a financial crisis, like other debt-heavy emerging economies have in the past. But Beijing's efforts to control the problem by curtailing the expansion of credit could dampen overall economic growth.

Chetan Ahya, global co-head of economics at Morgan Stanley, considers China one of the outside risks facing the world economy. Though he expects that Beijing will tread cautiously on tackling debt, tightening credit too rapidly, he warned, could spark a sharper slowdown in domestic demand. ''You want to ensure that confidence on growth is not collapsing very quickly,'' he said. ''Once confidence goes down, you tend to see all sorts of challenges.''

That's not the only danger lurking on economists' radar. The recovery has been greased by the extremely supportive policies of the Federal Reserve in the United States and the central banks of the eurozone and Japan. But now, with improved growth, central bankers are expected to reduce these stimulus efforts, a move that could lead to higher interest rates.

Unwinding these programs, which included the buying of bonds on a massive scale, will also be tricky, as any surprises could spook investors and depress prices of stocks and other assets. Economists generally say they do not anticipate that central banks will tighten enough to significantly drag on growth in the near term. But an unexpected jump in inflation, beyond current expectations, could prod them to constrain money more rapidly, possibly posing a bigger threat to growth.

Concerns remain as well about a disruption to international trade, which would be especially damaging at the moment, because strong exports have boosted the current rebound. The worries center mainly on the Trump administration's attempts to renegotiate pacts like the North American Free Trade Agreement and possibly take a tougher line on trade with China.

''The White House has become a risk factor,'' said Andrew Kenningham, chief global economist at the research firm Capital Economics in London.

What worries economists more, however, are long-term problems that continue to plague the world economy. Through global growth has improved, it still lags behind the pace before the financial crisis, when it increased at around 4 percent or more each year.

Meager gains in productivity are probably the biggest headache for economists. Without stronger improvements, sustaining economic growth becomes far more difficult. Economists recommend greater investment in infrastructure, especially in the developing world, which can lower business costs and enhance efficiency, and education and job training, to increase the skills of workers.

Another issue is widening income inequality within national economies. Not all segments of society are benefiting as they probably should from improved global economic performance.

Even with unemployment rates plunging -- in Japan, for instance, to a remarkable 2.7 percent -- wage growth has still been tepid compared with past periods of economic expansion. Because poor families tend to spend additional income more readily than rich ones, the concentration of wealth at the top could be depriving economies of consumer spending.

Ms. Henry of HSBC said she worried that the income amassed by the world's wealthiest might be getting invested in bonds, property or other assets rather than investments that could enhance productivity. ''At the moment, it doesn't look like the savings of higher earners are going into productive investment,'' she said. Income inequality ''may already be starting to have a negative impact on growth.''

Distorted labor markets, too, need fixing. Some countries, including India and parts of the Middle East, have labor laws that are so rigid that they discourage employers from increasing staff, condemning many workers to informal and often poorly paid jobs. Making it easier and less costly for managers to hire and fire would probably increase incomes and improve the productivity of labor.

Mr. Devarajan of the World Bank worries that the robust economy may lead to complacency and delay such critical economic reforms. ''The time to act may be now,'' he said. ''Because the costs of not doing it could be very high.''

 

THOMAS PETER/REUTERS TOSHIFUMI KITAMURA/AGENCE FRANCE-PRESSE -- GETTY IMAGES ARUN SANKAR/AGENCE FRANCE-PRESSE -- GETTY IMAGES Around the world Clockwise from upper left, the Japanese economy may slow; a change in Indian labor laws could help incomes; United States' markets have soared; and the Chinese economy grew 6.9 percent. DREW ANGERER/GETTY IMAGES

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The New York Times

Business Day
**Nafta Talks Resume and Trump Plans to Speak at Davos Economic Forum**

By THE NEW YORK TIMES
1,067 words
21 January 2018
09:00 PM
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NYTFEED
English


Here's what to expect in the week ahead:

TRADE

Nafta negotiations restart on a tighter deadline.

Negotiators from Canada, Mexico and the United States will gather in Montreal this week to try to hammer out a reworked North American Free Trade Agreement before Mexico's presidential election this summer. Mexico and Canada are expected to begin offering more counterproposals to the demands made by the United States, which the business community and Mexican and Canadian negotiators criticized as potentially harmful to the pact. In a Twitter post last week, President Trump mentioned the United States' trade deficit with Mexico and called Nafta "a bad joke." Ana Swanson

ECONOMY

Greece on finance ministers' agenda.

Aid to Greece will be one of the main topics when eurozone finance ministers meet in Brussels on Monday . The ministers, collectively known as the Eurogroup, will receive an update on Greece's progress in meeting conditions for the financial support it has received from other eurozone countries. The meeting will be the first under the Eurogroup's new president, Mario Centeno of Portugal , who has promised to push for closer cooperation among eurozone countries on issues including dealing with troubled banks. Jack Ewing , who has promised to push for closer cooperation among eurozone countries on issues including dealing with troubled banks.

BANKING

UBS kicks off bank earnings season in Europe.

The Swiss bank UBS will report its fourth-quarter results on Monday as earnings season kicks off for European lenders. Several of UBS 's American counterparts took big fourth-quarter charges associated with changes in United States tax laws, including Goldman Sachs , which reported its first quarterly loss since 2011. Chad Bray

ECONOMY

Trump to be key speaker at World Economic Forum .

The world's financial elite gather in the Swiss ski resort of Davos for the annual World Economic Forum , beginning on Tuesday. This year's highest-profile attendee? President , beginning on Tuesday. This year's highest-profile attendee? Trump , who rode to power on a populist wave. Last year, President Xi Jinping of China was the star of Davos, championing economic globalization in a speech widely seen as a coming-out party. Mr. Trump, by contrast, could use his appearance at Davos to trumpet the improving American economy, from the rise in the **stock market** to the low jobless rate. Prashant Rao

Bank of Japan expected to maintain the status quo.

The Bank of Japan will announce its monetary policy decision on Tuesday, and is expected to maintain its fiscal stimulus policies. With no change in policy expected, analysts will instead be looking at comments from the bank's governor, Haruhiko Kuroda , for signs about when the current stimulus is likely to reduced — a step that its counterparts in the United States and Europe have begun to take. Zach Wichter

MANUFACTURING

The question for General Electric : What's next?

When General Electric reports its fourth-quarter results on Wednesday, the numbers from the recent past will matter far less than clarifying what lies ahead. Last week, G.E. announced a surprising $6.2 billion charge to pay for lingering problems in its finance unit. The new chief executive John Flannery suggested that the setback might accelerate his plan for paring back the struggling industrial giant. Steve Lohr

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Europe's Central Bank may offer clues on future of stimulus.

The surprising strength of the eurozone economy has raised questions about whether the European Central Bank will cut back its stimulus measures sooner than expected. As a result, Mario Draghi , the central bank's president, is likely to be grilled about the central bank's intentions on Thursday after a meeting of the Governing Council. In January, the central bank cut its money printing program in half, and has said it will keep up the stimulus at least through September. But statements by some members of the Governing Council have fed speculation that the program could end abruptly after that, setting the stage for interest rate increases in 2019. Jack Ewing , the central bank's president, is likely to be grilled about the central bank's intentions on Thursday after a meeting of the Governing Council. In January, the central bank cut its money printing program in half, and has said it will keep up the stimulus at least through September. But statements by some members of the Governing Council have fed speculation that the program could end abruptly after that, setting the stage for interest rate increases in 2019.

TRADE

Decisions expected on jets and solar products.

The White House faces a Friday deadline for a decision on whether to impose tariffs on foreign solar panels. American makers of the products say they have been devastated by cheap products from China, while others in the solar industry warn that restrictions on imports could raise the price of solar power and make the sector less competitive. The United States International Trade Commission will also cast its final vote on Thursday on a trade case that Boeing brought against the Canadian aircraft maker Bombardier. The trade case is a common one but in this instance it has been heavily politicized; the Canadian prime minister, Justin Trudeau , and Prime Minister Theresa May of Britain both weighed in on behalf of factories in their countries that help produce Bombardier jets or parts for them. Ana Swanson

Growth estimate may show strength of economy in Trump's first year.

The Commerce Department will release its initial estimate for economic growth for the final quarter of 2017 on Friday morning, and offer a preview of how much the economy grew in President Trump's first year in office. Both the second and third quarters of 2017 boasted gains of more than 3 percent on an annual basis. If that happens again, it would be the first time since before the recession that the economy registered three consecutive quarters of 3 percent annual growth. At the moment, most analysts don't expect that to happen. Wall Street is forecasting a 2.9 percent annual growth rate, adjusted for inflation, for the final three months of 2017. In any case, the meager growth rate of 1.2 percent for the first quarter of 2017 is almost certain to keep the full year's rate below 3 percent. Patricia Cohen

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The White House faces a Friday deadline for a decision on whether to impose tariffs on foreign solar panels. American makers of the products say they have been devastated by cheap products from China, while others in the solar industry warn that restrictions on imports could raise the price of solar power and make the sector less competitive. The United States International Trade Commission will also cast its final vote on Thursday on a trade case that Boeing brought against the Canadian aircraft maker Bombardier. The trade case is a common one but in this instance it has been heavily politicized; the Canadian prime minister, Justin Trudeau , and Prime Minister Theresa May of Britain both weighed in on behalf of factories in their countries that help produce Bombardier jets or parts for them. Ana Swanson

Growth estimate may show strength of economy in Trump's first year.

The Commerce Department will release its initial estimate for economic growth for the final quarter of 2017 on Friday morning, and offer a preview of how much the economy grew in President Trump's first year in office. Both the second and third quarters of 2017 boasted gains of more than 3 percent on an annual basis. If that happens again, it would be the first time since before the recession that the economy registered three consecutive quarters of 3 percent annual growth. At the moment, most analysts don't expect that to happen. Wall Street is forecasting a 2.9 percent annual growth rate, adjusted for inflation, for the final three months of 2017. In any case, the meager growth rate of 1.2 percent for the first quarter of 2017 is almost certain to keep the full year's rate below 3 percent. Patricia Cohen

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

President Xi Jinping of China was the star at Davos last year. (PHOTOGRAPH BY MICHEL EULER/ASSOCIATED PRESS)

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THE WALL STREET JOURNAL.
U.S. EDITION

**January Proves Harsh Month for Treasurys --- Seasonal pattern shows government bond prices falling at beginning of year**

By Daniel Kruger
906 words
22 January 2018
The Wall Street Journal
J
B12
English


A Wall Street adage holds investors should sell stocks in May and go away to avoid a summer market slump. For bondholders, that month could be January.

Investors and analysts often expect Treasury yields, which rise as **bond prices** fall, to climb more in the first five months of the year than in the last seven.

It is a pattern that has held up often since 1998 -- a time in which bond yields have remained near modern lows -- with the yield on the benchmark 10-year U.S. Treasury note posting an average increase of 0.017 percentage point in the months between January and May, versus a decline of 0.215 percentage point during the remainder of the year.

It is the type of seasonal pattern watched closely by some investors who use the market's perceived tendency toward higher yields in the first part of the year to guide their trading strategies. Others suggest such seasonal moves are akin to the correlation between stock returns and the price of butter in Bangladesh or which conference wins the Super Bowl: a coincidence in search of a causal link.

The debate holds particular significance now, after the yield on the **10**-**year Treasury** last week hit its highest level since 2014.

That left many analysts questioning if the climb signaled further selling ahead -- as signs of a long-awaited pickup in growth relieve some of the anxiety pushing global investors into government debt -- or if the move marks the latest in a series of false starts that have characterized much of this long **bull market**.

"Oftentimes a technical phenomenon exists because everybody believes in it," said Michael Pond, head of global inflation-linked research at Barclays PLC. While some of the gains may reflect an element of a self-fulfilling prophecy, "there's some real stuff that investors should take note of."

One explanation for the pattern is that inflation tends to rise in the spring months as prices for a number of important components of the consumer-price index tend to rise, gasoline foremost among them but also airline fares, lodging, rents and apparel, according to Mr. Pond.

Inflation poses a threat to the value of government bonds because it chips away at the purchasing power of their fixed payments.

Other possible reasons include personal-income-tax season, which ends April 15 and often forces the government to increase its short-term borrowing to make refund payments, according to William O'Donnell, a strategist at Citigroup Global Markets Inc. Mr. O'Donnell also cites the repatriation of Japanese assets before the end of the country's fiscal year on March 31, which typically leads investors there to sell some Treasurys.

A 2015 paper by Mark Kamstra, Lisa Kramer and Maurice Levi even attributed a "statistically and economically significant" tendency for yields to rise early in the year to investors' seasonal depression.

In addition to those factors, this year also presents investors with "a fundamental story about an improved global backdrop" combined with the inflationary force of a weaker dollar and the stimulative effects of tax cuts, Mr. Pond said.

The benchmark **10**-**year Treasury** note yield ended 2017 at 2.409%, little changed from the end of 2016, as investors canceled bets on faster growth and inflation and as President Donald Trump struggled throughout the year to enact his legislative agenda.

Now, investors are reassessing the outlook for the economy following passage of a $1.5 trillion tax-cut bill that is expected to spur growth and lead to larger budget deficits. And after raising interest rates three times in 2017, the Federal Reserve has penciled in three more rate increases in 2018. Some firms, including JPMorgan Chase & Co., are forecasting four Fed rate increases as the tax cuts take effect.

The rise in yields this year are better explained by "factors related to where we are in the economic cycle," said Jeffrey Klingelhofer, a portfolio manager at Thornburg Investment Management. Seasonal patterns, if they exist, don't "govern how we think about the world."

Mr. Klingelhofer said he has been making trades intended to reduce his exposure to the risk of weakening credit quality and higher interest rates, such as selling longer-term, low-yielding company bonds and buying short-term floating-rate corporate and asset-backed debt.

The most potent factor pushing yields higher is likely to be global central banks, said Mr. Klingelhofer. The European Central Bank in January reduced its monthly bond purchases to 30 billion euros ($36.7 billion) from 60 billion euros, with authorization for the program expiring in September. The Bank of Japan has signaled that it will reduce its purchases of government bonds by 5%. The Bank of Canada raised interest rates Wednesday, and investors expect as many as three more rate increases this year.

In addition to its rate increases, the Fed is also scaling back on its reinvestment of maturing securities from its $4.2 trillion bond portfolio. Should Fed officials follow through on plans announced in September, that would produce a $30 billion reduction in monthly Fed Treasury reinvestments.

Economists in a Wall Street Journal survey are predicting the 10-year yield will rise to 2.74% by June 30 and 2.98% by year-end.



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The New York Times

Times Insider
**The View From the Bitcoin Bubble**

By NATHANIEL POPPER
925 words
22 January 2018
10:58 AM
NYTimes.com Feed
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English


Five years ago, I wrote my first article about virtual currencies, documenting the sizable stockpile of Bitcoins that the Winklevoss twins, Cameron and Tyler, had amassed.

At the time, I figured Bitcoin would be a flash in the pan, with roughly the life span of pet rocks or Furbys. But neither Bitcoin nor the Winklevii, as they're known, has withered under the unending stream of skepticism. The value of a single Bitcoin is now up more than 11,000 from when I wrote that first story, and the brothers have become billionaires, at least on paper.

I have continued writing about Bitcoin throughout its remarkable rise, but I could have never anticipated the way the technology has broken out over the past year, with everyone from Vladimir Putin to mom-and-pop investors in South Korea looking at how to use and profit from the technology.

(Most recently, I wrote about the enormous electricity consumption of the network of computers supporting Bitcoin, which now uses as much energy as some medium-sized countries.)

These developments have been enough to turn me, over the last year, into essentially a full-time cryptocurrency reporter. It's safe to say that's a first for The Times.

Before this all began, I was covering **financial markets** and banks from New York. That gave me a grounding to begin understanding this, but Bitcoin has turned into a very different kind of **financial market**. At the banks, I kept hearing about how they were taking this technology seriously as something that might change their business in the long run. That is because beneath the digital tokens, Bitcoin introduced a new kind of crowdsourced financial infrastructure, known as the blockchain, that allows for the creation of money and financial records that aren't maintained by any central authority like a bank or a government.

Claims about Bitcoin's longevity differ dramatically. If you listen only to virtual currency aficionados, you would think that digital money is certain to dethrone the dollar as the global reserve currency and kill Wall Street, to boot. I get dozens of emails every day from entrepreneurs who tell me how they are going to use the technology introduced by Bitcoin to revolutionize the music industry, or shipping business, or even democracy itself. Meanwhile, very smart people like Warren Buffett and Joseph Stiglitz have continued to say that the whole thing is just a bubble waiting to burst.

How is a single journalist supposed to work through it all? It can feel a bit like being there at the invention of the **stock market**, but with no certainty that stocks would actually work as promised — and with everything hinging on software that few people understand.

Certainly one part of this requires understanding the technical details of how Bitcoin and other digital tokens work. The time I've spent grappling with the inner workings of virtual currencies has given me a sense of why so many computer scientists see the Bitcoin network as real technological innovation and not just a token that people buy and sell. I have a good stable of geeks who help walk me through the details when I get confused. And when I go to dinner parties it comes in handy — everyone these days wants to talk about how Bitcoin works and whether it is a bubble.

But from that first article about the Winklevoss twins, I have tried to focus, whenever possible, on the real people who are buying and using Bitcoin and other virtual currencies, and what is motivating them. That has taken me to Argentina, where I saw how people are using virtual currencies to escape the inflation their local currency is experiencing. It has also led me to the online black markets, where virtual currencies have made it easier for addicts to buy deadly drugs from China and for criminals to collect ransom payments.

It is also the real-world usage that tests whether Bitcoin and other virtual currencies are able to live up to the big promises that they are making. With most virtual currency projects, I've found that there are relatively few real-world transactions to back up the big, speculative bets that investors are making.

Perhaps most fascinating is how these new currencies draw communities around them. It's a potent reminder that all money is a social construct: The more people who believe a Bitcoin or dollar will retain its value in a week, the greater the value the currency will have.

But these are still early days. The death of Bitcoin has been wrongfully proclaimed many times already. For my part, The Times's rules against investing in what we write about has allowed me to be equally open to this going up or down.

Beyond that, these virtual currencies are all living economics experiments, testing how different sorts of incentives create different behaviors. Bitcoin has an elaborate system of carrots and sticks designed to attract followers and to increase the cybersecurity of the Bitcoin network. But these incentives don't always work as expected. That uncertainty is what makes it so interesting to watch — and to report on.

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* There Is Nothing Virtual About Bitcoin's Energy Appetite

* Russia and Venezuela's Plan to Sidestep Sanctions: Virtual Currencies

* How the Winklevoss Twins Found Vindication in a Bitcoin Fortune

* What Is Bitcoin, and How Does It Work?

Keith Rankin

Document NYTFEED020180122ee1m004h5

 

The New York Times

Contributing Op-Ed Writer
Opinion
**The Market Isn't Bullish for Everyone**

By STEVEN RATTNER
840 words
22 January 2018
05:45 AM
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NYTFEED
English


Hardly a day goes by without President Trump tweet-bragging about the relentless rise of the **stock market** to fresh record highs — Exhibit A in his mind about how he is, indeed, making America great again.

But, while strong equity markets are certainly a Good Thing, let's not forget that, like so many effects of Mr. Trump's policies, those higher share prices are propelled upward in considerable measure by the new president's pro-business policies and benefit the wealthy far more than the average American.

The unsurprising reality is that the rich are far more likely to hold stocks, and when they do, they own them in much larger chunks than their less-well-off brethren.

The percentage of Americans who hold any stocks at all has declined to just over half of all Americans, while only 28 percent of families with below-median incomes hold any shares (including in retirement accounts). Moreover, while middle-class Americans typically own just $15,000 in equities, the top 10 percent have amassed median holdings of $365,000.

To be sure, rising stock markets help many Americans in other ways. Perhaps most importantly, they secure pension benefits for those fortunate enough to participate in corporate or municipal plans.

However, the percentage of workers covered by these programs has been declining, from 62 percent in 1983 to 17 percent in 2016. Only about 22 percent of Americans below the median even have an individual retirement account.

Mr. Trump also claims — in a tweet, of course — that rising equity prices are also creating "present and future Jobs, Jobs, Jobs."

While we can speculate about the future, for the moment, anyway, job growth has been slower under the new president than it was under President Obama. In 2017, the economy added a total of 2,055,000 jobs, the lowest number since 2010.

Meanwhile, Mr. Trump omitted to mention any effect that the rising **stock market** has had on incomes — perhaps because there hasn't been a discernible one.

From when he took office through the end of November, average hourly wages rose by just 0.6 percent, after adjusting for inflation. Even before taking account of higher prices, earnings were up by only 2.3 percent last year post-inauguration, a fraction of the 17.3 percent gain in share prices during the same time period.

Similarly, last year's 4 percent increase in house prices — while satisfying — is only a fraction of the jump in stocks.

While Mr. Trump would be hard-pressed to show much benefit for his base from soaring equities, I'm prepared to give him at least partial credit for higher stock prices.

That's because his administration is engaged in a giveaway to corporate America. Yes, we needed to reform our business tax code to compete with countries like Britain, which lowered its corporate tax rate to 19 percent in 2017 from 30 percent in 2007. But the estimated benefit of $600 billion will go straight to the bottom line of corporate America, and anticipation of this has clearly fueled share prices.

Meanwhile, the Trump administration has declared open season on regulations that the business community says are impediments to growth (meaning profitability).

So, for example, the National Labor Relations Board — fresh with two new Trump appointees — has begun reversing major Obama-era rules that favored workers and organized labor, while the Interior Department just rescinded an Obama rule limiting hydraulic fracking in oil and gas fields.

I'm appalled that so much of the good work of the Obama administration is being unwound. Investors see it differently: Every regulation that is emasculated or eliminated produces more profit potential for the companies that were subject to the regulation.

Nonetheless, even with that tail wind, the jump in our market only roughly parallels global market indexes and pales in comparison with last year's results in Japan and emerging markets like China.

Remarkably, in 2017, the world achieved its highest growth rate — 3 percent — since 2011, and economists believe the world is on track for another strong year in 2018.

It's hard to imagine that even Mr. Trump would claim credit for Europe's tantalizing break out of its decade of malaise or for the renewed optimism that China, India and other major developing countries will continue their rapid growth.

Yet, Mr. Trump's braggadocio is so unabashed that one shouldn't be surprised to see a tweet contending that China should thank him for its roaring economy.

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Steven Rattner, who served as counselor to the Treasury secretary in the Obama administration, is a Wall Street executive and a contributing opinion writer. For latest updates and posts, please visit stevenrattner.com and follow me on Twitter (@SteveRattner) and Facebook.

Traders on the floor of the New York Stock Exchange. | Spencer Platt/Getty Images

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THE WALL STREET JOURNAL.
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**U.S. News: Shutdowns Haven't Shut Down Economy**

By Harriet Torry
360 words
22 January 2018
The Wall Street Journal
J
A4
English


A federal government shutdown could sideline significant numbers of federal employees and leave government contractors out in the cold, but in a $19.5 trillion economy with 147 million workers, a shutdown, even a long one, isn't expected to leave much imprint on the broader economy.

The last shutdown in October 2013 sent 818,000 workers, or about 30% of all federal employees, home without pay for more than two weeks.

Nonetheless, in the final quarter of 2013, the economy had its strongest performance in two years, growing at a 4% rate despite the 0.3 percentage point hit to gross domestic product the Commerce Department said the shutdown caused. The labor market held up well during the shutdown, too: U.S. employers created 212,000 jobs that October, up from 190,000 the prior month.

In 1995 the government shut down twice, for five days in November and for three weeks from mid-December through the first week of the New Year. The economy grew at a 2.9% rate in the final quarter of 1995, 2.7% in the first three months of 1996 and then at a 7.2% rate in the quarter after that.

While payrolls dipped by 15,000 in January 1996 after two months of gains, hiring then bounced back in February with a bumper 429,000 new jobs.

This time around, economists say the impact on the economy will depend crucially on the shutdown's duration. Most shutdowns in the past 40 years have lasted fewer than 10 days.

"Relatively short-lived shutdowns of several weeks or less that occur early in the quarter often leave time for activity to recover later in the quarter, and the official GDP statistics may not see much, if any, drag," Barclays' analysts Shawn Golhar and Michael Gapen said in a note to clients.

The **Dow Jones Industrial Average** surged above 26000 last week and investors sold Treasurys, which they tend to buy during periods of anxiety. Prior shutdowns haven't significantly disrupted markets, several said.



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**MoneyBeat: Stocks Ready to Notch Another Kind of Record**

By Erik Holm
223 words
22 January 2018
The Wall Street Journal
J
B11
English


It has been a long time since the market took a tumble.

Barring a massive shock before the closing bell on Monday, the **S&P 500** will have had 395 trading days without a decline of 5% or more from a record high, according to The Wall Street Journal's Market Data Group. That would make it the longest stretch ever without such a decline, passing a 394-day streak in the mid 1990s.

The last time the market had a decline of that magnitude was in June 2016, just after markets were roiled by the British vote to leave the European Union. Stocks recovered swiftly from that swoon and it has been smooth sailing since. Last year, for example, the **S&P 500** had just eight up-or-down moves of 1% or more, the fewest since 1965.

Stocks have largely been rising, closing at a record on Friday. During the first year of President Donald Trump's term in office, the **stock market** climbed 24%, the fifth-biggest percentage gain for any president's first year in a term in the **S&P 500**'s history.

It was outdone only during the presidencies of Bill Clinton, Barack Obama and Franklin Roosevelt.



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The New York Times

OP-ED CONTRIBUTOR
OpEd; SECT
**The Shutdown Shows the Twisted Rules of a Broken Congress**

By PETER SUDERMAN
1,205 words
21 January 2018
The New York Times
NYTF
The New York Times on the Web
English


This week's government shutdown is a bipartisan failure, with bad faith all around, and both parties trying to blame the other for the consequences, in hopes of winning one for the team.

But it is also a systemic failure, in which an outdated budget process -- the complex set of procedures that keeps the government open -- has become an empty ritual, twisted in the service of narrow partisan gain.

The source of today's dysfunctions goes back more than 40 years, to the Congressional Budget and Impoundment Control Act of 1974. That law was passed as a result of a perception within Congress -- which under the Constitution holds the power of the purse -- that the White House had too much influence over the budget.

The law overhauled congressional budget development procedures in a manner intended to shift the balance of power in federal budgeting away from the executive and toward the legislature -- and created the modern budget process.

That process is kick-started by the drafting of an annual budget resolution that was initially intended to serve as a check on the president's proposal.

The budget resolution is a blueprint -- a series of goals and instructions that lawmakers are supposed to follow. Think of it as a sort of congressional mission statement, meant to ensure that the process is not driven solely by executive branch priorities. The resolution is then supposed to be followed by a series of spending bills, hashed out in congressional committees, by the beginning of the government's fiscal year, which was set in October.

But in the 1990s, after decades of Congress being mostly controlled by Democrats, Republicans took power, and in the process upended the long-held assumption that Democrats would almost always be in charge. This changed the political incentive structure for both parties. The old model assumed that the main point of conflict was between two branches of government, Congress and the White House, and thus rewarded collaboration and legislative trading between parties.

But with the possibility that Congress could change hands more often, the new incentive was to use the budget process as a tool of partisan skirmishing that would make it easier to retain or regain control of the legislature. Instead of negotiating to achieve policy goals while maintaining a unified front against the executive, Congress was at war with itself.

A result is that Congress hasn't completed the entire budget process, with all the spending bills, on time in more than 20 years. Many years, it has not passed any budget resolution at all. This is perhaps the most basic responsibility of the legislative branch, yet for decades, Congress has repeatedly come up short.

During the Obama administration, Republicans talked about changing this. Senator Mitch McConnell promised that he would pass a budget every year if and when Republicans gained a Senate majority. But in 2016 there was no budget resolution at all, which led us to the unusual situation we saw last year, where there were two budget resolutions, one to set up the failed Republican health care bill and another, later in the year, to set up tax reform.

That Congress can fail to pass a budget with so little consequence -- if anything, it boosted Republicans, by giving them two opportunities to try major partisan legislation -- shows what a cynical charade the process has become. The eventual budget resolutions that were passed reveal how disconnected the process has become from actual budgetary considerations. The Republican resolution a year ago was what's known as a "shell budget" -- essentially just a set of instructions that would have allowed the health care bill to be passed with a simple majority vote.

The health care bill, whatever its merits, was not a budget, or a central component of anyone's conception of what a budget should be. But that's what the budget resolution was used for. And that is, in many ways, the problem: The budget process is not really about budgeting anymore.

In other years, the budget process has become bogged down, and Congress has kept the government funded through temporary extensions known as continuing resolutions (C.R.s) that fund government operations based on current levels, or rolled everything into an omnibus -- or in some cases, a "CRomnibus," combining a budget omnibus bill and a continuing resolution. It's kludgy language to describe a kludgy process.

The reliance on an ad hoc system of budgeting has made it even more difficult for Congress to keep the nation's fiscal house in order. The continuing resolution passed by the House this week would have added about $30 billion to the national debt.

The stalemates that have come to define the budget process have helped set the stage for repeated shutdown showdowns. It is a broken process that has enabled and empowered partisan bad faith by setting up a situation in which everything is riding on a few enormous bills. So lawmakers try to hook other priorities -- immigration, say, or health care -- to "must pass" legislation in hopes of using the leverage to push them through.

From a purely tactical perspective, pursuing political objectives to the point of a shutdown is rarely an effective strategy. The last government shutdown, in 2013, grew out of Republican opposition to Obamacare, which at the time was an unpopular program. The shutdown started on the same day the health law's insurance exchanges opened, and crashed -- but during the few weeks the government was closed, Obamacare actually grew more popular. I am highly sympathetic to the plight of the Dreamers who have become central to the current fight, but I would not be surprised if this shutdown goes for Democrats the way the last one did for Republicans.

As long as the current system remains in place, and partisan **volatility** remains high, these showdowns are likely to recur. There are, however, a variety of options for reform, ranging from small tweaks to total overhauls.

James Capretta of the American Enterprise Institute has proposed forcing the White House to be more involved in the process by making the budget resolution a law signed by the president, thus encouraging cross-branch negotiation. Another possibility raised by Molly Reynolds of the Brookings Institution would be to find ways to limit legislative attachments that are mostly meant to make the other party look bad. Moving to a two-year budget process might ease annual pressures. Or, per Yuval Levin, the editor of National Affairs, a ground-up reimagining of the process might be in order.

Reforms won't be easy under the best of circumstances. And the blame game now playing out in Washington shows that the shutdown itself has become a vehicle for partisan point scoring. The first step toward fixing the system is for lawmakers on both sides of the aisle to decide that their priority is to fulfill essential governing responsibilities -- and stop treating the shutdown as a game to be won.

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Peter Suderman is the managing editor at Reason.com.

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The New York Times

National Desk; SECTA
**Longer the Government Is Closed, the Further the Economic Ripples Will Spread**

By PATRICIA COHEN and JIM TANKERSLEY
829 words
21 January 2018
The New York Times
NYTF
Late Edition - Final
24
English


The early days of the federal government shutdown won't slow the American economy much. No workers are missing paychecks yet, and because it is a weekend, few businesses expect to feel the effects of lost customers or suppliers.

That could change, quickly, if the impasse drags out. The longer the government is shut down, the bigger the economic impact -- and this time, the bigger the chances that the economy's recent growth spurt could stall, at least temporarily.

Shutdowns bring the government to a partial stop, though so-called essential personnel keep working, and many services continue to be provided.

That partial stop costs the economy productive work time, historical evidence suggests, along with revenue that the federal government collects from daily fees at parks and museums. Private-sector companies that contract with the government have their work temporarily disrupted, and travel spending is reduced, affecting local economies.

When the government is late in paying contractors, it incurs additional interest costs. Delays in issuing federal checks, permits and licenses slow the rest of the economy's workings, affecting export and import permits, mortgages and small-business loans. A government funding crisis also casts a pall on the economy, damaging consumer sentiment and business optimism.

A shutdown could also prevent federal agencies from releasing economic data that businesses and traders rely on to make market decisions every day.

Economic activity typically snaps back soon after a shutdown ends, but not before the partial stoppage damages growth.

A 16-day shutdown in October 2013, for example, may have cost $20 billion in output, cutting 0.5 percentage point off the annualized economic growth rate in the fourth quarter, according to the securities rating firm Moody's. At that shutdown's peak, 850,000 federal employees were furloughed for a total of 6.6 million workdays. Paying them for days not worked cost $2 billion.

Private-sector employment is also affected. The 2013 shutdown cut job creation in the sector by about 120,000 over two weeks, the Council of Economic Advisers estimated in an analysis conducted immediately afterward. ''A range of indicators show that sentiment, job creation, consumption, and some elements of production grew more slowly in the first half of October than in previous months,'' the report concluded.

As a whole, shutdowns cost the economy at least 0.1 percentage point of growth per week, and probably much more, the Congressional Research Service surmised in a report in 2014. A separate report from the Bureau of Economic Analysis, part of a larger analysis by the Congressional Research Service, found that lost hours worked by federal employees over the two weeks of the shutdown in 2013 accounted for a 0.3 percentage point drop in quarterly growth -- by themselves.

President Trump's Council of Economic Advisers estimates that every week of furloughing federal workers would reduce annual economic growth by 0.2 percentage point.

Another shutdown would trim at least $6.5 billion a week from the nation's economic output, economists at Standard & Poor's suggested. "A shutdown affects not only Washington and its employees, but also has ripple effects across sectors throughout the country -- from shopping malls to national parks, from contractors to hotels," said Beth Ann Bovino, chief United States economist at S.&P.

Job recruiters worried that a shutdown could also slow hiring. "We face a very real risk of a national hiring hesitation, with recruiters putting plans on hold, and job movers opting to sit tight for the foreseeable future," said Doug Monro, a founder of the global job search engine Adzuna.

And then there are the consequences for Wall Street. The nearly monthlong shutdown in 1995-96 coincided with a 5 percent drop in stock prices. "Certainly the **stock market** has been on a tear and proved quite resilient," said Nancy Vanden Houten, a senior economist at Oxford Economics.

"I don't think a brief shutdown would bother the markets all that much," she said. "But the longer it lasts, the more likely it is to affect **financial markets**."

After recent gains, stocks "might be a little more vulnerable to a sell-off," she added.

So far, markets have not reacted adversely. United States stock futures were trading upward on Saturday afternoon, well after the shutdown began. But analysts warned last week that traders could be spooked if they grow to believe a shutdown bodes poorly for raising the federal debt limit this spring, in time to prevent a government default on debt.

"While a government shutdown only risks delayed payments for discretionary spending categories," analysts at Morgan Stanley wrote, "a Treasury default driven by the debt ceiling could be catastrophic for the U.S. Treasury market and other macro markets in general."

A sign announcing the closing of the Statue of Liberty because of the government shutdown. (PHOTOGRAPH BY ANDREW KELLY/REUTERS)

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Heard on the Street
**A Canary in the Lithium Mine**

By Nathaniel Taplin
396 words
20 January 2018
The Wall Street Journal
J
B12
English


[Financial Analysis and Commentary]

What bubbly asset class -- whose sky-high valuation rests on an immature, but very fashionable technology -- is selling off sharply?

This time the answer isn't cryptocurrencies. We're talking about lithium miners.

Shares in suppliers of the critical battery component are falling following news that one of the world's biggest producers, Sociedad Quimica y Minera de Chile, won approval to raise production after resolving a long dispute with the Chilean government.

New York-listed rival Albemarle has declined sharply since Tuesday. Other lithium heavyweights have also slid.

With markets testing fresh highs all over, it may be tempting to dismiss this spot of trouble in lithium-land, like the end of the cryptocurrency fairy tale. But that could prove costly.

When liquidity is abundant and broad-based growth lacking -- as for most of the past decade -- plowing funds into speculative tech plays that might someday deliver big profits carries less risk. With money cheap to borrow and alternatives thin, they can seem immune to negative news.

But today's rebounding global growth and inflation mean investors at long last have alternatives: Industrial and consumer companies are minting real profits now -- not promising profits tomorrow -- and **10**-**year Treasury** yields are above 2.6%. At the same time, major central banks finally look poised to cut their liquidity drips.

One result: Plays on moon bases, hyperloops and dogecoins may suddenly be susceptible to bad news again, as bitcoin and lithium demonstrated this week.

Lithium and its battery cousin cobalt may indeed power our electric-vehicle future, but in the right-now present there are plenty of good mining and industrial companies benefiting from actual growth -- and not trading at 36 times the past 12 months' earnings, as Sociedad Quimica does. And it's worth noting that at the moment all commodities are doing well, including palladium, whose demand depends on the old-economy catalytic converter.

That makes the speculative standouts look vulnerable.

Lithium and cobalt prices have roughly doubled and tripled, respectively, since early 2016. Copper prices are up 60%.

It's a good bet that the next big correction will come before flying electric vehicles arrive. And when it does, the commodities that fare best may be those that fill actual current demand.



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**Apple's Shareholders to Reap Tax Windfall --- Besides stock buybacks and higher dividends, some expect acquisitions**

By Tripp Mickle
849 words
20 January 2018
The Wall Street Journal
J
B2
English


Apple Inc. announced a $38 billion tax windfall for the U.S. government this week, but the biggest beneficiary of the company's response to tax-system changes will likely be its shareholders.

The tech giant's plan to bring back to the U.S. most of its $252.3 billion in overseas cash holdings is expected to lead to a large increase in share buybacks and dividends, say analysts, tax experts and investors. Of broader benefit to investors, the change in tax law should boost Apple's bottom line by cutting its effective tax rate. It also could prompt the company to ramp up acquisitions and research-and-development spending to reduce its iPhone dependency, an abiding concern of some shareholders.

"They're getting to unlock something that's been growing for a long time and that's a real positive," said Trip Miller, money manager at Gullane Capital Partners, a Memphis, Tenn.-based hedge fund that counts Apple among its largest holdings. "Now it's all about what they do with the capital."

Apple on Wednesday announced the planned $38 billion tax payment, the fruit of the U.S. tax overhaul adopted last month. The new law levies a one-time tax on overseas profits held in cash and other liquid assets -- but at a much-reduced 15.5% rate. Apple, which for years has kept its foreign profits offshore to avoid paying the previous higher rate, said it will now bring most of that cash home.

Apple finance chief Luca Maestri last year said repatriating overseas cash would give it more flexibility to return money to shareholders, but the company hasn't offered more detail since. An Apple spokeswoman declined to comment for this article.

The iPhone maker has been pumping cash to shareholders since fiscal 2012, with $234 billion in share repurchases and dividends, funded by borrowing and the cash its business generates. Last year it said it expects the total to hit $300 billion by March 2019.

Loup Ventures, a venture-capital firm specializing in tech research, now expects Apple to announce an increase of between $125 billion and $150 billion in buybacks and dividends through 2020 -- pushing the total target as high as $450 billion. Loup attributes $88 billion of that increase to the new tax system, pegging $71 billion for buybacks, $12 billion for a one-time special dividend and $5 billion in dividend increase over two years. The projected $88 billion for investors compares with the roughly $75 billion that Apple said it plans to contribute over the next five years to the U.S. economy through capital expenditures, investments in U.S. manufacturing, and its $38 billion tax commitment.

"I think they have struck the right balance between the fat cats and the everyday person," said Gene Munster, Loup Ventures' managing partner.

Apple has other options. It could use the cash to pay off its $116 billion in debt -- largely used to fund buybacks -- rather than return more money to shareholders, Mr. Munster said. It also could hold on to much of it, as was its habit before it began returning cash to shareholders in 2012.

Investors also are expected to benefit from a lower effective tax rate that will lift earnings, and presumably Apple's share price.

The company has reported an effective tax rate of about 25% over the past three years. But Jennifer Blouin, an accounting professor at the University of Pennsylvania's Wharton School, estimates the current rate is closer to

18%, reflecting 42% for combined federal and state taxes on its U.S. profits, a third of the total, and 6% on its overseas profits, the remaining two-thirds.

She expects Apple's effective rate to drop to about 16% as the decline in the U.S. tax rate to 21% from 35% offsets a new tax of 10.5% on some foreign profits.

Apple's share price has risen 49% over the past year, about double the **S&P 500**'s increase in the period.

Investors also expect Apple to invest some of its repatriated cash in becoming less reliant on the iPhone, which accounts for two-thirds of company revenue. They would like to see an increase in R&D spending, which rose 15% to $11.58 billion last year, and acquisitions of small companies working in areas Apple has targeted for growth, such as augmented reality.

Apple has never spent more than $3 billion on an acquisition -- the largest being Beats in 2014 -- but some investors are clamoring for a big deal to accelerate its push into original video. Acquiring a movie studio or Netflix Inc. could give the business scale, said Arif Karim, a senior investment analyst at Ensemble Capital Management, a Burlingame, Calif., wealth manager that counts Apple among its largest holdings.

"The smartphone market is mature," Mr. Karim said. "The next thing to do is see if you can create another market."



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**The Intelligent Investor: The Fantasy Is Alive, Just Don't Embrace It**

By Jason Zweig
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20 January 2018
The Wall Street Journal
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B1
English


With U.S. stocks at highs, it's more important than ever that investors be brutally realistic about future returns.

Some of the most purportedly sophisticated investors in the world, the managers of giant pension funds for state and local government employees, might not have absorbed that lesson. You can learn a lot from these folks, if you listen to them and do the opposite.

A new study by finance professors Aleksandar Andonov of Erasmus University Rotterdam and Joshua Rauh of Stanford University looks at expected returns among more than 230 public pensions with more than $2.8 trillion in combined assets.

For their portfolios, generally consisting of cash, U.S. and international bonds and stocks, real estate, hedge funds and private-equity or buyout funds, these pension plans report that they will earn an average of 7.6% annually over the long term. (That's 4.8% after estimates of inflation.) These funds often define "long term" as between 10 and 30 years.

Based on how they divvy up money, how much are these pension funds assuming specific assets will earn?

They expect cash to return an average of 3.2% annually over the long run; bonds, 4.9%; such "real assets" as commodities and real estate, 7.7%; hedge funds, 6.9%; publicly traded stocks, 8.7%; private-equity funds, 10.3%.

Let's put all that in perspective.

Take cash first. Three-month Treasury bills yield 1.4%. The highest-returning institutional money-market funds yield 1.5%, according to Crane Data.

How could cash earn more than twice that rate of return over the long run?

To be fair, Treasury bills over the past half-century have returned an average of 4.8% annually, according to the Federal Reserve. But short-term rates would have to rise sharply for cash to earn close to that.

Next, consider bonds. The simplest reliable indicator of how much you will earn from a portfolio of bonds in the future is their yield to maturity in the present. With 10-year Treasurys yielding 2.6% and investment-grade corporate bonds averaging under 3.7%, it would take a near miracle today to get anything close to 4% out of a high-quality fixed-income portfolio.

Yet the pension plans are expecting their bonds to earn 4.9%.

That isn't impossible, either, if they throw safety to the winds and buy boatloads of high-yield "junk" bonds and other risky debt. The whole point of a pension fund, however, is not to take excessive risks.

How realistic is the expectation that stocks will return an average of 8.7% annually into the distant future?

That's below the U.S. average of 10.2% annually over the past 90 years.

But stocks were far cheaper over most of that period than they are today, so their returns were naturally higher.

The blogger "Jesse Livermore," who writes thoughtfully about **financial markets** at PhilosophicalEconomics.com, pointed out in a recent post that stocks aren't likely to earn more than an average of 5.9% annually over the long run from today's lofty prices.

Stocks could do better than that if the cost of living shoots up, investors become willing to pay much more for shares, earnings increase at an unprecedented pace or companies buy back vastly more of their own stock.

Among those, the least implausible scenario is higher inflation. So the pension funds could hit their 8.7% stock return that way, but such a surge in the cost of living would crimp their bond returns.

Finally, consider how the pension plans estimate the future returns on private-equity funds.

The new study of estimated returns finds that the older a pension fund's holdings of private equity are, the more likely its officials are to extrapolate those returns as if the good times of the early part of the last decade, when deals abounded and buyouts were cheaper, were still rolling.

What's more, says Prof. Rauh of Stanford, the less experience a pension plan has with private equity, the more likely it is to make an aggressive estimate of future returns from buyout funds.

Why do expectations among pension plans run so high? Because they have to, the chief investment officer of a large public pension plan tells me. State laws guarantee generous retirement benefits for millions of current and former government employees. To appear as if they can meet those obligations, the pension plans have no choice but to set their expected returns higher than reality is likely to deliver.

That's the exact opposite of what the rest of us should do. Sooner or later, investors who build their expectations on hope rather than on arithmetic end up sorry.



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THE WALL STREET JOURNAL.
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**U.S. to Topple Saudis in Oil Output**

By Christopher Alessi and Alison Sider
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J
A1
English


U.S. oil production is expected this year to surpass Saudi Arabia's output, upending a global pecking order that has been a basis for U.S.-Middle Eastern policy for decades.

Crude output in the U.S. will likely climb above 10 million barrels a day in 2018, which would top the high set in 1970, the International Energy Agency said Friday.

The IEA, a Paris-based organization that advises governments and companies, raised its outlook for U.S. crude supply this year by 260,000 barrels a day, to a record 10.4 million barrels a day, largely a result of the recent rally in crude prices.

Saudi Arabia produces just under 10 million barrels a day, under an agreement with the Organization of the Petroleum Exporting Countries. The kingdom said it has the capacity to produce 12 million barrels a day. But it has never pumped more than 10.5 million daily and has pledged to limit output this year.

If the U.S. reclaims the No. 2 production spot, leaving it behind Russia, that could signal a fundamental change in the diplomatic relationship between Washington and Riyadh. For decades, the two countries relied on an exchange of cheap Saudi crude for U.S. military defense.

"It's a seismic change -- the Saudis are no longer the deciding voice in setting world **oil prices**," said Bruce Riedel, a senior fellow at the Brookings Institution. "It's like we've gone back to the early 1970s."

Surging U.S. oil supplies could also cool off a buoyant oil market that closed over $70 a barrel this month for the first time since 2014. U.S. crude futures fell 0.91% to $63.37 a barrel on the New York Mercantile Exchange Friday. Brent, the global benchmark fell 1.01% to $68.61 a barrel on ICE Futures Europe. Both benchmarks ended the week lower, snapping a four week streak of gains.

U.S. crude exports were mostly banned until 2015, when a law designed to protect U.S. consumers from sudden losses of supply was lifted to allow the shale boom to be shipped across the world. Crude exports surged as high as 2 million barrels a day at one point last year.

U.S. output is poised to surpass Saudi production for the first time since the early 1990s. The U.S. dominated global crude-oil production for much of the 20th century, first at home with giants like Standard Oil and later in Saudi Arabia, where U.S. companies operated the fields for decades.

But the 1973 Arab oil embargo -- orchestrated by Saudi Arabia in retaliation for U.S. support for Israel -- shook the U.S. economy, ushering in a period of crippling inflation and fiscal malaise.

Saudi Arabia's production slipped in the 1980s and didn't pick up again until the early 1990s, when the first Persian Gulf War cemented the U.S.'s role as the Middle East's dominant power and defender of Saudi Arabia.

U.S. oil production stagnated until about a decade ago as a handful of companies mastered the act of forcing oil out of shale formations with hydraulic fracturing and horizontal drilling techniques, known as fracking. U.S. output has roughly doubled since 2008, while Saudi output has been stable.

"It doesn't change everything but it's very significant. I think it's been a contribution not only to U.S. energy security but in fact to global energy security," said Daniel Yergin, vice chairman of IHS Markit and a long time oil market watcher. "I think this exceeding what was thought to be the peak is a signal of a new turning point for U.S. energy."

U.S. exports have forced rival countries to cut prices to maintain market share in places they have long considered their turf.

Rising shale output enables the U.S. to reach some of the world's fastest-growing markets including China, which is increasingly at the heart of the battle for market share.

The U.S. wasn't a player there at all until recently. Five years ago, Saudi Arabia provided nearly 20% of China's oil imports. But Saudi Arabia has ceded some of that to Russia and increasingly the U.S.

"I think that's where the balance of power really lies -- who's able to capture the market share in these key demand growth countries," said Michael Tran of RBC Capital Markets, a global investment bank. "Asia is the crown jewel."

The U.S., Mr. Tran said, "is playing in Saudi Arabia's sandbox."

Some analysts said that booming shale production also moves the U.S. closer to energy independence, though it still imports 7 million barrels a day in crude imports from countries like Iraq and Kuwait. During the first 10 months of last year, the U.S. imported crude from Saudi Arabia at a rate of 988,000 barrels a day. Imports from Saudi Arabia haven't been that low on an annual basis since 2009.

Rising U.S. output "removes energy security as a key source of concern for most of the public and policy makers," said Robert McNally, president of Rapidan Energy Group, a consulting firm.

Still, Mr. McNally cautioned that the U.S. may find its newfound dominance to be limited in influencing prices. "Just being a big producer or a major exporter, that doesn't insulate you from what really matters, which is the price of gasoline at the pump."

Despite the role reversal, Saudi-U.S. relations remain strong. President Donald Trump has forged a strong bond with Prince Mohammed and his father King Salman and has touted Saudi Arabia as a bulwark against a common foe, Iran.

Losing its perch on the oil-industry's throne has shaken Saudi society. Crown Prince Mohammed bin Salman has embarked on a campaign to make his kingdom less dependent on oil, shake up its economy and publicly list its state oil company to drum up cash.



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The New York Times

Business/Financial Desk; SECTB
**Indexes Notch New Records, Shrugging Off Shutdown Worries**

By THE ASSOCIATED PRESS
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20 January 2018
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NYTF
Late Edition - Final
5
English


Investors shrugged off the potential for a federal government shutdown on Friday, driving U.S. stocks higher and setting new milestones for several of the indexes.

The **Standard & Poor's 500-stockindex**, **Nasdaq composite** and Russell 2000 index of smaller-company stocks finished at record highs as the market bounced back from modest losses a day earlier. The **S.&P. 500** has now posted a weekly gain in nine of the last 10 weeks.

Retailers, banks and consumer goods companies accounted for much of the latest gains. Energy stocks fell along with crude **oil prices**. Utilities also declined as bond yields edged up to their highest level in more than three years.

The market rally suggested that the possibility of a federal government shutdown this weekend was not worrying traders.

''Looking back to some of the previous shutdowns, they weren't terribly extended in nature and didn't cause a lot of disruption by the time everything was done,'' said Tim Dreiling, regional investment director at U.S. Bank Private Wealth Management. ''I don't think it's going to disrupt growth or make much of an impact on GDP, for example.''

The **S.&P. 500 index** rose 12.27 points, or 0.4 percent, to 2,810.30. The **Dow Jonesindustrial average** gained 53.91 points, or 0.2 percent, to 26,071.72.

The **Nasdaq** added 40.33 points, or 0.6 percent, to 7,336.38. The Russell 2000 index of smaller-company stocks picked up 20.90 points, or 1.3 percent, to 1,597.63.

**Bond prices** fell. The yield on the **10-year Treasury** rose to 2.66 percent from 2.63 percent late Thursday. That is the highest level since July 2014. The increase in yields weighed on bond-proxy stocks, such as utilities. Exelon declined 62 cents, or 1.6 percent, to $37.97.

Investors have driven stock indexes higher on optimism over the global economic outlook and corporate earnings, and the possibility of a federal government shutdown did not dim that enthusiasm on Friday.

Investors bid up shares in clothing makers, restaurant chains, department stores and other consumer-focused companies. The toymaker Mattel led the pack, climbing 91 cents, or 6 percent, to $16.14.

They also drove up tobacco manufacturers, food and beverage makers, and other consumer products companies. Philip Morris International picked up $3.85, or 3.7 percent, to $108.92. Campbell Soup added $1.14, or 2.5 percent, to $47.39.

Banks and other financial stocks also rose. Synchrony Financial gained $1.17, or 3.1 percent, to $38.47.

Lowe's rose 3.5 percent after the home-improvement supply retailer named three new directors. The stock added $3.59 to $104.95.

Some big companies missed out on the broader market gains on Friday.

IBM slumped 4 percent despite a solid fourth-quarter report. The technology and consulting company was the biggest decliner in the Dow. The stock slid $6.75 to $162.37.

American Express fell 1.8 percent after the credit card issuer suspended its share buyback program for six months after a big one-time tax charge. The stock shed $1.83 to $98.03.

Oil futures closed lower after the International Energy Agency said U.S. oil production would rise sharply this year. Benchmark U.S. crude lost 58 cents, or 0.9 percent, to settle at $63.37 a barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, fell 70 cents, or 1 percent, to close at $68.61 a barrel.

The decline in **oil prices** weighed on energy sector stocks. Range Resources slid 39 cents, or 2.4 percent, to $16.08.

In other energy futures trading, wholesale gasoline fell 2 cents to $1.86 a gallon. Heating oil was little changed at $2.06 a gallon. Natural gas also closed essentially flat at $3.19 per 1,000 cubic feet.

Gold rose $5.90 to $1,333.10 an ounce. Silver added 8 cents to $17.04 an ounce. Copper slipped 1 cent to $3.19 a pound.

The dollar fell to 110.60 yen from 110.98 yen on Thursday. The euro weakened to $1.2234 from $1.2242.

The price of Bitcoin edged up 1.4 percent to $11,413, according to the tracking site CoinDesk. Bitcoin futures on the Cboe Futures Exchange declined 3.1 percent to settle at $11,400. The futures allow investors to make bets on the future price of the digital currency.

Major stock indexes in Europe notched gains on Friday. Germany's DAX rose 1.2 percent and France's CAC 40 added 0.6 percent. Britain's FTSE 100 gained 0.4 percent. In Asia, Japan's benchmark Nikkei 225 edged up 0.2 percent, while South Korea's Kospi gained 0.2 percent. Hong Kong's Hang Seng ended 0.4 percent higher.

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

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THE WALL STREET JOURNAL.
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**ADM in Takeover Move on Bunge --- Overture could touch off bidding war with Glencore, which has also signaled interest**

By Dana Mattioli and Jacob Bunge
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Archer Daniels Midland Co. has made a takeover approach to Bunge Ltd., according to people familiar with the matter, setting up a possible bidding war after Glencore PLC earlier made an overture to the agricultural powerhouse.

Details of the ADM approach are unclear and it is possible neither company would succeed in buying Bunge, which had a market value of about $9.8 billion as of Friday afternoon. ADM's valuation was $22.6 billion.

Bunge shares were up 11.37% at 4 p.m. Friday after The Wall Street Journal reported the approach.

Mining conglomerate Glencore approached White Plains, N.Y.-based Bunge, which ranks among the world's largest traders and processors of crops like soybeans and corn, the Journal reported in May. The two companies have a standstill arrangement that temporarily prevents Glencore from making a hostile bid for Bunge. It is unclear whether the expression of interest from ADM negates the standstill, which expires in coming weeks, and enables Glencore to make another move now.

Glencore has been widely expected to re-engage with Bunge once the standstill expires though it is unclear what its intentions are at present.

ADM and Bunge represent the "A" and "B" in the so-called ABCDs, the global commodity-trading companies that dominate the world-wide flow of basic foodstuffs. Minnesota-based Cargill Inc. and Louis Dreyfus Commodities, with its headquarters in the Netherlands, are the other two.

A deal with Bunge would represent a strategic shift for Chicago-based ADM, which competes with Bunge in the business of buying, selling and processing crops.

While ADM maintains one of the world's largest agricultural trading networks, the company in recent years has prioritized investing in food ingredients and flavorings, which executives tout as more profitable and more stable than the sometimes-**volatile** grain industry.

An ADM-Bunge combination would likely face stiff regulatory hurdles, given the companies' competing grain facilities, shipping terminals and processing plants.

Glencore's agricultural division has a smaller presence than ADM's and Bunge's in key crop-exporting bread baskets like the U.S. and Brazil, so a Glencore deal could face fewer such hurdles.

A deal could fortify the companies at a time when agricultural traders are struggling. A string of bumper crops in North America, South America and Eastern Europe have swelled stockpiles and pushed down agricultural commodity prices.

Ample supplies mean fewer and smaller price swings, making it harder for grain companies to make profitable trades. Low prices have also left farmers reluctant to sell crops to grain companies, with many instead choosing to stash away crops on their own farms and wait for prices to improve. And food companies that buy raw or semiprocessed grain from commodity firms are placing fewer long-term orders, since prices are expected to remain low.

Bunge shares have given back their sharp gain after the Journal reported on Glencore's approach, as a result of poor earnings.

Bunge traces its roots to a Dutch firm founded in 1818. Its controlling families, the Bunges and Borns, moved the company to South America and eventually the U.S. The company went public in 2001 and rode a commodity boom that ran from 2007 to 2013.

ADM's history dates back to 1902, when Daniels Linseed Co. was founded in Minneapolis to process linseed oil. The company later changed its name to Archer Daniels Midland before listing shares on the New York Stock Exchange in 1924, later expanding into grain trading and crop processing in Europe and South America. The company runs about 500 crop-buying facilities and 250 processing plants around the world.

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David Benoit contributed to this article.



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ECONOMY

Consumer Sentiment

Fell for Third Month

A measure of consumer sentiment slid in January for the third straight month, continuing a decline after reaching its highest level in more than a decade.

The University of Michigan said its consumer-sentiment index was 94.4 in early January, down from 95.9 in December. The index hit the highest level since 2004 in October. A final reading for January will be released Feb. 2.

Consumers have generally been upbeat -- buoyed by economic growth, low unemployment and rising wealth related to property values and **stock-market** highs -- but viewed current economic conditions less favorably this month.

"The drop in the headline index . . . was entirely driven by a decline in the current conditions index," Michael Pearce, senior U.S. economist for Capital Economics, said in a note to clients. "That is a bit strange considering that the labour market, which typically drives perceptions of current conditions, remains exceptionally strong."

-- Sharon Nunn

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OPIOIDS

Seven Charged With

Illicit Distribution

Two Italians and five U.S. residents were charged with operating clinics in Florida and Tennessee that illicitly distributed painkillers linked to a "significant percentage" of 700 deaths, the Justice Department said.

The charges in federal court came in a long-running investigation that has resulted in the convictions of more than 100 drug dealers who distributed drugs obtained at pain clinics the Justice Department described in court papers as "pill mills."

The indictment described an operation that ran from 2009 to 2015 in which patients would show up at clinics operated by Urgent Care & Surgery Center Enterprise. The patients would keep a portion of the prescription opioid painkillers they were given, federal prosecutors said, and give the rest to drug dealers who had paid for the visit.

Prosecutors said the clinics generated at least $21 million in revenue in less than six years.

-- Del Quentin Wilber

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LAS VEGAS

Criminal Case Unlikely

For Killer's Girlfriend

The girlfriend of Las Vegas mass shooter Stephen Paddock isn't expected to face criminal charges, but investigators are considering other charges connected to the massacre that left 58 people dead, authorities said.

The announcement concerning Marilou Danley, who was overseas at the time of the Oct. 1 attack, came as Las Vegas Metropolitan Police Department Sheriff Joseph Lombardo released a preliminary report on the shooting.

The report offered an account of the time leading up to the shooting and what was on Paddock's computer. But what drove him to fire on a crowd at a country-music festival on the Las Vegas Strip from his 32nd-floor hotel suite and then kill himself remains a mystery.

"This report is not going to answer every questionor evenanswer the biggest question, as to why he did what he did," Mr. Lombardo said.

-- Jim Carlton and Zusha Elinson



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THE WALL STREET JOURNAL.
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**Let Me Tell You Some More About Bitcoin -- Hello? Hello? --- Behind the virtual currency's fervent fans are loved ones tired of hearing about it**

By Kirsten Grind
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A1
English


Raphaela Lucsok put up with her husband investing about $100 in bitcoin that the couple couldn't afford. She didn't argue when he quit his stable job for a bitcoin startup and even went along with his insistence to eat only at the (very few) restaurants that accept the digital currency.

She took a stand recently when he started bringing his phone to bed to monitor bitcoin's price.

"A strong restriction on cellphone use in our bedroom had to be imposed," says Ms. Lucsok, 29, who lives in Berlin.

Bitcoin has spawned a base of obsessive, fevered investors. Behind them are loved ones who are really, really tired of hearing about it.

Family and friends have banned talk of digital currency. In extreme cases, friendships have dissolved after investors continually dominated conversations about the merits of bitcoin. Others still don't understand what their loved ones are talking about.

Even though Yvonne Mah's 36-year-old son has been in bitcoin since 2009, she always thought his excited talk was about something called "Big Coin."

"I was born in 1952 and it's hard to catch up with the technology," says Ms. Mah, 65, who lives in Kelowna, British Columbia. "He just said it's a type of coin and it's used for investments." Ms. Mah says she still hasn't invested, though her son says he has been putting some aside for her retirement.

Bitcoin is a digital form of money created by software, and designed to allow people to exchange value without any banks or middlemen in between.

The mania shows no signs of slowing, even with the currency's huge price swings. So far in 2018, its price has skyrocketed from about $13,400 to $17,135 and then sunk to as much as $10,370, according to research site CoinDesk. On Tuesday alone, it plunged as much as 25%. Just a year ago, it was trading below $1,000.

How bitcoin trades -- all day, every day, unlike the **stock market**, with the ability to view every single transaction -- only fuels the infatuation.

"It's like an adult videogame," says Jesse Katches, 29, a production assistant in Brooklyn who constantly keeps his phone out, tracking and making trades, even at work. "Sometimes I have to take a deep breath and step away. It will give you a heart attack if you watch it too closely."

At home in Northern California for Christmas, Mr. Katches gave family members small investments in bitcoin and pitched them on investing. It took months to get his dad to invest a little.

"I'm not good on the computer," says Jim Katches, 63. "I'm going to have him do it for me."

Bitcoin is limited to 21 million "coins" but only about 16.8 million have been created so far. Investors don't have to buy a whole coin, and can invest in smaller increments.

Many bitcoin fanatics believe the new form of currency will transform the way financial transactions occur, and thus, upend the broader financial system. They believe in it so passionately, like a newfound way of life, they want you to believe in it, too.

"It's going to prevent wars, help the unbanked and bring honesty to financial systems that we haven't had in forever," says Doug Scribner, 50, of Edina, Minn.

Mr. Scribner says he became obsessed after he bought his first bitcoin in 2011, and works at several startups involved with the currency. He paid for his share of a family cabin in bitcoin, talked a local coffee shop owner into accepting bitcoin over multiple visits and uses it to pay his niece and nephew for chores.

The virtual currency has caused something of a family divide. Mr. Scribner's sister, Nancy Holzer, has resisted investing. "It's just another one of Doug's schemes," says the sixth-grade math teacher from Minnesota. In college, Ms. Holzer blames her brother for losing $2,000 of her money in what they both call a pyramid scheme. Before bitcoin, she says it was silver.

Ms. Holzer's husband, Scott, was less skeptical, and did buy some bitcoin. "I tune it out, but Scott listens to him," says Ms. Holzer.

Ms. Holzer's son Ryan, 13, isn't quite sure what to make of his uncle's bitcoin talk, but described the currency as "kinda cool" -- particularly when Mr. Scribner pays him for chores with it, through an app on his phone. "I might try and buy a hockey stick with it," says Ryan, who was ultimately successful in making his purchase.

Matt Lundquist, a therapist in New York City, says his couples counseling has been sidetracked recently by arguments over bitcoin. In several sessions, aggrieved spouses just couldn't get their heads around their partners' infatuation.

"Bitcoin has brought in a different crew of people who are less prepared for the emotional roller coaster that is investing," says Mr. Lundquist.

A few clients suggested investing, but the therapist has demurred. "I'm OK missing out on the next big thing," he says.

In some cases, bitcoin fever has led to relationship trouble and breakups. Sarah Blincoe of Santa Cruz, Calif., says she lost two friends in recent years while trying to convince them to buy in. Her constant emails, Facebook posts and speeches over shared meals eventually caused a rift.

"I wasn't super socially in tune with the fact that I was bothering people," says Ms. Blincoe, 30, who works at a startup in the cryptocurrency space and says she now edits chatter. "Nobody likes to hear about something they don't understand, over and over again."

In Berlin, Ms. Lucsok says she was able to stop her husband from constantly checking bitcoin's price by "strongly encouraging" him to use a phone-based tracker that alerts him when there are big changes. That strategy backfired in early December when bitcoin hit five $1,000-barriers in just 40 hours, pushing past $16,000 a share. Even Ms. Lucsok was checking the price then, her husband says.

Unabashed, Phil Lucsok admits to talking about bitcoin incessantly, cornering people over dinner, at family gatherings and really, anywhere.

"If anyone gives me an intro into it, I take a mile," the 30-year-old says. If someone asks, "I say, 'This is going to change the world! This is insane!'"



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**Streetwise: The Market Is on a Roll But It's Not All Trump**

By James Mackintosh
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English


What if Hillary Clinton had won? A year on from the inauguration of Donald Trump as president, Democrats are, if anything, more upset than they were then. Investors, not so much. So, where would markets be if Mrs. Clinton, not Mr. Trump, were in charge of the presidential Twitter account?

A few things are clear. There wouldn't have been a huge corporate tax cut. Small-business confidence, based on hopes of less red tape, wouldn't have leaped to the highest since Ronald Reagan's first term as president. Banks wouldn't be expecting an easy ride from regulators. And there would be a lot less fiery rhetoric from the White House.

But let's look at the details. Many of the market-moving changes since the U.S. presidential election would have been just the same. Most important among them: The global economic rebound started before voters picked Mr. Trump and would surely have continued. That rebound has driven up stocks and bond yields world-wide, and the U.S. is only in the middle of the performance table. From the day before the election, Italy, France, Germany and emerging markets have beaten U.S. stocks in dollar terms, including dividends.

Finding the cause of any given price move in a market with millions of participants is an imprecise art, and it is easy to confirm your beliefs. After all, Quinnipiac University polling shows 65% of Republicans strongly approve of the way Mr. Trump is handling the presidency, while 86% of Democrats strongly disapprove. Every fact is seen through partisan glasses.

Yet, even die-hard Clintonites are hard-pressed to argue that stocks would be higher if Mrs. Clinton sat in the Oval Office. Lady Lynn Forester de Rothschild, who runs one of the Rothschild family investment companies, E.L. Rothschild LLC, hosted fundraisers for her friend and was distraught when she lost the election, but accepts that investors have welcomed Mr. Trump's policies.

"The market's definitely liking what Trump is doing," she says. "For now."

Mrs. Clinton wouldn't have focused on tax cuts and deregulation. The corporate tax cuts will boost earnings by about a 10th, supporting stock prices and boosting returns from U.S. investments. Gains from deregulation are hard to quantify but should help small businesses and banks the most.

Immediately after the election, investors priced in much of the Trump agenda, with smaller companies, banks and companies that pay a lot of tax far outperforming the wider market for a few months. Yet, much of it didn't last.

From the election to Wednesday's close, the Russell 2000 index of smaller companies and the **S&P 500** both returned 35%, including dividends. Stocks outside the U.S. made the same 35% in dollar terms.

High-tax companies have done well since the tax cuts gained support in the fall, but according to Goldman Sachs Group Inc. have exactly matched the **S&P 500** since the election.

Surely shareholders in banks, at least, can give Mr. Trump credit for their whopping 57% return? Even here the waters are muddied by rising bond yields. Bank shares have moved closely with **10**-**year Treasury** yields, which are entirely unaffected by talk of lighter regulation. Much of the bank share-price gains are down to the same prospect of higher inflation and higher interest rates that pushed up bond yields.

So would inflation and interest rates be lower under a Democratic president? It is possible. Mr. Trump's election enthused CEOs and small-business owners, and there is typically a link between them feeling positive and stronger hiring and capital expenditure. On the other hand, there has been a similar pickup in hiring and corporate investment in other countries.

"Relative to what's happened I'm not sure the economics would be that different [under Mrs. Clinton]," said Jan Loeys, senior adviser at JPMorgan Chase & Co. "The rebound in the rest of the world would have happened anyway."

The technology sector adds to the confusion. Silicon Valley poured cash into Mrs. Clinton's campaign, and tech shares tumbled along with other expected Trump victims such as Mexico and Obamacare-linked stocks after the election. This makes sense: Leading tech companies already have low tax rates, so gain little from tax cuts, and will be hit by Mr. Trump's clampdown on visas for skilled foreign workers. Yet, the tech sector rebounded and has returned 50% since election eve.

What of the future? Vincent Mortier, deputy chief investment officer at France's Amundi SA, worries that Mr. Trump is creating long-term risks for short-term gain. Tax cuts boost stocks now but could worsen inequality and so put future political stability at risk. Deregulation around energy raises the danger from climate change. And nationalist talk makes an eventual trade war more likely.

America under Mrs. Clinton would have had no corporate tax cut and no deregulation, and probably be a bit less lucrative for investors. But it would be wrong to give Mr. Trump much credit for the faster economy last year, and it is many years too early to know if his policies will provide a lasting boost.



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**Trump's First Year: Businesses Applaud New Policies**

By Ted Mann
616 words
19 January 2018
The Wall Street Journal
J
A5
English


WASHINGTON -- The tax overhaul that President Donald Trump signed into law last month capped a year in which his initiatives on taxes, regulation -- and many of his public pronouncements on the economy -- have been broadly welcomed by business.

It hasn't all been smooth sailing for the president most closely aligned with business interests in decades: He was roundly criticized for his remarks about a deadly white supremacist rally in Charlottesville, Va., last August.

After that, several CEOs resigned in protest from his business advisory councils, although administration officials say they had largely fizzled out by then. In pure policy terms, however, business groups and executives say the $1.5 trillion of corporate-focused tax changes and the bevy of completed and proposed rule changes aimed at cutting regulatory burdens on business have made 2017 a net success for business.

U.S. stock markets soared to records during the first year, benefiting from a mix of pro-business policies, steady corporate earnings and a rebound in global economic growth. The **Dow Jones Industrial Average** recently topped 26000 for the first time, and the **Nasdaq Composite** burst through 7000 for a record.

"If Hillary [Clinton] had been elected, we would have had more regulation and higher taxes," said Byron Wien, an executive at Blackstone Group L.P., on a recent investor call. "Trump was elected; we have less regulation and lower taxes."

Heading into his second year, the president faces some significant decisions that could create tension with business on issues executives care about, such as trade, immigration and health care.

Some of this was captured by Chamber of Commerce President Tom Donohue in his annual address on the state of business. He urged the president not to pull out of the North American Free Trade Agreement, to preserve temporary residency for some 200,000 workers the administration wants to deport and to avoid a confrontation with North Korea. Mr. Donohue also offered support to embattled tech firms who have come under new scrutiny.

Trade presents some particularly difficult decisions. Nafta, and the president's threat to pull the U.S. out of it, remains a concern both for U.S. companies that have grown up around the free trade it brought to the continent, and farmers who have taken advantage of markets in Mexico and Canada that the pact has opened for their exports. China brings its own set of challenges. Many multinational companies and ardent free-traders have grown frustrated, along with Mr. Trump, with what they see as Beijing's backsliding on market-opening promises in recent years.

Still, the companies are nervous about how his administration will ramp up pressure on Beijing. Business leaders are also eager for the Trump administration to make good on a push to refurbish the nation's infrastructure, which has raised expectations for companies across the economy, especially in heavy machinery and construction services. But an almost certain fight looms over how to pay for it, conspiring with election-year pressures to make it that much more difficult.

Other promises from the administration and allies in Congress -- like an effort to rein in entitlement programs -- are viewed with even more skepticism as the time before midterm congressional elections dwindles.

Business advocates are hoping to channel the administration's energies in the coming year, as Mr. Trump hopes to pivot to infrastructure and entitlement changes.

"Business is determined to be a voice of reason and a bridge between sides," Mr. Donohue said. "We're determined to help, and when necessary, correct our government as it does the nation's business."



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The New York Times

Business/Financial Desk; SECTB
**Industrials' Losses Weigh Down Markets**

By THE ASSOCIATED PRESS
570 words
19 January 2018
The New York Times
NYTF
Late Edition - Final
8
English


Losses among Boeing, General Electric and other big industrial companies weighed on stocks in the United States on Thursday, pulling the market below the record highs it set the day before.

Energy stocks contributed to the modest decline following a slide in crude **oil prices**. Technology companies accounted for the biggest gains. Bond yields climbed to their highest level since March as demand for bonds waned.

Investors kept an eye on the latest company earnings news while also monitoring developments in Washington ahead of a possible federal government shutdown this weekend.

The market's dip from its latest highs represents "just a little setback," said Craig Callahan, chief investment officer at ICON Advisers. "We're still **bullish** and expect the market to move higher over the next year."

The **Standard & Poor's 500**-**stockindex** fell 4.53 points, or 0.2 percent, to 2,798.03. The **Dow Jonesindustrial average** lost 97.84 points, or 0.4 percent, to 26,017.81. The **Nasdaq** slid 2.23 points, or 0.03 percent, to 7,296.05.

Losers outnumbered winners by almost three to one.

The major indexes, which hit record highs Wednesday, wavered between small gains and losses for much of the day as investors continued to size up company earnings and economic data.

Traders also kept tabs on Washington, where Republicans and Democrats scrambled to avert a possible federal government shutdown before a midnight Friday deadline.

A shutdown could have a negative impact on consumer spending and financial conditions, though it is unlikely that it would cause lasting or broad damage to the economy, Credit Suisse economists concluded in a note published Thursday.

**Bond prices** fell. The yield on the **10**-**year Treasury** climbed to 2.62 percent from 2.59 percent late Wednesday.

"You're in a little bit of a tough spot with bonds," said J.J. Kinahan, chief market strategist at TD Ameritrade. "Do you want to buy bonds of a government that's shut down? Yet you want to go for bonds whenever you're looking for protection, and the last time the government shut down, bonds actually rallied."

A slide in industrial stocks weighed heaviest on the market Thursday. Boeing had its worst day since September 2016. The stock lost $10.85, or 3.1 percent, to $340.16. General Electric declined 58 cents, or 3.3 percent, to $16.77.

Several banks also reported quarterly results. Morgan Stanley rose after its latest earnings beat Wall Street's expectations. The stock added 49 cents to $55.84. Bank of NY Mellon and KeyCorp declined after their latest results disappointed traders. Bank of NY Mellon lost $2.54, or 4.4 percent, to $55.35, while KeyCorp dropped 44 cents, or 2.1 percent, to $20.82.

A decline in **oil prices** weighed on energy sector stocks. Baker Hughes slid $1.55, or 4.3 percent, to $34.74.

Benchmark crude slipped 2 cents to settle at $63.95 a barrel on the New York Mercantile Exchange.

The dollar declined to 111.05 yen from 111.12 yen on Wednesday. The euro strengthened to $1.2236 from $1.2212.

Gold dropped $10.70 to $1,327.30 an ounce.

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

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The New York Times

Business/Financial Desk; SECTB
**With 2 Openings at the Fed, A Chance to Counter Trump**

By BINYAMIN APPELBAUM
1,268 words
19 January 2018
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NYTF
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1
English


WASHINGTON -- The Federal Reserve is facing a significant change in leadership that goes beyond the installation of a new chairman. It is also awaiting the appointment of two other top officials who will play a crucial role in shaping Fed policy.

President Trump, who has already nominated Jerome H. Powell as the Fed's next chairman, also gets to pick a new vice chairman. But the other open position, the presidency of the Federal Reserve Bank of New York, is not Mr. Trump's choice to make.

The New York Fed chooses its own president, a position that is often described as the second-most powerful at the Fed. The regional bank is responsible for implementing the Fed's monetary policy decisions -- raising or lowering interest rates through the purchase and sale of financial assets -- and it oversees many of the nation's largest financial institutions.

Some of Mr. Trump's political opponents see an opportunity to fill that opening with a counterweight to the president's economic agenda.

''The appointment of the next New York Fed president is the most powerful appointment in America that Donald Trump doesn't control,'' said Marcus Stanley, policy director of Americans for Financial Reform, which lobbies in favor of strong regulation. ''Our job is making sure everyone knows the stakes of this appointment, and making sure their interests as working people are protected.''

It is unusual for the Fed's top three jobs to change hands at the same time. Janet L. Yellen, the Fed's chairwoman, plans to step down at the end of her term in early February, pending the confirmation of Mr. Powell. The Senate Banking Committee, which approved his nomination last session, did so again on Wednesday, clearing the way for a final vote.

The vice chairman job has been open since Stanley Fischer stepped down in October. And William C. Dudley, the New York Fed's outgoing president, has said that he plans to step down this summer, once a successor is in place.

The Fed's new leaders will take the helm during a period of relative tranquillity. The economy is expanding and the Fed is in the middle of a slow-and-steady retreat from its post-crisis stimulus campaign. But there are significant long-term challenges, including a brewing debate about whether the Fed should adjust the way that it conducts monetary policy before the next downturn.

Krishna Guha, head of the central bank strategy team at Evercore ISI, wrote in a recent note to clients that Mr. Powell does not have a deep background in monetary policy or **financial markets** -- and might benefit from the presence of lieutenants who do.

''For Powell to be effective, he needs the right leadership team around him,'' wrote Mr. Guha, a former New York Fed official. He added, ''While most decisions taken by even a Fed chairman are in the end not make-or-break, most Fed chairs face at least one profoundly consequential decision during their tenure.''

The Trump administration has discussed some vice-chairman candidates who could fit the bill, including Lawrence B. Lindsey, a former Fed governor and director of the National Economic Council under President George W. Bush, and Mohamed A. El-Erian, the chief economic adviser at Allianz, who is widely respected as both an investor and a commentator on monetary policy, according to a person who has participated in some of those conversations.

The White House has not said when it plans to announce a decision.

The New York Fed's board of directors, which is at an earlier stage in its search, has said that it was focused on finding a technocrat who understood the bank's work.

But technocrats come in many flavors, and there are signs that the New York Fed would like someone in the mold of Mr. Dudley or Ms. Yellen, both of whom have emphasized the effects of monetary policy on ordinary people.

''How monetary policy is considered seems very high-level for many people in the community, but it has a direct impact on how well they may do economically,'' Denise Scott, a member of the four-person search committee, said in a video released by the New York Fed that described what it's looking for in a candidate. Ms. Scott is executive vice president of the Local Initiatives Support Corporation, a nonprofit that backs community development projects.

The leaders of the search committee are Sara Horowitz, the executive director of a New York labor union, and Glenn Hutchins, a private equity executive who has long been a major donor to Democratic political candidates. The fourth member is David M. Cote, chairman of Honeywell International.

The committee has hired two search firms, one of which specializes in identifying a diverse field of candidates. It also made a point of meeting with a group of liberal activists, including labor unions and community development groups, in addition to the standard roster of banks and business officials.

The divergent selection processes are an artifact of the Fed's structure: A board of political appointees in Washington oversees the operations of 12 regional reserve banks, which are privately owned by the commercial banks in each region. The New York Fed is owned by major banks including Citigroup and JPMorgan Chase as well as smaller community banks.

Although the regional reserve banks have lost much of their original autonomy, they retain the power to select their own presidents, subject to the approval of the Federal Reserve Board in Washington.

Monetary policy is made by a committee comprising the Fed's governors and five of the regional presidents. The president of the New York Fed holds one of those votes on a permanent basis, a reflection of New York's longstanding role as the nation's financial center, and serves as the committee's vice chairman. The remaining four votes rotate among the other 11 regional banks.

While private ownership of central banks was once quite common, most developed nations have converted to fully public systems, and the list of holdouts is dwindling. Austria took ownership of all shares in the Oesterreichische Nationalbank in 2010. South Africa said in December that it would move to take full ownership of the South African Reserve Bank.

Andrew Levin, a Dartmouth economist and a former Fed official, said it's past time to make the Fed a fully public institution, too. Mr. Levin has proposed that the federal government should take ownership of the regional reserve banks, and that the selection of regional reserve presidents should be a public process.

''This is one of the most important public officials in the United States and that person is being chosen by a private board of directors of a private institution,'' he said, referring to the New York Fed's current search.

But some liberal activists who, under the Obama Administration, pushed for the government to take control of the reserve banks now see the New York Fed's independence from Washington as potentially valuable.

Shawn Sebastian, director of the Fed Up campaign, a consortium of groups that lobbies the Fed to prioritize employment and wage growth when making monetary policy, said his organization is pushing for the New York Fed to make a statement with its decision.

''The next president needs to have a real and demonstrated commitment to full employment, by having worked for the public interest and low-income people in their career,'' he said.

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

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THE WALL STREET JOURNAL.
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**Banking & Finance: SEC Hands Setback To Bitcoin ETFs**

By Dave Michaels and Asjylyn Loder
189 words
19 January 2018
The Wall Street Journal
J
B10
English


Wall Street's top regulator on Thursday all but shut the door to approving exchange-traded funds that hold bitcoin and other cryptocurrencies, questioning whether the products could comply with rules meant to protect mom-and-pop investors.

The Securities and Exchange Commission outlined its views in a letter to two Wall Street trade groups whose members envision the profits that could flow from selling exposure to bitcoin through popular investment vehicles such as ETFs and mutual funds. The SEC questioned how bitcoin's **volatility** and potential illiquidity would fit with funds that must calculate a fair market price for their portfolio at the end of every trading day and allow investors to easily cash out.

"Until the questions identified above can be addressed satisfactorily, we do not believe that it is appropriate for fund sponsors to initiate registration of funds that intend to invest substantially in cryptocurrency and related products," the SEC's director of investment management, Dalia Blass, wrote in the letter made public Thursday.



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THE WALL STREET JOURNAL.
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Heard on the Street
**Discount the D.C. Standoff At Your Peril**

By Justin Lahart
266 words
19 January 2018
The Wall Street Journal
J
B12
English


[Financial Analysis and Commentary]

The economy would have no problem weathering a temporary government shutdown. That doesn't mean investors should be complacent about one.

With congressional Republican leaders struggling to round up the support they need for a stopgap funding bill and Democrats preparing to withhold support unless it provides protections for Dreamers, the chances of a shutdown are rising. If a deal doesn't emerge by Friday, government workers who are deemed nonessential will be furloughed, many federal contracts with businesses will be suspended and government services that support private firms will be halted.

It would be a drag on the economy as federal workers spend less and many government-dependent businesses, such as defense contractors, slow or stop operations. The two-week shutdown in October 2013 shaved about half a percentage point off fourth-quarter economic growth that year, according to separate estimates from JPMorgan Chase and Moody's Analytics. Even so, the economy kept chugging along, as it did during two shutdowns in the mid-1990s. And the **stock market** hardly faltered, with the **S&P 500** ending the year at a record.

Still, a shutdown hardly augurs well for policy this year. The government will run out of cash to pay its bills if its borrowing limit isn't raised next month, setting the stage for another debt-ceiling fight.

Last year's tax cut and regulatory rollbacks had investors celebrating the news coming out of Washington. This year will be different.



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The New York Times

World; Europe
**Rising Oil Prices Buoy Russia's Economy, Despite Sanctions**

By ANDREW E. KRAMER
976 words
18 January 2018
02:29 PM
NYTimes.com Feed
NYTFEED
English


MOSCOW — In Russia, as in Texas and other energy-dependent regions around the globe, a rising tide (of oil) lifts all boats.

That helps explain why on Thursday, as four American senators asked the State Department and other government agencies to blacklist two senior officials, the Russian **stock market** rose.

It was not the prospect of more sanctions, of course, that was buoying the Moscow markets but the global price of oil, which has been soaring to heights not seen in several years.

"Sanctions are important, that is for sure, especially for the market and for debt and equity investors, but for G.D.P. and the life of ordinary Russians, oil is far more important," said Vladimir Osakovskiy, chief economist for Bank of America Merrill Lynch in Moscow, referring to Russia's gross domestic product.

Rising global **oil prices**, which hit a three-year peak last week above $70 a barrel, are brightening Russia's once gloomy outlook.

Goldman Sachs has forecast economic growth of 3.3 percent for 2018, well above even the government's own estimates. Consumer spending is picking up. Inflation has dropped to 2 percent, a level once unimaginable for Russia.

For years, Russian government officials have argued that the country's pariah status and Western sanctions were not having much effect.

But in a sign of how quickly Russia's economy has turned around, the country's economic development minister wound up this week actually trying to tamp down what he described as too-rosy expectations of a strong recovery, such as the one outlined in the forecast by Goldman.

"I think that, for now, there's no basis for such optimism," the minister, Maksim S. Oreshkin, told reporters at the Gaidar Forum, an annual economic conference in Moscow.

To be sure, nobody is predicting a return to the oil boom years, and sanctions imposed by the European Union, the United States and other nations have hobbled important state-owned companies and banks.

Yet the **oil price** rise in the first weeks of the year, if it persists, could shift the economic landscape for Russia and outweigh the ill effects of sanctions.

The price rise so far, for example, is outweighing any negative effects on the Russian economy from the threat of new sanctions from the United States for the Kremlin's election meddling.

In compliance with a law Congress passed last summer, the Treasury Department is expected to release on Jan. 29 a blacklist of Russian businessmen deemed close politically to President Vladimir V. Putin.

On Thursday, four Republican senators, Roger Wicker, Marco Rubio, Cory Gardner and Lindsey Graham, urged the State Department and other agencies to expand the blacklist with the inclusion of two senior business and government figures — Alisher B. Usmanov, a metals magnate and onetime investor in Facebook, and Yuri Y. Chaika, Russia's prosecutor general.

But the global price of petroleum products like oil and natural gas, which account for about 50 percent of Russia's exports, has a greater sway over Russia's economy than sanctions imposed after the Ukraine crisis and meddling in the American election, economists say.

"Cheap loans are unavailable to most Russian companies," because of sanctions, Aleksander Y. Abramov, a professor at the Russian Academy of National Economy and Public Administration, said in a telephone interview. "But that is a midterm problem. In the short term, the rising **oil prices** are a factor for growth."

Also, Russia's economy grew last year despite a production-cutting agreement with the Organization of the Petroleum Exporting Countries. That deal remains in effect, but rising global **oil prices** suggest it could be unwound sometime this year, further helping Russia's economy.

In Russia, as in other petroleum-dependent countries, high **oil prices** have often proved to be a curse. With plenty of money, there is no incentive for the government to spur growth in nonnatural resource sectors, while the strong currency that comes with the influx of petrodollars makes it hard for other Russian industries to compete globally.

Historically, periods of low **oil prices** have been associated with market liberalization in Russia, beginning with the Soviet-era reforms of perestroika and glasnost under Mikhail S. Gorbachev in the 1980s and continuing with the introduction of a flat tax and other business-friendly measures at the turn of the century.

High **oil prices**, in contrast, have correlated with political repression and assertive foreign policy moves in Moscow, from the invasion of Afghanistan in 1979 to the war in Georgia in 2008 and the intervention in Ukraine in 2014.

Unfortunately, from a Western perspective, that correlation seems to have broken down lately, with Mr. Putin steadfastly refusing to yield to Western pressures despite the three-year slump in **oil prices**.

The average Russian is expected to benefit from the **oil price** rise in one direct way. After the presidential election in March, the government was expected to announce an unpopular overhaul of the pension system that analysts say is necessary for longer-term growth. Russia currently has one of the world's lowest retirement ages, 55 for women and 60 for men. (At 71.87 years, it also has one of the developed world's lowest life expectancies.)

Under new rules, the retirement age for men and women was set to rise to 65. That now seems less likely, as the government is predicting a budget surplus.

* Trump Signs Russian Sanctions Into Law, With Caveats

* Trump Administration Sends Congress List of Possible Russia Sanctions

* Russia Is Returning to Growth. (Just in Time for an Election.)

An aerial view of the Moscow Oil Refinery in the Chagino-Kapotnya industrial zone in Russia. A rally in **oil prices** has lifted the gloom surrounding the Russian economy. | Sergei Bobylev/TASS, via Getty Images

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
**Dow Closes Above 26,000 On Record Day for Market**

By THE ASSOCIATED PRESS
1,004 words
18 January 2018
The New York Times
NYTF
Late Edition - Final
2
English


A broad rally on Wall Street propelled the **Dow Jonesindustrial average** to close above 26,000 points for the first time Wednesday.

The sharp gains also delivered record highs for the **Standard & Poor**'**s500 index** and the **Nasdaq composite**, wiping out the market's modest losses from a day earlier.

Technology and health care companies accounted for much of the gains. Financials stocks also rose, even as some big banks fell after reporting hefty quarterly losses.

"As yesterday's pullback suggests, investors and traders will come back into a market in which they still see an upside," said Quincy Krosby, chief market strategist at Prudential Financial. "But the market remains overbought, and an overbought market is susceptible to a pullback."

The Dow gained 322.79 points, or 1.3 percent, to 26,115.65.

The **S&P 500 index** rose 26.14 points, or 0.9 percent, to 2,802.56. The **Nasdaq** added 74.59 points, or 1 percent, to 7,298.28. The Russell 2000 index of smaller-company stocks picked up 13.69 points, or 0.9 percent, to 1,586.66.

The Dow traded above the 26,000-point threshold on Tuesday, but wound up closing lower. Its surge Wednesday was driven in part by a gain in Boeing, which posted the biggest gain in the 30-company average.

With the **stock market** reaching records so often, 1,000-point moves in the Dow have become increasingly commonplace. It's been just eight trading days since the Dow had its first close above 25,000 on Jan. 4. That's faster than the 23 days it took the Dow to go from 24,000 to 25,000 points.

The **stock market** is off to a stellar start in 2018. The **S&P 500 index** has closed lower only twice this year. It capped last week with its seventh weekly gain in the past eight.

Investors have been encouraged by strong global growth, rising company earnings and the prospects for further corporate profits thanks to the tax overhaul signed into law last month, which cut the top tax rate for corporations from 35 percent to 21 percent.

Technology stocks were again some of the biggest winners. Lam Research led the **S&P 500** with a gain of $14.69, or 7.7 percent, to $205.08. Investors also bid up health care stocks, including Anthem. The insurer added $7.40, or 3.1 percent, to $249.15.

Industrial stocks rose after the Federal Reserve said U.S. industrial production increased 0.9 percent in December. Boeing rose $18.85, or 4.7 percent, to $351.01.

Juno Therapeutics soared 51.9 percent after the Wall Street Journal reported that biotech drugmaker Celgene might buy it. Juno is one of several companies developing therapies that involve genetically engineering patients' blood cells to fight cancer. Juno rose $23.65 to $69.25. Celgene fell $2.80, or 2.7 percent, to $102.02.

Some big companies were left out of Wednesday's rally.

Ford Motor slumped 7 percent after the automaker gave a disappointing profit forecast for the year because of weaker sales in the U.S., higher commodity costs and its investments in new electric and hybrid cars. The stock was the biggest decliner in the **S&P 500**, giving up 92 cents to $12.18.

Goldman Sachs and Bank of America also closed lower after their latest quarterly results disappointed Wall Street.

Goldman said it lost $1.93 billion in the fourth quarter as the investment bank had to record more than $4 billion in charges related to the new tax law. Goldman's trading desks had a weak quarter. The stock declined $4.81, or 1.9 percent, to $253.65.

Bank of America's fourth-quarter profits fell by nearly half from a year ago, as the bank had to book $2.9 billion in charges related to the tax law. The stock slid 6 cents, or 0.2 percent, to $31.18.

U.S. crude added 24 cents to $63.97 per barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, rose 23 cents to $69.38 a barrel.

Gold rose $2.10 to $1,339.20 an ounce. Silver dropped 2 cents to $17.17 an ounce. Copper fell 3 cents to $3.19 a pound.

The dollar rose to 111.13 yen from 110.30 yen on Wednesday. The euro fell to $1.2235 from $1.2271.

The price of bitcoin extended its slide Wednesday, though by late afternoon it had pared most of its losses from earlier in the day. The digital currency fell 1.6 percent to $11,172, according to the tracking site CoinDesk.

Bitcoin futures on the Cboe Futures Exchange fell 2.6 percent to $10,820. The futures allow investors to make bets on the future price of bitcoin. Many finance pros believe bitcoin is in a speculative bubble that could burst any time.

Heating oil futures gained a penny to $2.07 a gallon. Wholesale gasoline added 2 cents to $1.86 a gallon. Natural gas picked up 10 cents, or 3.3 percent, to $3.23 per 1,000 cubic feet.

European markets finished lower. Germany's DAX lost 0.5 percent, while the CAC 40 in France slipped 0.4 percent. Britain's FTSE 100 declined 0.4 percent.

Japan's Nikkei 225 index lost 0.4 percent, while the Kospi in South Korea shed 0.3 percent. Hong Kong's Hang Seng rebounded from earlier losses to gain 0.3 percent.

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

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Wednesday. (Source: Reuters); Industrial Production: Index of total industrial production, 2012 = 100, seasonally adjusted. (Source: Federal Reserve)

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THE WALL STREET JOURNAL.
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**U.S. News: Cold Weather Lifts U.S. Output --- Industrial production rose 0.9% last month as utilities got a boost from a frigid stretch**

By Sarah Chaney
400 words
18 January 2018
The Wall Street Journal
J
A5
English


WASHINGTON -- U.S. industrial production rose sharply in December, boosted by gains in utilities output as cold weather swept across the nation and increased demand for heating.

Industrial production -- a measure of output at factories, mines and utilities -- rose a seasonally adjusted 0.9% in December from the prior month, the Federal Reserve said Wednesday.

November industrial production was revised to a 0.1% decline from an originally reported gain of 0.2%.

From a year earlier, industrial production rose 3.6% in December, the largest annual gain since 2010. In the fourth quarter as a whole, industrial production jumped 8.2% at an annual rate "after being held down in the third quarter by Hurricanes Harvey and Irma," the Fed said.

"This is a story about the cold weather and the rebound in oil production in the wake of higher prices," said Ian Shepherdson, chief economist at Pantheon Macroeconomics, in a note to clients. "With oil production likely to keep rising, production should start 2018 strongly."

Wednesday's report showed output in the **volatile** mining sector increased 1.6% in December, which the Fed said was mainly because of a gain in oil and gas extraction. The mining index was up 11.5% from a year earlier.

Utility output grew 5.6% from the prior month, "as the record-breaking cold weather in the Northeast boosted electricity and gas demand," said Michael Pearce, senior U.S. economist at Capital Economics, in a note to clients.

Manufacturing output, the biggest component of industrial production, edged up 0.1% in December. The December increase shows a pullback in growth from October and November, when output grew 1.5% and 0.3%, respectively.

Capacity use, a measure of slack in the industrial economy, increased 0.7 percentage point to 77.9% in December.

The longer-term trend in manufacturing has illustrated a pickup in the sector over the past year because of a weaker dollar, more stable **oil prices** and global economic growth.

The U.S. factory sector posted one of its best months of the economic expansion in December as sales hit a 14-year high, the Institute for Supply Management said earlier this month.



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**'Melt-Up' Powers Dow Past 26000 --- Mood shifts to greed from fear, as investors don't want to miss out on continuing rally**

By Corrie Driebusch, Michael Wursthorn and Chris Dieterich
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The **Dow Jones Industrial Average** closed above 26000 for the first time on Wednesday, sprinting to a 1,000-point milestone just eight trading days after toppling the previous one, its fastest run ever.

The most recent gains have been propelled in part by a sudden hunger for stocks among certain money managers and individual investors who have long been wary of the nearly nine-year **bull market**.

Some market observers have dubbed this phenomenon "Fear of Missing Out," as **stock-market** records fall on an almost weekly basis. Others refer to a "melt-up" market, where the prevailing mood is shifting to greed from fear and investors stampede in without worrying much about valuation or fundamentals.

Whatever it is called, many analysts say the recent change in ethos is transforming what has been considered one of the most unloved rallies into a newly beloved one. Some acknowledge it is hard to justify staying out of the market when stocks rise regularly.

"I heard the word 'melt-up' twice on the radio today," John Briggs, head of strategy in the Americas at NatWest Markets, wrote in a Tuesday client note. "It wouldn't surprise me to see the current risk-on mood continue, even as it does honestly worry me to some degree."

The Dow industrials rose 322.79 points, or 1.3%, to 26115.65, on Wednesday, as gains in aerospace giant Boeing pushed the blue-chip index higher.

The **Nasdaq Composite** Index closed at an inflation-adjusted record for the first time in nearly two decades, surpassing its peak closing level from March 2000 at the height of the tech boom. Adjusting for inflation offers a sense of how the purchasing power of money invested in the **Nasdaq** changes.

A recent Bank of America Merrill Lynch survey concluded fund managers are increasingly **bullish**. Average cash balances among portfolio managers also fell to 4.4% this month, a five-year low, the survey found. The majority of investors who participated in a January poll said they expect the **stock market** to peak in 2019 or beyond. A month ago, the majority expected a top in the second quarter of 2018.

Investors joining the party late at least have history on their side. On average, roughly 40% of a **bull market**'s gains accrue in the first 12 months and an additional 32% pile on during the final 12, according to Longview Economics.

And stocks appear to be gaining steam. One-third of the **S&P 500** ended Friday at their highest prices in at least a year, the strongest "breadth" reading since 2013, according to MKM Partners. At least nine out of 10 stocks within six **S&P 500** sectors last week coasted above their 50-day moving averages, another rare show of strength, according to Bespoke Investment Group.

Even small investors are showing new faith. About 60% of individual investors said this month they think the **stock market** will go higher over the next six months, the highest percentage since 2010, according to a recent American Association of Individual Investors survey.

"I'm more aggressive than I have been," said Maurice Martin, a 62-year-old software sales retiree who lives outside of Atlanta. He has been buying financial stocks because he thinks they will benefit from any rise in interest rates and eventually from lower taxes.

The main engine propelling stocks higher has been record-low interest rates, many investors believe, and an exorbitant amount of stimulus from the world's major central banks. These forces encouraged risk, pushing big institutional investors into stocks when bond yields were too low to get needed returns.

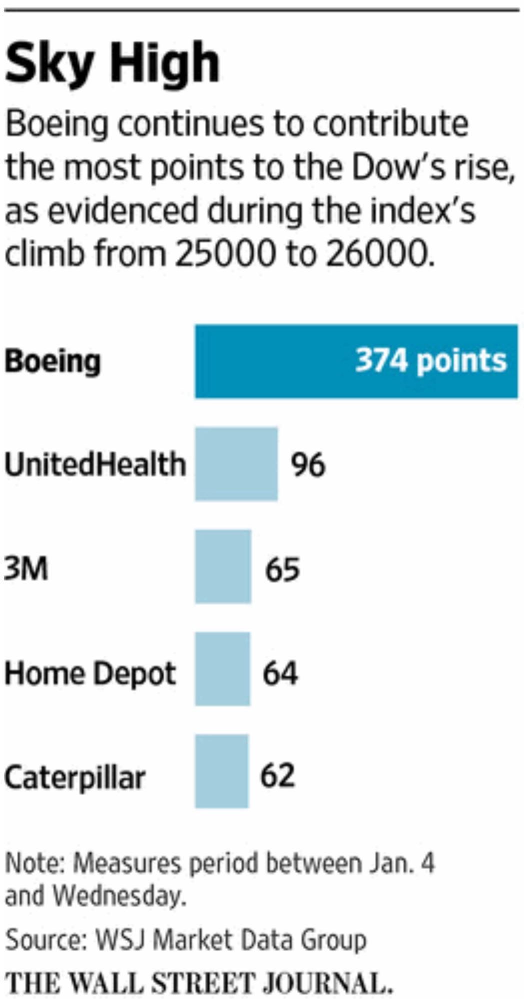
Now, the new bulls say, stock prices are rising for more fundamentally sound reasons. U.S. economic growth was better than 3% in the third quarter, its fastest pace in more than two years.

The new U.S. tax law that cuts corporate rates to 21% from 35% is likely to give earnings another lift. Goldman Sachs analysts estimate the new law will boost per-share earnings growth in the **S&P 500** by 5% in 2018.

Some say the quick rise is a little too reminiscent of the tech-heavy **Nasdaq Composite**'s run in late 1999 and early 2000.

Andrew Slimmon, senior portfolio manager with Morgan Stanley Investment Management, said he is concerned that recent **stock-market** converts could bail out as quickly as they got in, exacerbating the next downturn.

"My fear is the market goes down and people run away," he said.



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**Tax Law To Drive Savings, Buybacks**

By Theo Francis
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Some of the biggest U.S. companies are promising sizable annual savings, bigger pension contributions, higher dividend payments and more extensive stock buybacks as executives discuss the impact of the federal tax overhaul.

The announcements come as companies begin to report what are expected to be strong fourth-quarter financial results. A focus will be executives' expectations for how their operations and results this year will be affected by the tax law, which lowered the corporate rate to 21% from 35% and ended U.S. taxes on most future foreign income.

"The macro environment is as positive as we've seen in many years," Citigroup Inc. Chief Executive Michael Corbat told investors Tuesday morning. "Tax reform could change the sentiment among those making investment decisions from optimism to confidence and become the boost the U.S. economy needs to drive growth higher."

UnitedHealth Group Inc. and FedEx Corp. have raised profit targets for 2018, citing the tax law. Companies including laboratory operator Quest Diagnostics Inc. have predicted sharply lower effective tax rates starting this year. For a few companies, including Citigroup and General Motors Co., the legislation will result in big accounting charges in the current quarter.

Overall, analysts expect **S&P 500** companies to mark their sixth straight quarter of earnings and revenue growth. Profits are expected to jump 11.9% over the final quarter of 2016, while revenues are expected to rise 7%, according to Thomson Reuters.

Corporate profits have been powered by a healthy economic expansion, especially in the U.S. Low unemployment has spurred spending by consumers, and improving sentiment and demand have stirred business investment, economists say. A forecast from the Federal Reserve Bank of Atlanta projects 3.3% growth in the gross domestic product for the fourth quarter, well above a postrecession pace of 2%.

It is a long way from the hopeful but anxious atmosphere that prevailed in boardrooms a year ago. Then, corporate chiefs lobbied Congress and President Donald Trump's fledgling administration seeking tax cuts, even as some expressed worries that the new president would disrupt global commerce with protectionist trade policies and roil labor markets by tightening immigration.

Executives of Delta Air Lines Inc. recently said they expect business and domestic travel will get a boost from the tax overhaul, in part as companies have more cash to invest in operations. "We haven't seen that materialize yet, but we expect that to materialize in the first quarter," Delta President Glen Hauenstein told investors Thursday.

Veterinary drugmaker Zoetis Inc. said it expected its effective tax rate will fall to about 21% or 22% this year from 29% in 2017. Chief Financial Officer Glenn David said the tax overhaul doesn't change the company's priorities, which are reinvesting in the business, pursuing acquisitions and returning capital to investors, in that order.

"But with tax reform, with greater access to cash world-wide, it does give us greater flexibility," Mr. David said.

Even where executives see momentary risks, they say the broader picture remains rosy. Executives at bank holding company Comerica Inc. said Tuesday that lending could slow for a time as the tax overhaul leaves customers with more cash.

"Short term, it could have an impact in terms of lessening the borrowing need," Curtis Farmer, the bank's president, told investors. "But longer term, I think it's very positive for the economy."

So far, companies have been circumspect about their plans for the savings -- and for how they plan to use more than $1.5 trillion in foreign profits sequestered outside the U.S. that the law makes more accessible domestically.

Drugmaker AbbVie Inc. had accumulated about $29 billion in such profit outside the U.S. as of the end of 2016, its securities filings show. Last week, AbbVie executives said they plan to improve employee benefits, contribute more to the company's pension plans and make bigger charitable contributions.

"This will provide increased flexibility for capital deployment, including incremental investments here in the U.S.," CEO Richard Gonzalez said. Still, the company expects to generate far more cash than it can use productively in the business, he added, calling it fair for investors to expect AbbVie to increase the pace at which it pays dividends and buys back shares.


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The New York Times

Business/Financial Desk; SECTB
**Bitcoin Price Declines as Virtual Currency Bubble Deflates**

By NATHANIEL POPPER and NELLIE BOWLES
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SAN FRANCISCO -- The air has been swiftly leaking out of the virtual currency bubble.

A decline in virtual currency prices that began before Christmas has picked up pace in recent days as concern has grown that governments could crack down on the new industry.

For a time on Wednesday, the price of Bitcoin dipped below $10,000 -- taking it down to about half what it was at its peak last month.

Other virtual currencies have been falling even faster. Ripple, which was briefly second in value after Bitcoin, has lost more than two-thirds of its value from the high it hit early this month.

The falling prices have been serious enough to prompt online posts with suicide hotlines for virtual currency investors in despair.

The declines are likely to be particularly painful for people who took out debt to buy virtual currencies at high prices. Even the lows hit on Wednesday are still well up -- some 1,000 percent -- from where Bitcoin began 2017. But that is little comfort for the people who purchased late last year.

One person on Reddit wrote about persuading family members to buy digital tokens late in 2017 and regretting it.

''Fast forward to today,'' the user, going by the screen name PM_ME_UR_ROOM_VIEW, wrote. ''I opened my phone and I find a barrage of messages from them accusing me of scamming them and tricking them into crypto because they lost money, I tried to explain to them that this is normal and it will bounce back soon and it's just a correction and don't sell but they aren't listening.''

For skeptics of virtual currencies, the falling prices have provided some vindication.

''Most people are buying Bitcoin, not because of a belief in its future as a global currency, but because they expect it to rise in value,'' a note from economists at Capital Economics said on Wednesday. ''Accordingly, it has all the hallmarks of a classic speculative bubble, which we expect to burst.''

The pessimism in recent days has been fed by several reports that governments around the world were planning to tighten the reins on virtual currency trading.

South Korean officials have said they were contemplating shutting down the virtual currency exchanges that have popped up over the past year. South Korea has seen the most frenzied surge of ordinary investors throwing their savings into Bitcoin and other digital tokens.

The Chinese government has already shut down exchanges in China, but it was recently reported to be taking even further measures against new forms of online trading as well as Bitcoin mining operations in the country.

Regulators in the United States have continued to crack down on smaller virtual currencies like Bitconnect, which has been described as a Ponzi scheme by many in the industry.

Bitcoin, which began in 2009, has been through these sorts of wild swings before. The price spiked in late 2013 to above $1,000, before moves by the Chinese government sent the price sliding. It was only last year that the price again recovered to the same levels.

Since that recovery, an array of virtual currencies have been on a nearly uninterrupted tear. With Bitcoin, investors have been betting that it could be a new kind of asset, outside the control of any government, something like digital gold.

Investors have also been putting money into newer virtual currencies like Ethereum and Ripple, which were designed to do more sophisticated types of transactions than Bitcoin.

The excitement has been amplified by hedge funds that were created in the last year to invest in virtual currencies and by Wall Street institutions that have expressed an interest.

But investments in these new tokens have far outstripped their real-world use in the types of transactions for which they are intended. Ripple, for example, is supposed to help financial institutions transfer money across international borders. But only a few institutions have said they are using the currency, known as XRP, for that purpose.

Some longtime virtual currency investors have said that a major price pullback was necessary after the hype had gotten so far ahead of the reality.

"This is the ecosystem purging the 'easy money' crowd that arrived in past couple months," Spencer Bogart, a partner with the hedge fund Blockchain Capital, wrote on Twitter.

Prominent individual investors echoed that sentiment. "I usually recommend people to buy during dips like these if they were hesitant to enter the market before because you can get in on a discount," said James Spediacci, who with his brother Julian runs an investment club for virtual currency investors.

Monica Quaintance, lead engineer at a company working on technology related to digital currencies and an organizer of events for women interested in them, said investors should expect price **volatility** until there is strong government regulation. "People want to know that if they make a lot of money from Bitcoin they're going to be able to keep the money," Ms. Quaintance said.

But for those less enamored of the technology, the declines are viewed as the beginning of an even steeper fall.

"The latest price falls suggest that the bubble is bursting -- although with prices still ten times higher than a year ago, they have a lot further to fall yet," Capital Economics wrote.

Follow Nathaniel Popper and Nellie Bowles on Twitter: @nathanielpopper and @NellieBowles

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**Apple Set To Pay Big Tax Bill, Touts U.S. Spending**

By Tripp Mickle
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Apple Inc. said it would pay a one-time tax of $38 billion on its overseas cash holdings and ramp up spending in the U.S., as it seeks to emphasize its contributions to the American economy after years of taking criticism for outsourcing manufacturing to China.

The world's most valuable publicly listed company laid out its plans Wednesday in a statement that was full of big-dollar figures, though it said that much of the money reflected Apple's current pace of spending.

Apple said it would invest $30 billion in capital spending in the U.S. over five years that would create more than 20,000 jobs. The total includes a new campus, which initially will house technical support for customers, and $10 billion toward data centers across the country. It also will expand from $1 billion to $5 billion a fund it established last year for investing in advanced manufacturing in the U.S.

Apple's $38 billion tax commitment is the largest such sum announced in response to the major overhaul of the U.S. tax code that President Donald Trump signed into law late last year. That law included an incentive for U.S. companies to bring home offshore holdings, with companies required to pay a one-time tax of 15.5% on overseas profits held in cash and other liquid assets.

U.S. companies have long pushed for such a change to enable them to repatriate overseas cash without what they considered an excessive tax hit. Apple on Wednesday cited the tax changes as the reason for its $38 billion payment. It didn't say how much of its $252.3 billion in overseas cash holdings it plans to bring home, though it will be the vast majority, Chief Executive Tim Cook told ABC News in an interview.

All told, Apple said it would directly contribute $350 billion to the U.S. economy over the next five years, with the bulk -- about $55 billion this year, for example -- coming from ongoing spending on parts and services from U.S. suppliers. That number also includes the federal tax payment and capital spending.

Mr. Cook touted the plans as building on Apple's support for the U.S. economy. "We have a deep sense of responsibility to give back to our country and the people who help make our success possible," he said in a statement.

The company said in November that it had earmarked $36 billion to cover deferred taxes on that money, assuming that it would eventually pay U.S. taxes on a portion of it by bringing it home.

Mr. Trump praised Apple's announcement on Twitter, saying his policies allowed the tech giant "to bring massive amounts of money back to the United States." He added, "Huge win for American workers and the USA!"

Apple didn't provide historical comparisons for some of the figures it gave Wednesday. The company previously said it planned $16 billion in capital expenditures world-wide in the fiscal year that ends this September, up from $14.9 billion the previous year. However, Apple doesn't break out its spending in the U.S., making it difficult to gauge how much of the $30 billion over five years it announced Wednesday is new.

Toni Sacconaghi, an analyst with Sanford C. Bernstein & Co., said Apple's plans are in line with Trump administration goals, but it isn't clear how many of the commitments are new. And he said the company could deliver on those commitments with existing cash flow -- without needing to tap cash holdings.

"It's a nice number and puts a foot forward in line with where the administration wants to go with adding jobs and building in the U.S.," he said. But "it's not clear these investments were impacted in any way by tax reform."

Apple has faced criticism over the past decade for overseas manufacturing of its iPhones, of which it has sold more than one billion, rather than making them domestically. Mr. Trump during the presidential campaign blasted the company for outsourcing. He later called on Apple to build a factory in the U.S. and last year said Mr. Cook promised to build three plants in the U.S. Apple also has been the poster child for parking overseas profits offshore, and U.S. lawmakers and others have claimed the company sought to avoid U.S. and international taxes -- a criticism Apple has strongly rejected.

Apple has responded over the past year by pointing to its spending on procurement in the U.S. and to the size of the so-called app economy spawned by the iPhone, which the company says has created more than 1.6 million U.S. jobs.

The tax overhaul's one-time levy on overseas cash is often referred to as a repatriation tax, although it applies whether companies leave their foreign profits overseas or bring them to the U.S. It is intended as a transition from the previous tax system, under which the U.S. taxed all world-wide profits of an American company except those kept overseas, to the new system, in which the U.S. won't tax most foreign profits at all. Companies may choose to pay the one-time tax over eight years.

The $38 billion in taxes Apple owes reflects its growth in the decade since Congress last reduced taxes on overseas holdings. In 2006, Apple recorded a tax charge of $51 million as it repatriated $1.6 billion in cash held overseas for the fiscal year.

A tax obligation of $38 billion would work out to about 15% of the **S&P 500**'s total obligation under the repatriation tax, based on figures from the Journal analysis and a separate analysis by Zion Research Group. Altogether, the Joint Tax Committee estimated last month, the tax should raise about $339 billion over 10 years from all companies -- meaning Apple could account for 11% of the total.

Apple also told employees Wednesday it is issuing each of them a bonus of $2,500 in restricted stock, according to a person familiar with the matter.

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Theo Francis, Richard Rubin and Natalia Drozdiak contributed to this article.



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