The New York Times

Business Day; Economy

Tax Law Offers a Carrot to Gig Workers. But It May Have Costs.

By NOAM SCHEIBER
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English

The new tax law is likely to accelerate a hotly disputed trend in the American economy by rewarding workers who sever formal relationships with their employers and become contractors.

Management consultants may soon strike out on their own, and stockbrokers may hang out their own shingle.

More cable repairmen and delivery drivers, some of whom find work through gig economy apps like Uber, may also be lured into contracting arrangements.

That’s because a provision in the tax law allows sole proprietors — along with owners of partnerships or other so-called pass-through entities — to deduct 20 percent of their revenue from their taxable income.

The tax savings, which could be around $15,000 per year for many affluent couples, may prove enticing to workers. “If you’re above the median but not at the very, very top, one would think you’d be thinking it through,” said David Kamin, a professor of tax law at New York University.

The provision may also turn out to be a boon for employers who are trying to reduce their payroll costs. Workers hired as contractors, who tend to be cheaper, may be less likely to complain about their status under the new tax law.

“Firms currently have a lot of incentives to turn workers into independent contractors,” said Lawrence Katz, a labor economist at Harvard. “This reinforces the current trends.”

But it could lead to an erosion of the protections that have long been a cornerstone of full-time work.

Formal employment, after all, provides more than just income. Unlike independent contractors, employees have access to unemployment insurance if they lose their jobs and workers’ compensation if they are injured at work. They are protected by workplace anti-discrimination laws and have a federally backed right to form a union.

Those protections do not generally apply to contractors. Nor do minimum-wage and overtime laws.

“What you’re losing is the safety nets for those workers,” said Catherine Ruckelshaus of the National Employment Law Project, an advocacy group.

Traditional full-time jobs also insulate workers against the peaks and troughs in the demand for their services. Consider, for instance, the erratic income of retail or fulfillment-center workers hired in the fall and let go after the holidays.

And because companies have internal pay scales, the lowest-paid employees tend to make more than they would on the open market.

“It used to be that companies like G.M. or the local bank or factory directly employed the janitor, the clerical worker,” Professor Katz said, noting that their pay would rise along with other employees’ when the company was doing well.

Unwinding employment relationships eliminates these benefits, increasing the **volatility** of workers’ incomes and magnifying pay disparities and inequality.

It’s difficult to say how many workers would choose to become contractors as a result of the new provision, which for couples frequently begins to phase out at a taxable income above $315,000. Mr. Kamin said joint filers who make close to $315,000 and could transform most of these earnings into business income would find it most compelling to make the change. (It could be more compelling still if one spouse’s employer offered the couple health insurance, which many employers provide even though they aren’t required to.)

On the other hand, many individuals fail to avail themselves of existing tax deductions, like the one that freelancers can take for their expenses, said Jamil Poonja of Stride Health, which helps self-employed workers buy health insurance. That may reflect the lack of access among lower-earning workers to sophisticated tax advice.

The tax benefit could also be offset in some cases by the need for contractors to pay both the employer and employee portion of the federal payroll tax.

Many employers are already pushing the boundaries of who they treat as employees and who they treat as independent contractors.

In theory, it is the nature of the job, and not the employer’s whim, that is supposed to determine the worker’s job status.

If a company exerts sufficient control over workers by setting their schedules or how much they charge customers, and if workers largely depend on the company for their livelihood, the law typically considers those workers to be employees.

True contractors are supposed to retain control over most aspects of their job and can typically generate income through entrepreneurial skill, and not just by working longer hours.

In practice, however, many companies classify workers who are clearly employees as contractors, because they are usually much cheaper to use. And many labor advocates say the new tax deduction will encourage more employers to go that route by giving them an additional carrot to dangle in front of workers.

“The risk presented by this provision is that employers can go to workers and say, ‘You know what, your taxes will go down, let me classify you as an independent contractor,’” said Seth Harris, a deputy labor secretary under President Barack Obama.

Anything that makes workers more likely to accept such an arrangement makes it harder to root out violations of the law. That is because the agencies responsible for policing misclassification — the Labor Department, the Internal Revenue Service, state labor and tax authorities — lack the resources to identify more than a fraction of the violations on their own.

“Your chances of finding a worker that’s been misclassified if that worker has not complained are worse than your chances of finding a leprechaun riding a unicorn,” Mr. Harris said.

David Weil, the administrator of the Labor Department’s Wage and Hour Division under Mr. Obama, believes the change will add fuel to a trend that has been several decades in the making.

During that time, as Mr. Weil documented in a book on the subject, “The Fissured Workplace,” employers have steadily pushed more work outside their organizations, paring the number of people they employ and engaging a rising number of contractors, temporary workers and freelancers.

The tax law will accelerate the shift, he said, because employers who are already keen to reorganize in this way will recognize that even fewer workers are likely to object as a result of the tax benefits.

The effect of the deduction could be especially big in industries where misclassification is already rampant.

Many small-time construction contractors hire full-time workers who should be classified as employees but are kept on as freelancers or paid under the table, said Kyle Makarios, political director for the United Brotherhood of Carpenters and Joiners of America.

Mr. Makarios said the pass-through provision would encourage even more building contractors to misclassify workers, allowing them to reduce their labor costs and underbid contractors who play by the rules.

The practice by ride-hailing companies like Uber and Lyft of classifying drivers as independent contractors has long been criticized by labor advocates and plaintiffs' lawyers. They argue that the companies control crucial features of the working relationship and hold most of the economic power.

Neil Bradley, senior vice president and chief policy officer at the U.S. Chamber of Commerce, said that gig-economy companies classify workers as contractors when it suits the needs of their business and that he did not expect that to change. He also said he did not expect firms with traditional business models to follow suit as a result of the new provision.

"I think the decision is going to be driven by the considerations" that lawyers cite, such as the amount of control a company exercises, he said, "not by this tax bill."

But Mr. Weil was less sanguine.

"These kinds of approaches to making it easier to slide into independent contractor status reflect unequal bargaining power," he said. "When you add to that an additional financial incentive, you're just unwinding the whole system."

Follow on twitter: @noamscheiberJesse Drucker contributed reporting.

* Tax Bill Is Great for Accountants — Unless They Have Holiday Plans

* What's in the Tax Bill, and How It Will Affect You

* Tax Plans May Give Your Co-Worker a Better Deal Than You

* It Started as a Tax Cut. Now It Could Change American Life.

The tax bill signed by President Trump could let independent contractors like Uber drivers claim a 20 percent deduction on their earnings. But some labor advocates say the provision could ultimately hurt more workers than it helps. | Sam Hodgson for The New York Times | Workers like janitors were once typically on the payrolls of large companies, enabling their wages to rise with those of other employees if the business did well. Now, such work is increasingly done by contractors. | Lucy Nicholson/Reuters

Document NYTFEED020171231edcv002mh

THE WALL STREET JOURNAL.
U.S. EDITION

Replay a Year of Market Gains -- And a Few Setbacks --- The DJIA soared, as did bitcoin; Test your knowledge of 2017 with our annual news quiz

974 words
30 December 2017
The Wall Street Journal
J
B1
English

Corrections & Amplifications

The answer to the 12th question in the Dec. 30 Business & Finance news quiz was "D. Microsoft Excel." The answer key to the quiz incorrectly said the answer was choice "C."

(WSJ January 3, 2018)

(END)

(1) Bitcoin's price soared in 2017, valued at about $14,292 on Friday. What was bitcoin's price at the end of 2016?

A. $8.21

B. $730.72

C. $968.23

D. $1,715.44

---

(2) Equifax disclosed a data breach in September that affected approximately how many U.S. customers?

A. 18 million

B. 143 million

C. 11.5 million

D. 500 million

---

(3) When Janet Yellen leaves the Federal Reserve in February 2018, she will become the first Fed chair since 1979 to do what?

A. Leave without serving out a full term as a Fed governor.

B. Leave without completing a full term as Fed chair.

C. Leave without being appointed to a second term.

D. Leave to run a Hollywood movie studio

---

(4) The Justice Department in November sued to block AT&T's $85 billion acquisition of which major communications company?

A. Dish Network

B. DirecTV

C. Time Warner

D. Viacom

---

(5) What was the worst performing **S&P 500** sector this year?

A. Health care

B. Consumer products

C. Telecommunications

D. Energy

---

(6) Sears Holdings sold which brand of tools in January for $900 million?

A. Black & Decker

B. Craftsman

C. DeWalt

D. DieHard

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(7) The **Dow Jones Industrial Average** in 2017 posted the most-ever daily record closes in a calendar year. How many did it hit?

A. 32

B. 15

C. 71

D. 104

---

(8) Secretary of State Rex Tillerson used which alias in emails while chief executive of Exxon Mobil Corp.?

A. Tex Taylor

B. Wayne Tracker

C. Shane Bowie

D. Ethan Edwards

---

(9) In 2017, BlackRock and Vanguard in aggregate surpassed which milestone in assets under management?

A. $1 trillion

B. $5 trillion

C. $10 trillion

D. $20 trillion

---

(10) Walt Disney in November said it would pull future movies from what streaming service and launch its own in 2019?

A. Amazon Prime

B. Netflix

C. Hulu

D. MUBI

---

(11) What is the name of a London-based group of Wall Street quants?

A. Dorktown

B. The Thalesians

C. Quanticopia

D. Euclid's Posse

---

(12) Chief financial officers are telling staff members to stop using which product, sparking a huge outcry? ("You can have my ____ after you ripped it from my cold, dead hands," said one.)

A. White boards

B. Skype for Business

C. Adobe Acrobat

D. Microsoft Excel

---

(13) Wal-Mart Stores employees have a name for the hyphen that the retailer is dropping as part of a name change next year. What is it?

A. Wiggly

B. Squiggly

C. The Sign

D. Hyphen

---

(14) The head of a major U.S. bank began posting to Twitter this year, making him the only head of the six biggest U.S. banks to do so. Who was it?

A. Brian Moynihan

B. Lloyd Blankfein

C. Timothy Sloan

D. James Gorman

---

(15) Which company's sports gear drew a lawsuit in March from Costco Wholesale over patent rights?

A. Rawlings baseballs

B. Wilson footballs

C. Speedo swimsuits

D. Titleist golf balls

---

(16) Which building-materials company stirred controversy with a Super Bowl ad featuring a border wall?

A. Home Depot

B. Lowe's

C. 84 Lumber

D. BMC Stock Holdings

---

(17) What high-profile bet was Warren Buffett expected to win at the end of the year?

A. That passive investing would beat a basket of hedge funds over 10 years.

B. That See's Candies would outsell Ghirardelli this holiday season.

C. That Apple would hit a market capitalization of $1 trillion this year.

D. That Congress would pass a tax bill this year.

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(18) The **Dow Jones Industrial Average** rose 25% in 2017. It is the largest gain since it jumped 27% in which year?

A. 2013

B. 2007

C. 2003

D. 1999

---

(19) What did late railroad executive Hunter Harrison ban for CSX's conductors and engineers soon after he became CEO?

A. Smoking

B. Cabooseing

C. Snacking on junk food

D. Napping

---

(20) In August, a jury awarded a woman with ovarian cancer $417 million in a case involving the alleged harms from which Johnson & Johnson product?

A. Johnson's Baby Powder

B. Listerine mouthwash

C. Q-Tips cotton swabs

D. OB tampons

--

(21) The heir to which South Korean conglomerate in August was sentenced to five years in prison for his role in a corruption scandal?

A. Lotte

B. Hanjin

C. Samsung

D. Hyundai

---

(22) Who said in 2017 that bitcoin was a "fraud?"

A. Janet Yellen

B. Bill Gross

C. Satoshi Yakamoto

D. James Dimon

---

(23) Which of these firms in 2017 became the largest U.S. insurer by total assets?

A. MetLife

B. Prudential Financial

C. American International Group

D. Geico

---

(24) What was the best-performing stock in the **Dow Jones Industrial Average** in 2017?

A. Boeing

B. Apple

C. Caterpillar

D. Berkshire Hathaway

---

(25) The man dragged in April off a United Continental jet departing from Chicago was trying to get to which U.S. city?

A. St. Louis

B. Columbus, Ohio

C. Louisville, Ky.

D. Indianapolis

ANSWERS TO THE 2017 NEWS QUIZ

(1) C. $968.23

(2) B. 143 million

(3) C. No second term

(4) C. Time Warner

(5) C. Telecommunications

(6) B. Craftsman

(7) C. 71

(8) B. Wayne Tracker

(9) C. $10 trillion

(10) B. Netflix

(11) B. The Thalesians

(12) C. Microsoft Excel

(13) B. Squiggly

(14) B. Lloyd Blankfein

(15) D. Titleist golf balls

(16) C. 84 Lumber

(17) A. That passive investing would beat hedge funds

(18) A. 2013

(19) D. Napping

(20) A. Baby Powder

(21) C. Samsung

(22) D. James Dimon

(23) B. Prudential

(24) A. Boeing

(25) C. Louisville, Ky.

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THE WALL STREET JOURNAL.
U.S. EDITION

IPOs Stage a Recovery

By Chelsey Dulaney
379 words
30 December 2017
The Wall Street Journal
J
B10
English

Companies returned to the U.S. market for initial public offerings in 2017, with middling returns.

U.S. IPOs returned an average 21% in 2017 through mid-December, while proceeds raised nearly doubled from 2016, according to a report from Renaissance Capital, an IPO investment advisory firm.

The returns are "respectable by historic standards, but only in line with the broader market indexes," Renaissance said in the report. The **S&P 500 index** gained 19% in 2017, while the **Dow Jones Industrial Average** surged 25%.

IPO returns were skewed by big gains from a handful of small biotech firms and technology companies. AnaptysBio Inc., which is developing a clinical-stage inflammation drug, has surged nearly 600% since its IPO amid upbeat trial results, making it the best-performing IPO in at least a decade, according to Renaissance. Shares of biotech companies can be highly **volatile** because they don't have significant profits or revenue and instead swing based on clinical-trial results or regulatory news.

Roku Inc., which makes devices and software used to stream television shows and other media, was another standout, gaining roughly 270% since its IPO.

But the overall market was damped by the poor performances of two highly anticipated offerings.

Meal-kit company Blue Apron Holdings Inc. raised a smaller-than-expected $300 million in its June debut, and shares tumbled as the company struggles with customer losses and disappointing financial results.

Snap Inc., the largest tech IPO since Alibaba's 2014 offering, surged 44% on its first day of trading in March. But the stock has given back those gains and is now trading more than $2 below its IPO price of $17 a share.

Of 2017's five biggest IPOs, four companies are now trading below their offering prices.

Renaissance expects IPO volumes to remain strong in 2018, with well-known companies like ride-sharing firm Lyft Inc. and visual-search service Pinterest Inc. potentially joining public markets. But the poor performances of Snap and Blue Apron could make other companies hesitant to go public.

Some of the highest-valued private companies, like Uber Technologies Inc., are expected to put offerings on hold for at least another year.

Big Debuts

The biggest U.S. initial public offerings of 2017 have had mixed performances.

Company	IPO size	IPO price	Current price	% from IPO
Snap	$3.4B	$17	$14.61	▼ 14.1%
Altice USA	$1.9B	$30	$21.23	▼ 29.2%
Invitation Homes	$1.5B	$20	$23.57	▲ 17.9%
Qudian	$900M	$24	$12.54	▼ 47.8%
Sea	$884M	$15	$13.33	▼ 11.1%

Sources: Renaissance Capital (IPO size, price), FactSet (current price, as of Friday's close)

THE WALL STREET JOURNAL.

Document J000000020171230edcu0001b

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
A VIX Bet That Risks Capital Ruin

By Spencer Jakab
489 words
30 December 2017
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

The years that live on in **stock market** lore tend to be the scariest ones, but 2017 deserves a mention for the opposite reason. It has been the most docile in most investors' living memory.

The **stock market**'s so-called fear gauge, the Cboe **Volatility** Index or VIX, has seen nine of its 10 lowest readings ever this year. The VIX, which goes back to 1990, reflects expected annualized **volatility** implied in **S&P 500** options over the next month.

Investors have typically used these options to hedge their portfolios, and now that insurance is cheap they have an opportunity to protect their gains. The more aggressive bet has been to try to profit off this decline in **volatility**, which has been possible only for the past decade. One popular way to make the wager has earned a blistering compound annual return of 45% since its inception in 2010 through last week.

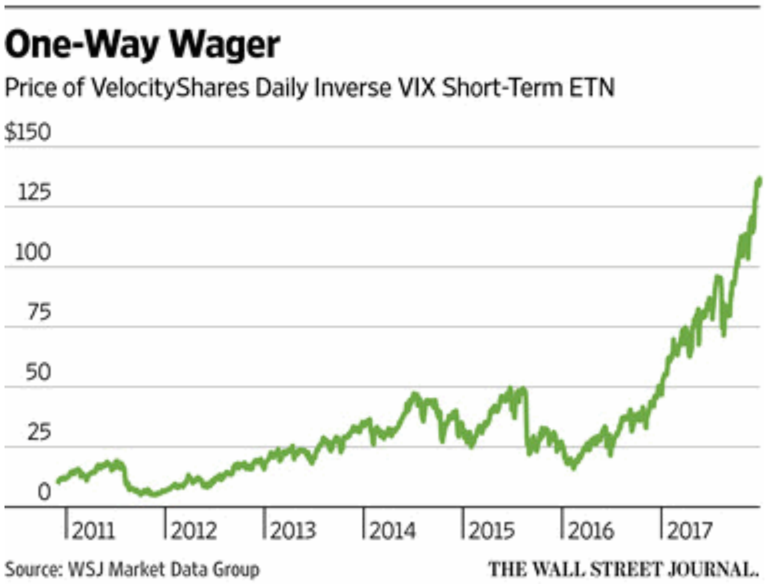
That vehicle is the VelocityShares Daily Inverse VIX Short-Term ETN, with the ticker symbol XIV (VIX backward). It profits from the tendency of near-term **volatility** futures to be more expensive than the VIX itself and to gradually fall in price while also benefiting handsomely when purchased after spikes in the VIX that quickly reverse themselves. This trade has gotten crowded, though, with small investors chasing the big returns. XIV now trades as much each day as blue chips International Business Machines and Exxon Mobil.

The fund isn't for the timid. XIV saw its biggest one-day loss, a 27% drop, the day after the shock U.K. vote to leave the European Union in June 2016. It took less than a month for that loss to be reversed, though, no doubt emboldening more traders to buy on spikes in anxiety in what now appears to be a self-reinforcing loop.

A New York Times feature four months ago about a former Target manager who had made $12 million on such trades seemed to many like a cautionary moment, but XIV is up 65% since then.

Investors need to be reminded that XIV is a weird and dangerous animal. The fund has an "acceleration" feature. If its losses are sharp enough, the note will be liquidated and what remains of the cash will be returned. Had VIX futures existed and traded during the 1987 **stock-market** crash and perhaps after the 9/11 terrorist attacks, the notes probably would have accelerated.

Finance professor Andrew Lo ran a fund on paper from 1992 through 1999 that achieved annual returns of over 40% with almost no monthly losses by taking a similar risk to XIV, selling "out of the money" put options. Yet the long-term success of this money machine is explained by the name he gave his fictional fund: "Capital Decimation Partners."



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THE WALL STREET JOURNAL.
U.S. EDITION

Record Run Defies Skeptics

By Corrie Driebusch
1,014 words
30 December 2017
The Wall Street Journal
J
A1
English

The **Dow Jones Industrial Average** posted its second-biggest yearly gain of the past decade in 2017, rising a surprising 25%.

The market notched the most closing highs for the index in a single calendar year. **Volatility** swooned to historic lows and many global stock markets finished the year at or near records or multiyear highs.

It's a sharp change from what many money managers and analysts anticipated at the start of 2017. At the time, many expected what they called a "sideways market," where the overall levels of major indexes would remain little changed at year-end. Instead, the **S&P 500** posted its best yearly gain since 2013.

Some of them acknowledge they were surprised by a confluence of market-supporting trends. They didn't expect corporate earnings and revenues to grow at such a fast clip. They didn't anticipate the economies of all 45 countries tracked by the Organization for Economic Cooperation and Development to be on pace to expand, an uncommon synchronicity. They certainly didn't predict the Dow would rise for nine consecutive months, its longest streak of monthly gains since 1959, even in the face of geopolitical turmoil in Washington and around the world.

"There was no knocking the market off its perch," said JJ Kinahan, chief market strategist at TD Ameritrade. "A couple times it wobbled, but we never saw a wild rush of sales in the market. Every dip was marked with big buyers."

Heading into 2017, many analysts and investors expected moderate gains for the **S&P 500**. Goldman Sachs Group Inc. forecast in a January 2017 report that the index would rise to 2400 in the first quarter before fading to 2300 by year-end. Credit Suisse also estimated in early January that the index would close out 2017 at 2300. The **S&P 500** closed at 2673.61 Friday.

Underpinning the index's 19% climb in 2017 has been corporate-earnings growth, which is on pace to post its largest increase since 2011, as measured by earnings per share. At the end of the first quarter, analysts polled by FactSet were expecting companies in the **S&P 500** to post 9.1% earnings growth in that period. Instead, companies grew their earnings by 14%, FactSet data show. That expansion has continued, albeit at a slower pace: In the second quarter, earnings for companies in the **S&P 500** rose 10% from the year prior, and in the third quarter that growth was 6.4%.

"We're seeing a peak rate of growth," said Bob Doll, senior portfolio manager and chief equity strategist at Nuveen Asset Management. However, that doesn't mean investors should rush to sell stocks, he said -- even if growth slows in the next year or two, there is still upside potential, he said.

Mr. Doll, who said his own predictions for the **S&P 500**'s 2017 rise fell short, also attributed the outsize gains to the synchronous economic expansion around the globe. The U.S. recovered from the financial crisis more quickly than other countries, but that changed in 2017 as others caught up. The result is global stock indexes near records or multiyear highs, from Japan's Nikkei Stock Average to the U.K.'s FTSE 100. The MSCI All Country World Index is also near a record.

The steep gains of 2017 have some analysts worried that the rally could wane in 2018, particularly if **volatility**, which hit historic lows this year, ticks up as many predict. Stocks are trading at above-average multiples of their past 12 months of earnings and government bonds have been sending cautionary signals about the U.S. economy's prospects, something that could end up jolting indexes in 2018.

The yield on the benchmark **10-year Treasury** note, often seen as a gauge of investors' sentiment about the economy, closed at 2.409% on Friday, down slightly from 2.446% at the end of 2016 in defiance of analysts' predictions that it would soar in 2017 with a surge in growth and inflation. Its premium relative to the two-year note yield has been cut by more than half over the past year.

Though analysts have debated its significance, a shrinking gap between short and long-term Treasury yields, known on Wall Street as a flattening yield curve, has often been a warning sign for investors. Five of the past six times the two-year yield surpassed the 10-year yield, known as an inverted yield curve, the economy subsequently entered a recession, according to data from the St. Louis Fed.

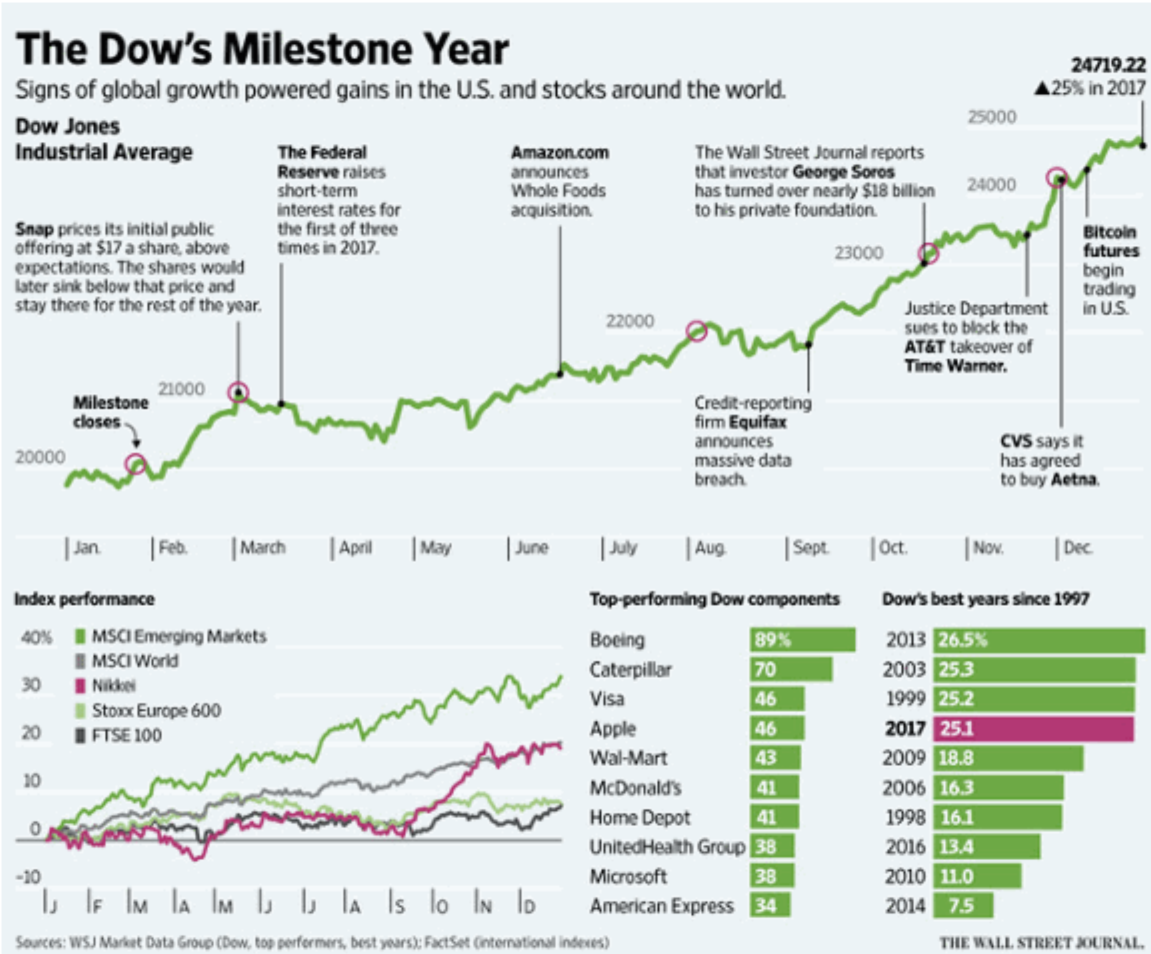
With few other signs of recession, many investors say there are reasons to doubt the yield curve's signals, which some argue have been distorted by easy-money policies from central banks in Europe and Japan pushing yield-seeking investors into U.S. government bonds, driving down the yields on longer-term debt.

Still, many investors and analysts expect the curve to continue its flattening in 2018, given signs that the Federal Reserve will keep raising interest rates even if inflation remains stuck below its 2% annual target. That could push up the two-year yield, which is more sensitive to expectations for central-bank policy.

That, plus a potential deceleration in economic growth, could set up 2018 to be a tougher year. A bright spot some analysts point to is corporate tax cuts, which could boost earnings growth and stock prices. Yet, some analysts say they are worried the potential benefits from the tax bill are already priced into company shares, limiting upside in 2018.

"We've gotten used to things being very good," said Brad McMillan, chief investment officer for Commonwealth Financial Network, who added that he doesn't expect either big declines or big gains in 2018. "We don't need the tailwinds to turn into headwinds, we just need a couple to go away to find ourselves in a very different market environment."

Sam Goldfarb contributed to this article.


The Dow's Milestone Year
Signs of global growth powered gains in the U.S. and stocks around the world.
Dow Jones Industrial Average
24719.22
▲25% in 2017
25000
24000
23000
22000
21000
20000
Snap prices its initial public offering at $17 a share, above expectations. The shares would later sink below that price and stay there for the rest of the year.
Milestone closes
The Federal Reserve raises short-term interest rates for the first of three times in 2017.
Amazon.com announces Whole Foods acquisition.
Credit-reporting firm Equifax announces massive data breach.
The Wall Street Journal reports that investor George Soros has turned over nearly $18 billion to his private foundation.
Justice Department sues to block the AT&T takeover of Time Warner.
CVS says it has agreed to buy Aetna.
Bitcoin futures begin trading in U.S.
Jan. Feb. March April May June July Aug. Sept. Oct. Nov. Dec.
Index performance
40% 30 20 10 0 -10
MSCI Emerging Markets
MSCI World
Nikkei
Stoxx Europe 600
FTSE 100
J F M A M J J A S O N D
Top-performing Dow components
Boeing 89%
Caterpillar 70
Visa 46
Apple 46
Wal-Mart 43
McDonald's 41
Home Depot 41
UnitedHealth Group 38
Microsoft 38
American Express 34
Dow's best years since 1997
2013 26.5%
2003 25.3
1999 25.2
2017 25.1
2009 18.8
2006 16.3
1998 16.1
2016 13.4
2010 11.0
2014 7.5
Sources: WSJ Market Data Group (Dow, top performers, best years); FactSet (international indexes)
THE WALL STREET JOURNAL.

Cautionary Signals

Gold prices had their biggest gain since 2010 during a year of political tensions, while Treasury yields were stuck in a narrow range after inflation didn't rise as much as investors expected.

Sources: WSJ Market Data Group (gold); Tullett Prebon (yield) THE WALL STREET JOURNAL.

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Document J000000020171230edcu0002p

The New York Times

Business/Financial Desk; SECTB
Stocks Slide in the Final Trading Session of the Year

By THE ASSOCIATED PRESS
885 words
30 December 2017
The New York Times
NYTF
Late Edition - Final
2
English

Wall Street capped 2017 with a loss, weighed down by a broad slide in light trading ahead of the New Year's holiday. Technology companies, banks and health care stocks accounted for much of the market's decline. Energy stocks also fell, even as the price of United States crude oil surged to its highest level in more than two years. Despite the downbeat end to the week, the American **stock market** finished 2017 with its strongest year since 2013. The **Standard & Poor**'**s500 index**, the broadest measure of the **stock market**, gained 19.4 percent for the year, more than double its gain in 2016. Including dividends, the total return was 22.5 percent as of late Thursday. The **Dow Jonesindustrial average** ended the year with a 25.1 percent gain, setting 71 all-time highs along the way. The **Nasdaq composite** notched the biggest gain, an increase of 28.2 percent, while the Russell 2000 index of smaller-company stocks closed out 2017 with a gain of 13.1 percent.

''It's been the year that surprised everybody,'' said J.J. Kinahan, chief market strategist at TD Ameritrade. ''It was truly buy-onthe-dip, and that paid off better than anyone possibly expected.'' On Friday, many investors opted to pocket some of their gains, especially in technology stocks, which led the market with a gain of 36.9 percent. Chip maker KLA-Tencor was among the sector's big decliners, dropping $2.78, or 2.6 percent, to $105.07. Traders also sold off health care and financials stocks, both of which rose 20 percent this year. Health care management company Centene fell $2.02, or 2 percent, to $100.88, while SunTrust Banks gave up 85 cents, or 1.3 percent, to $64.59. All told, the **S&P 500** ended the day down 13.93 points, or 0.5 percent, to 2,673.61. The Dow sank 118.29 points, or 0.5 percent, to 24,719.22. The **Nasdaq** fell 46.77 points, or 0.7 percent, to 6,903.39. The Russell 2000 index gave up 13.42 points, or 0.9 percent, to 1,535.51. Oil and gas futures finished broadly higher Friday. Benchmark United States crude added 58 cents, or 1 percent, to settle at $60.42 per barrel on the New York Mercantile Exchange. That's the highest closing price of the year and the first time crude has finished above $60 a barrel since June 2015. Brent crude, which is used to price international oils, rose 71 cents, or 1.1 percent, to $66.87 per barrel in London. The price of natural gas continued to rise in response to the harsh weather gripping a large swath of America. It gained 4 cents, or 1.3 percent, to $2.95 per 1,000 cubic feet. Despite the gain in oil and gas prices, energy stocks were mixed. National Oilwell Varco rose 53 cents, or 1.5 percent, to $36.02, while Range Resources slid 55 cents, or 3.1 percent, to $17.06. In other energy futures trading, wholesale gasoline rose a penny to $1.80 a gallon, while heating oil added 2 cents, or 1.1 percent, to $2.08 a gallon. Gold added $12.10, or 0.9 percent, to $1,306.30 an ounce. Silver gained 22 cents to $17.15 an ounce. Copper slipped a penny to $3.30 a pound. **Bond prices** rose. The yield on the **10**-**year Treasury** fell to 2.41 percent from 2.43 percent late Thursday. The dollar finished the year weaker for the first time since 2012. The ICE U.S. Dollar Index, which compares the value of the dollar to a basket of major currencies, fell nearly 10 percent this year, its biggest drop since 2003. On Friday, the dollar fell to 112.64 yen from 112.87 yen on Thursday. The euro strengthened to $1.2012 from $1.1952. The price of bitcoin was down 1.1 percent to $14,263 as of the late afternoon, according to the tracking site CoinDesk. Bitcoin futures on the Cboe Futures Exchange picked up 5.8 percent to $14,550. The virtual currency has been highly **volatile** in recent weeks, hitting a record high before sliding sharply last week. Major stock indexes in Europe finished mixed Friday. Britain's FTSE 100 climbed 0.9 percent, hitting a record on the close of a shortened trading day. Germany's DAX and France's CAC 40 each fell 0.5 percent. For 2017, Britain's notched a gain of 7.6 percent, while indexes in Germany and France closed the year with gains of 12.5 percent and 9.3 percent, respectively. In Asia, most markets ended the day with modest gains. Japan's Nikkei 225 closed 0.1 percent lower, while Hong Kong's Hang Seng Index gained 0.2 percent. For the year, the Nikkei posted a gain of 19.1 percent, while the Hang Seng finished with a gain of 36 percent.

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.
U.S. EDITION

Index Funds Turn Top-Heavy With Tech --- Sector's surge leads to outsize weighting; for passive investors, both bug and feature

By Kenan Machado and Saumya Vaishampayan
904 words
29 December 2017
The Wall Street Journal
J
B1
English

Being passive can leave you with too much of a good thing.

Investors who loaded up on U.S. and Asian **stock-index** funds might be surprised to learn just what they own now: technology stocks -- a lot of them.

Led by Apple Inc., Facebook Inc. and their peers, the weighting of technology stocks in the **S&P 500 index** has climbed to 23.8% as of Dec. 26, from 20.8% at the end of last year, according to S&P Dow Jones Indices.

Three years ago, tech stocks had a 19.7% weighting in the U.S. **stock market** benchmark, which is tracked by funds with more than $2 trillion in assets. Over the past 10 years, the weighting of the tech sector in the **S&P 500** at year-end has averaged 19.6%.

The same is true in Asia, where surging tech stocks have powered sharp gains in Hong Kong, South Korea and other markets. The weighting of technology stocks in the MSCI Emerging Markets Index, whose components include Chinese e-commerce companies Tencent Holdings Ltd. and Alibaba Group Holding Ltd., was 28% as of Dec. 21, from 23.3% a year ago.

Funds that track an index -- known as passive, or index, funds -- had $384.5 billion in assets at the end of June, according to data provided by MSCI, and the tech sector's average year-end weighting over the past decade has averaged 17%.

"It's sort of an inherent flaw of index funds," said Kyle Moore, founder of Quarry Hill Advisors in St. Paul, Minn., referring to the way surging stocks have a bigger share of indexes that are market-value weighted, like the **S&P 500**.

Noting that some tech stocks have gained nearly 50% this year, Mr. Moore said a typical investor response would be to trim exposure to those stocks and take profits. When that happens in an index fund, nothing happens automatically, he said.

Investors have collectively plowed $436.5 billion this year into index funds globally through Dec. 20, according to EPFR Global. For many, the bet has paid off handsomely. The **S&P 500 index** has climbed 20% this year and is on track to chalk up its biggest annual gain since 2013. The tech-oriented **Nasdaq Composite** Index is up 29% this year.

The conundrum now for investors is whether they should try to reduce their exposure to tech and how to go about doing it. A pullback in the sector will have a bigger impact on the broader market, but arguably many investors in index funds have accepted that is what they signed up for when they chose to invest passively.

Some investment advisers say they are telling clients to reduce their tech exposure by selling individual stocks or shifting into other funds in which tech has a lesser influence.

With a fund that tracks the **S&P 500** now, "it's almost like you're getting a bit of a technology momentum fund," said Tom Haggerty, portfolio manager at Retirement Strategies, which manages about $350 million in Jacksonville, Fla.

Mr. Haggerty said he has talked to a few clients with large technology holdings, including those who own specialized exchange-traded funds such as the PowerShares QQQ that tracks **Nasdaq**-listed stocks. "We have pushed hard to have them pull back on those positions, especially if they hold those stocks in a large-cap fund," he said.

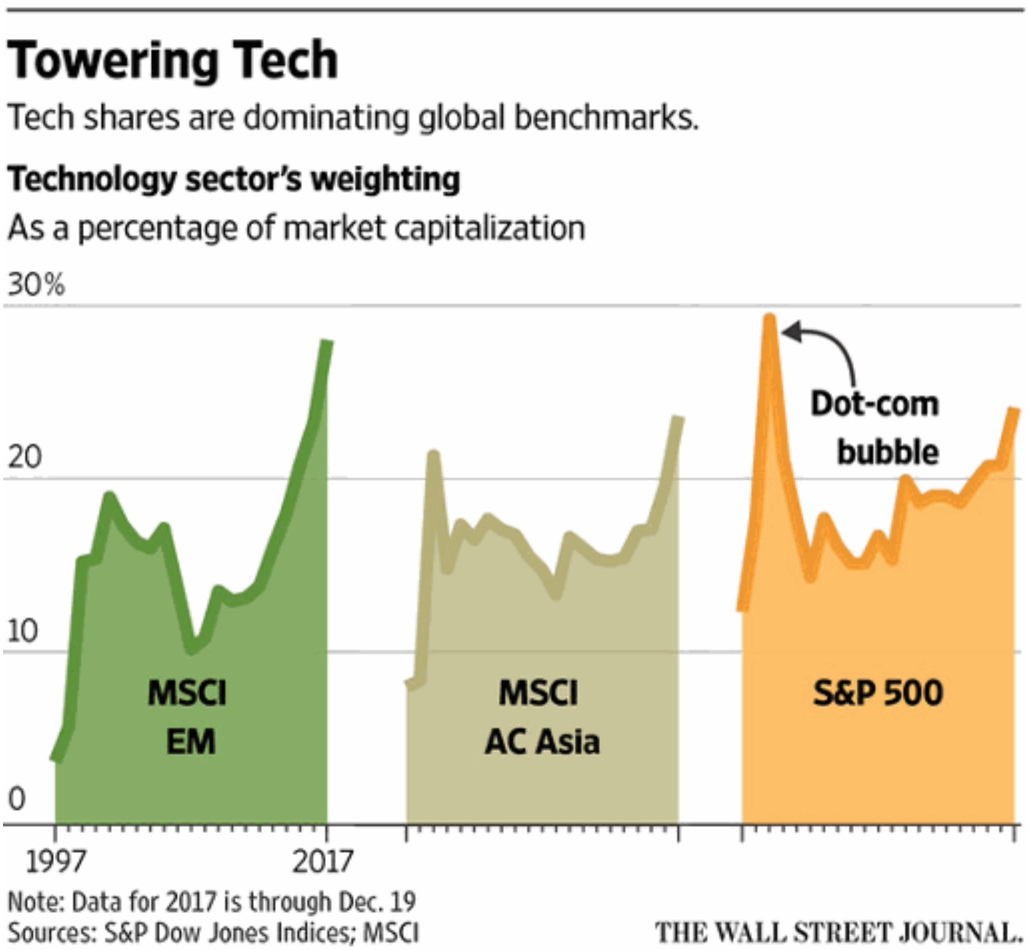
Gary Sagui, a retired commodity trader who splits his time between Florida and Wisconsin, said he recently became concerned about the increased weighting of large companies with high price/earnings ratios in his index funds. That includes what are known as FANG stocks -- Facebook, Amazon.com Inc., Netflix Inc. and Google parent Alphabet Inc.

The 66-year-old said he sold his holdings in a Vanguard Total **Stock Market** exchange-traded fund and switched to a managed fund from Dimensional Fund Advisors with smaller weightings in such stocks. "It's not that I don't think they are great companies," said Mr. Sagui, adding that "once you get off a regular income and are going to live on a pot of money you've put together, the questions you're going to ask are a little different."

Gains in tech stocks this year, which have been driven in large part by strong sales and profit growth, have stood out even in a banner year for stock markets overall. Apple's and Facebook's shares have surged about 50%, and Apple's market capitalization is now close to $900 billion, making it the most valuable public company in the world. Shares of Tencent and Alibaba have roughly doubled this year.

The higher weighting of tech stocks in major indexes isn't worrying investors who believe the rally has further room to run because of how well many technology companies are performing and their continued potential for high growth.

"We don't think it is out of whack," said Andy Wong, a senior investment manager at Pictet Asset Management in Hong Kong. "The benchmark weighting is a lot higher but compared to the tech bubble it is not there yet," he said referring to the **S&P 500**.



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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Jobless Claims Remain at Low Levels

By Ben Leubsdorf
288 words
29 December 2017
The Wall Street Journal
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A2
English

The number of Americans filing new applications for unemployment benefits held steady last week near historically low levels, the latest evidence of U.S. economic health as 2017 draws to a close.

Initial jobless claims, a proxy for layoffs, were a seasonally adjusted 245,000 in the week ended Dec. 23, unchanged from the prior week, the Labor Department said Thursday.

"This week's claims data suggest no significant change in labor market conditions from a month ago, and we view them as consistent with healthy labor markets," Barclays economist Blerina Uruci said in a note to clients.

The U.S. economy is ending the year on firm footing. The unemployment rate was 4.1% in November, holding at a 17-year low. Output growth was solid in the second and third quarters, and forecasting firm Macroeconomic Advisers on Thursday projected a 2.4% growth rate for gross domestic product in the fourth quarter.

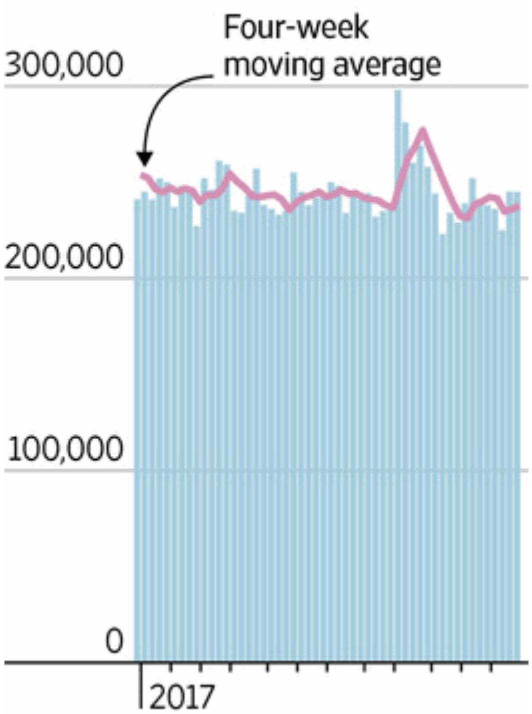
"Household spending has been expanding at a moderate rate, business investment has picked up and favorable economic conditions abroad have supported exports," Federal Reserve Chairwoman Janet Yellen said in mid-December. "Overall, we continue to expect that the economy will expand at a moderate pace."

Data on jobless claims can be **volatile** from week to week, and seasonal adjustments tend to be especially tricky around holidays. Officials also had to estimate claims for more than a dozen states in the latest report.

Weekly initial unemployment applications have now remained below 300,000 for 147 straight weeks -- the longest since 1970, when the U.S. population and workforce were far smaller than they are today.

Layoffs Level Off

Initial claims for unemployment benefits, seasonally adjusted



Source: Labor Department via the Federal Reserve Bank of St. Louis

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Indexes Gain Modestly, With New High for Dow

By THE ASSOCIATED PRESS
870 words
29 December 2017
The New York Times
NYTF
Late Edition - Final
3
English

U.S. stock indexes wrung out a modest gain during another quiet session on Wall Street Thursday, nudging the **Dow Jonesindustrial average** to a new high ahead of the final trading day of 2017.

Financial stocks accounted for much of the market's gains. The sector benefited from rising bond yields, which help banks because it enables them to charge higher interest rates on loans.

Some energy stocks got a boost from natural gas prices, which jumped nearly 7 percent as temperatures dropped across much of the U.S. Crude **oil prices** also closed higher.

Consumer-goods makers lagged the broad rally, which gave the market its second higher finish in a row. The **stock market** seldom declines this time of year, noted John Serrapere, director of research at Arrow Funds.

"It's a light, light, light calendar," Serrapere said. "Normally between Christmas and New Year's you get a positive, muted upslope in the markets."

The **Standard & Poor**'**s500 index** rose 4.92 points, or 0.2 percent, to 2,687.54. The Dow gained 63.21 points, or 0.3 percent, to 24,837.51. The 30-company average has closed at a record high 71 times this year.

The **Nasdaq** added 10.82 points, or 0.2 percent, to 6,950.16. The Russell 2000 index of smaller-company stocks picked up 4.99 points, or 0.3 percent, to 1,548.93, matching its most recent all-time high set early last week.

The **S&P 500** and **Nasdaq**, meanwhile, are hovering just below their all-time highs. All the indexes are on track to end the 2017 with double-digit gains.

Bond prices fell as yields recovered partially from a big drop a day earlier. The yield on the **10**-**year Treasury** rose to 2.43 percent from 2.41 percent late Wednesday.

That helped lift shares in banks and other financial companies. Northern Trust added $1.64, or 1.7 percent, to $100.32.

The price of natural gas rose sharply as an arctic blast gripped a large swath from the Midwest to the Northeast, sending temperatures plummeting. It climbed 18 cents, or 6.7 percent, to $2.91 per 1,000 cubic feet.

The increase gave some energy companies a boost. Chesapeake Energy was the biggest gainer in the **S&P 500 index**, climbing 16 cents, or 4.1 percent, to $4.04. Range Resources rose 65 cents, or 3.8 percent, to $17.61.

Netflix also contributed to the market's gains Thursday. The video-streaming service picked up $6.47, or 3.5 percent, to $192.71.

Several packaged food, beverage and other consumer-goods makers declined. Monster Beverage slid $1.31, or 2 percent, to $62.92.

Traders also sold off shares in companies that delivered unimpressive results or outlooks.

Calumet Specialty Products Partners tumbled 9 percent after the oil and solvents processor reported disappointing third-quarter results. The stock gave up 80 cents to $8.05.

Benchmark U.S. crude rose 20 cents to settle at $59.84 per barrel on the New York Mercantile Exchange. Brent crude, which is used to price international oils, gained 28 cents to $66.72 per barrel in London.

In other energy futures trading, wholesale gasoline was little changed at $1.79 a gallon. Heating oil inched up a penny to $2.05 a gallon.

Gold rose $5.80 to $1,297.20 an ounce. Silver added 17 cents, or 1 percent, to $16.92 an ounce. Copper climbed 2 cents, or 0.7 percent, to $3.31 a pound.

The dollar declined to 112.87 yen from 113.26 yen on Wednesday. The euro strengthened to $1.1952 from $1.1899.

The price of bitcoin declined for the second day in a row, sliding 9 percent to $13,995 as of 4:56 p.m. ET, according to the tracking site CoinDesk. Bitcoin futures on the Cboe Futures Exchange fell 8 percent to $13,755. South Korea's government announced additional measures Thursday to curb speculative trading of virtual currencies in the country, including a ban on opening anonymous accounts.

Major indexes in Europe closed mostly lower. Germany's DAX slipped 0.7 percent, while France's CAC 40, lost 0.6 percent. Britain's FTSE 100 inched up less than 0.1 percent, but the gain was enough for the index to close at a record high.

In Asia, Japan's Nikkei 225 erased earlier gains to finish 0.6 percent lower. South Korea's Kospi surged 1.3 percent after government data showed strong gains in retail sales and industrial output last month. Hong Kong's Hang Seng index rose 0.9 percent. In Australia, the S&P/ASX 200 added 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 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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Ambac Clears Way For a Debt Swap

By Andrew Scurria
603 words
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J
B10
English

Ambac Assurance Corp. bought peace with hedge funds that were wary of a $5 billion restructuring proposal, moving the bond insurer a step closer to digging out from losses from the U.S. housing crash.

Cyrus Capital Partners LP, Polygon Global Partners LLP and Taconic Capital Advisors LP agreed to drop their opposition to a proposed deal that would lift Ambac out of state-supervised rehabilitation, according to records filed in Wisconsin state court on Wednesday. By placating those funds, Ambac, a subsidiary of Ambac Financial Group Inc., cleared the way for a proposed settlement with other bondholders that haven't been paid in full since the insurer took unexpected losses in the financial crisis nearly a decade ago.

Bond insurers collect premiums for policies that guarantee investors full principal and interest payments if a borrower defaults. Ambac, a traditional insurer of municipal bonds, took huge losses on real-estate bonds and derivatives that soured along with the housing market, prompting Wisconsin regulators in 2010 to seize part of the business and create a segregated account to contain the damage.

Ambac staged a modest comeback by suing the banks that put together those mortgage securities and by making only partial payments to bondholders. Now, regulators want to wind down Ambac's segregated account, pay down its deferred policy claims, and end the state-run rehabilitation after eight years.

But the plan, which requires court approval, depends on Ambac's capacity to cover future losses on billions of dollars of insured municipal debt, including $9.5 billion in guarantees on Puerto Rico bonds. Ambac and other insurers had wagered years ago that Puerto Rico would repay its obligations, writing policies that are now expected to generate losses as the U.S. territory restructures its debts.

Ambac's potential losses will hinge on whether Puerto Rico can bounce back from the devastation of Hurricane Maria, which destroyed the island's power grid and slashed expectations for recoveries on its $73 billion in debt. Benchmark **bond prices** have dropped to about 23 cents on the dollar from 60 cents before the storm, while the federal oversight board installed by Congress decides how much debt Puerto Rico can afford to repay.

Yet Ambac's regulators have insisted that even a worst-case scenario shouldn't prevent Ambac from exiting rehabilitation under a restructuring transaction designed to balance the interests of its stakeholders.

A Wisconsin judge is scheduled to consider the proposal on Jan. 4. It would swap $3.8 billion in deferred claims and $1.2 billion in surplus notes for a combination of cash and debt valued at 93.5 cents on the dollar.

Beneficiaries of the proposal would include CarVal Investors LLC, Canyon Capital Advisors LLC and other investors with deferred claims that argued for years that Ambac was healthy enough to pay them back without jeopardizing the rest of its business.

Cyrus, Polygon and Taconic worried that the proposal would divert $1.3 billion from the pot of money available to guarantee their Puerto Rico bonds. Ambac repurchased their securities under the deal unveiled Wednesday to take them out of the equation. Those bonds, known as Cofinas, trade at deep discounts because they pay no interest until they mature starting in 2047 and because of questions around their claim on Puerto Rico's sales-tax revenue.

Ambac had previously bought back some of its insured debt to help justify ending the rehabilitation. It said on Thursday that it now owns 58% of its insured Cofina bonds.

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In 2017, Markets Rose Above Politics

By Ruchir Sharma
971 words
29 December 2017
The Wall Street Journal
J
A13
English

As Donald Trump and other populists sent TV viewership and news readership soaring this year, commentators cast these new-age leaders as a threat to world peace, democracy, Western civilization, the postwar order, race relations, women, the free press, the open internet and more.

Amid calls to resist, some people chose a different path, a retreat into "internal exile" -- that is, they tuned out politics. The notion of internal exile has a long history, from 19th-century France to Nazi Germany and Soviet Russia, where many people ignored the rise of political strongmen to the extent possible, minimized them with black humor, or turned inward to focus on family, business, the arts -- anything but a brash new political elite claiming to speak for the people.

This November polls showed most Americans dreaded the thought of political conversation at Thanksgiving dinner. Some banned any mention of Mr. Trump or left the festivities early. Avoiding politics kept the family peace. It also would have been a winning market strategy for this president's first year.

Twenty-seventeen has been a blockbuster year for investment gains world-wide, and the best returns came in countries where the political risk from populism and war was seen as especially high. Exhibits 1 and 2: Poland, threatened by right-wing nationalism, and South Korea, threatened by nuclear brinkmanship. Along with China, these were the three hottest stock markets of 2017, all up more than 40% in dollar terms.

Energized by the broad global recovery, and by ready access to easy money thanks to record low interest rates, smart investors looked past the alleged political risks to focus on strong global growth, the accelerating tech revolution and the rise of new middle-class consumers.

In the U.S., the early 2017 chatter was all about the "Trump trade." Many investors thought his plans to cut taxes, deregulate, increase infrastructure spending and impose new trade barriers would shape market behavior, for better and worse. But the U.S. **stock market**'s rally this year was driven to an unprecedented degree by the tech industry, in particular by undiluted optimism about the future of big companies like Amazon and Facebook.

Some liberals predicted Mr. Trump's erratic leadership would destabilize the world and send markets crashing. Instead 2017 ended up being one of the calmest years in the U.S. **stock market**'s history, with the **S&P 500** currently in its longest spell without even a 3% correction. During the year, stock prices responded less to strictly political factors such as the president's low approval ratings and more to traditional economics like accelerating growth.

Rising economic optimism drowned out politics in other big markets too. "Chairman of Everything" Xi Jinping's increasingly broad grip on political power in Beijing seemed to make nonsense of dreams for capitalist democracy in China. But the markets, often leery of unchecked strongmen, saw no issue.

Instead, they zeroed in on how Chinese internet companies are expanding rapidly into one-stop shops for everything from shopping to banking. Some large Chinese tech stocks doubled in value -- the main reason global investors made far more money in China than in the U.S. in 2017. Even in Beijing, top officials admitted to being in awe of internet giants like Alibaba and Tencent. One Chinese regulator recently told an American CEO that whereas 18 months ago these companies were "too small to worry about, now they are too big to do anything about."

In India, Prime Minister Narendra Modi's growing power spooked liberals, who saw him as a threat to democracy, and pleased conservatives who saw him as a crusader against corrupt middlemen. But both groups overstated his economic impact. The Indian **stock market** rose 30%, powered by the same driver that has propelled India for decades -- the unceasing rise of a large consumer class.

Nowhere did politics fizzle as a threat more strikingly than in Europe. Forecasters thought the rise of flamboyant nationalists in France, Germany and the Netherlands could threaten the existence of the European Union. Instead, as the populists faded in key elections, the global recovery spread to Europe, and stock markets posted strong double-digit gains in all major European countries.

The gap between fear of strongmen and their influence on markets was even sharper in Poland, where the Law and Justice Party spent heavily on populist giveaways while corralling the courts and press -- moves widely seen as bad for the economy. Yet Poland continued to rise as an export manufacturing center, and stocks rose strongly in response.

Perhaps even more surprising was South Korea, where the strongman threat came from North Korea. As Kim Jong Un ramped up missile tests and claimed to have put the entire American mainland within range, nuclear jitters barely ruffled the market in Seoul. Long accustomed to bloodcurdling threats from the North, South Korean investors focused on the upward trajectory of the country's tech firms.

Politics often does matter to markets, but it is only one of many influences, and it proved inconsequential this year. In some countries politics was dwarfed by economic factors like rising growth. In others populists proved so polarizing that the backlash ensured they would not get much done.

No doubt committed members of the antipopulist resistance will question the morality of internal exile. If you are not with them, you are evil. But 2017 demonstrates the potential upside of ignoring politics in rabidly partisan times. It's a way to keep your equanimity and can preserve and grow your savings.

Mr. Sharma, the chief global strategist at Morgan Stanley Investment Management, is the author of "The Rise and Fall of Nations: Forces of Change in the Post-Crisis World" (Norton, 2016).

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THE WALL STREET JOURNAL.
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MANSION --- Jumbo Jungle: When House Hunting, Size Matters --- The bigger the home, the more you'll pay in utility bills, property taxes, insurance and repairs (and the more you'll have to clean)

By Robyn A. Friedman
760 words
29 December 2017
The Wall Street Journal
J
English

Tempted to buy the largest house you can afford? More square footage typically means more money -- and that means higher mortgage payments, taxes, utilities and maintenance.

Young couples buying a starter home are often coached to get something bigger than they need to anticipate a growing family. Others think large homes have better resale value.

"The biggest house isn't necessarily the best house or even the best investment," says Mari Adam, a certified financial planner in Boca Raton, Fla. "An older, smaller home with a shorter commute, bigger lot or greater remodel potential may appreciate more," she says. "In fact, many fancy new homes can lose value quickly if a developer builds newer homes nearby, while older areas may have more enduring land value."

While it's OK to plan for future needs, the ultimate decision should be based on what you can realistically afford.

Allow yourself some extra room -- a spare bedroom and bath for guests or for a parent who might move in if necessary in the future -- but don't pay for extra rooms that you will never use, says Ray Rodriguez, regional mortgage sales manager for the Metro New York Market for TD Bank. "You want enough space to live comfortably, but you don't want to heat, clean and pay taxes on space you aren't utilizing," he says.

According to the National Association of Realtors, a real-estate trade group, the median size of an existing single-family home purchased in 2017 was 1,930 square feet, down from 1,950 square feet in 2016.

For new construction, the National Association of Home Builders reports that the median square footage of a new single-family home in 2016 was 2,419, a slight decrease from 2,473 in 2015.

But while home sizes may be trending down -- likely due to affordability issues -- home buyers aren't particularly fond of the "tiny-house" trend. An online survey conducted in October of 1,019 Americans age 18 and older by ValueInsured, a Dallas-based firm that offers home buyers a product called down-payment insurance, found that 36% of those surveyed think people who purchase tiny homes are likely to regret their decision.

Purchasing a house that's too big can also get in the way of your retirement. Once your children leave home, you could end up living in -- and paying for -- a McMansion that's largely empty. That will cost you more in utility bills, property taxes, insurance and repairs. Ms. Adam, the certified financial planner, estimates that a moderately high-end home in South Florida could cost $100,000 or more to maintain each year, even with no mortgage. A homeowner would need $2.5 million in assets to generate that income every year, she says.

Here are a few things to consider when shopping for a home:

-- Consider trade-offs. Rather than purchasing the largest home you can afford, think about how that home fits into your lifestyle. "People like to travel more, and they may decide they don't necessarily need a massive house if it comes at the expense of them being able to go out and travel," says Patrick Ryan, senior vice president and managing broker of Related Realty in Chicago.

-- Think small -- and remodel. Another option is to purchase an older or smaller house and then create the home of your dreams through renovation. Mr. Rodriguez purchased a 2,000-square-foot home built in the 1960s that was located in a desirable neighborhood. "We knew going in that we would have to renovate because it didn't have modern amenities," he says. He saved money for two years and eventually added 1,400 square feet to the house, ultimately achieving the size home he originally wanted but couldn't afford.

-- Long-term returns. The money saved in buying a right-size home could pay dividends in the future -- literally. A $20,000 savings each year over the life of a 30-year mortgage could result in a nearly $1.2 million nest egg if invested in a **stock market** portfolio earning 4% a year, Ms. Adam says. The annual savings, when compounded over time, is likely to exceed the appreciation in your home's value over the term of the mortgage.

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Buyers Snap Up Riskier Leveraged Debt

By Christopher Whittall
861 words
28 December 2017
The Wall Street Journal
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B1
English

Hellman & Friedman LLC and other parties sought last month to borrow money in the bond market to finance a takeover. The U.S. private-equity firm offered a yield of about 3%, but few of the protections once considered routine.

Still, bond investors bought.

Rampant demand for leveraged loans is allowing private-equity firms to water down legal safeguards for investors. Many lawyers and bankers worry that such changes could result in higher losses for investors during the next downturn, as creditors find themselves with less protection.

Terms on loans from Hellman & Friedman's takeover of Denmark's Nets A/S allowed greater flexibility for the borrower to take on more debt, extract cash from the company and even restrict who owns the loans. That, though, is no longer unusual in the loan market.

In the financing of a previous takeover of Nets in 2014, a separate group of private-equity borrowers had to prove that debt at the Danish payments company wasn't rising too quickly. Such a requirement wasn't present this time.

The move to more borrower-friendly terms has come in both the U.S. and Europe. But the most dramatic shift has been in Europe, where the imbalance between loan supply and demand is most acute.

Investors are clamoring for leveraged loans as years of low interest rates and central banks' bond buying have pushed down returns elsewhere. Trillions of dollars of sovereign debt, primarily in Europe, continue to have negative yields, meaning investors pay to lend governments money.

With "far too much cash trying to find too few homes," private-equity firms "can be more aggressive and lenders will take it," said Adam Freeman, a partner at Linklaters LLP.

Some of the year's largest leveraged buyouts in Europe have either removed covenants and legal protections or allowed the borrower to control who buys its debt.

That included Bain Capital's and Cinven's takeover of German drugmaker Stada Arzneimittel AG, Lone Star LP's acquisition of German building materials maker Xella Group and the takeover of Nets.

Analysts say that along with low borrowing costs, the weakening of deal terms has helped boost the appeal of loans to private-equity firms. In Europe, around 88% of the debt funding for leveraged buyouts came from loans this year, according to S&P Global Market Intelligence's LCD unit, up from 73% in 2015. Meanwhile, 81% of loans in Europe this year have been "covenant-lite," meaning they lack many standard investor protections, up from 21% in 2013, according to LCD.

Among the first changes was the stripping out of so-called financial-maintenance covenants, which are investors' main defense against borrowers taking on too much debt. They require quarterly tests of a company's leverage level, allowing lenders to force the firm into default if it rises too high.

Private-equity firms' desire to make terms ever more flexible comes as the money they invest in deals has risen around 12 percentage points above where it was before the financial crisis in Europe, according to LCD. That means they have more skin in the game should it go wrong.

"We have a fiduciary duty to get the best financing for our investors," said Nigel Walder, a managing director at Bain Capital.

Some lawyers defend the changes, saying high-yield bonds don't have such protections and U.S. leveraged loans also have lacked covenants for some time. For their part, private-equity firms argue that giving them more flexibility means their companies are less likely to go bust in a downturn.

Fraser Lundie, co-head of credit at Hermes Investment Management, thinks looser deal terms were at least partly behind the smaller-than-expected number of defaults in early 2016, when a crash in the **oil price** sent the value of energy firms' debt tumbling. But Mr. Lundie is also concerned the trend will hamstring lenders' ability to recover money from troubled companies in the next downturn.

"If you get it wrong today, you are very likely to get close to zero because covenant weakness is allowing companies to survive for longer before default," said Mr. Lundie.

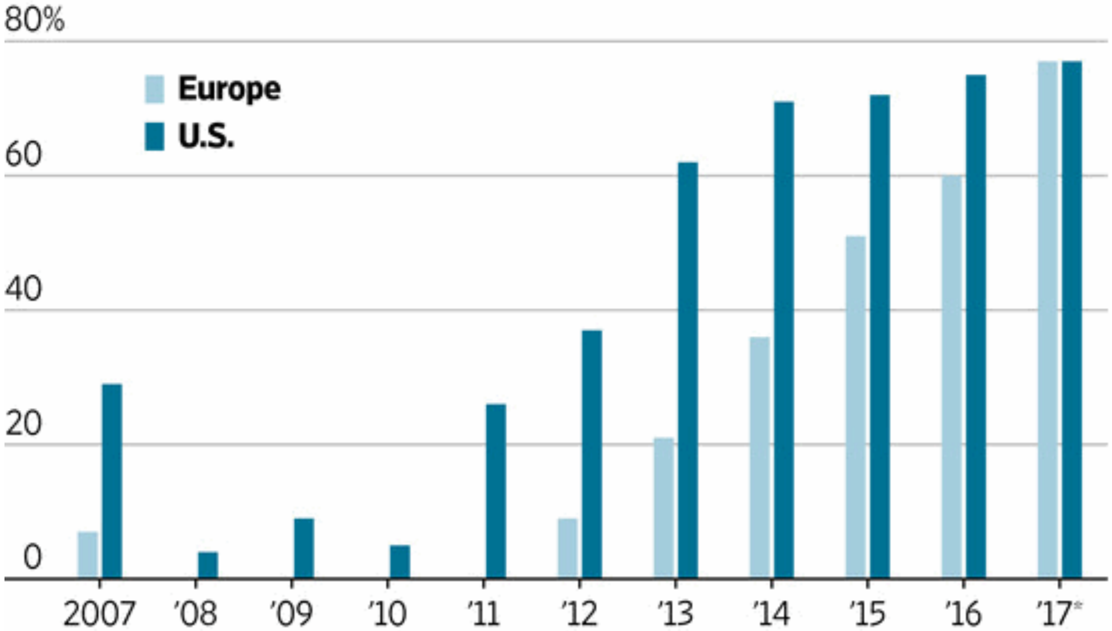
Other borrower-friendly terms include stringent loan-to-own clauses, which limit investors' ability to sell to distressed debt funds. Recent loans have placed restrictions against such firms as Elliot Capital Management, Apollo Global Management and Cerberus Capital Management.

Bankers warn that such provisions, along with so-called white lists that detail which funds can buy the loan, could hurt liquidity if investors can't unload loans in troubled companies to the sort of funds that specialize in taking on this risk.

Some recent deals now set a limit on how much of a loan any one fund can own. In 2016, loans backing Advent International's purchase of French aerospace supplier Safran SA's Morpho unit barred anyone from owning more than 10% of the debt. The idea is to prevent any one debt investor from building up a stake large enough to put pressure on the borrowers, lawyers said.

Lightening Up

The percentage of covenant-lite loans has grown sharply.



*Through Nov. 30
Source: LCD, S&P Global Market Intelligence

THE WALL STREET JOURNAL.

Document J000000020171228edcs0001j

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News -- Capital Account: Technology-Driven Boom Is Finally Coming

By Greg Ip
744 words
28 December 2017
The Wall Street Journal
J
A2
English

It's the biggest puzzle in the economy today: We are surrounded by tech advances, from artificial intelligence to robotics, but you can find no sign of it in wages or productivity. Apocalyptic warnings of jobs destroyed by automation look increasingly ludicrous amid a record streak of employment growth.

In the past year I've dug into this in columns and articles and concluded there isn't a paradox: automation hasn't advanced nearly as far as evangelists claim, and where it has, it's often created more jobs than it's destroyed. But that's the past; what about the future? Forecasts about technology are seldom more than wild guesses, yet a case could be made that the economic payoff may now be coming.

History shows that tech breakthroughs commonly take decades to move the needle on economic growth. Blame it on false starts, costly implementation, human resistance, and simple math: It's years before a new industry is big enough to make a ripple in what is now an $80 trillion global economy.

In a recent paper Erik Brynjolfsson and Daniel Rock of the Massachusetts Institute of Technology and Chad Syverson of the University of Chicago note electric motors based on alternating current were introduced in the late 1800s but even by 1919 half of U.S. factories still weren't electrified. The integrated circuit was commercialized in the 1960s yet 25 years later computers still represented just 5% of the value of all business equipment. Indeed, since the introduction of computers labor productivity has behaved much as it did after the introduction of electric motors and the internal combustion engine.

The authors blame these lags on the cost and time it takes for businesses to adapt to new technologies, obstacles they see at work today. Online shopping came along in the 1990s but retailers struggled to adapt business processes to the internet. They needed to build complementary infrastructure such as fulfillment centers, and, the authors note, customers had to adapt their habits, as well.

What about AI? Banks first used machine learning -- a type of artificial intelligence that spots patterns in massive data sets -- to spot credit-card fraud in 1987. But to gain widespread acceptance first computing power had to get a lot cheaper, data sets a lot bigger, and lots of people had to spend lots of hours deciding what questions to ask and then training algorithms to answer them.

Hype always runs well ahead of reality, bringing failure and dashed expectations. Much of that hype is reflected in the **stock-market** valuations attached to early-stage companies, most of which eventually fail.

Yet when a company achieves the value that today's tech leaders have, it tells you something important. A third of the rise in the **S&P 500 index** this year is due to five tech firms. That may mean the advances these companies represent are becoming economically significant.

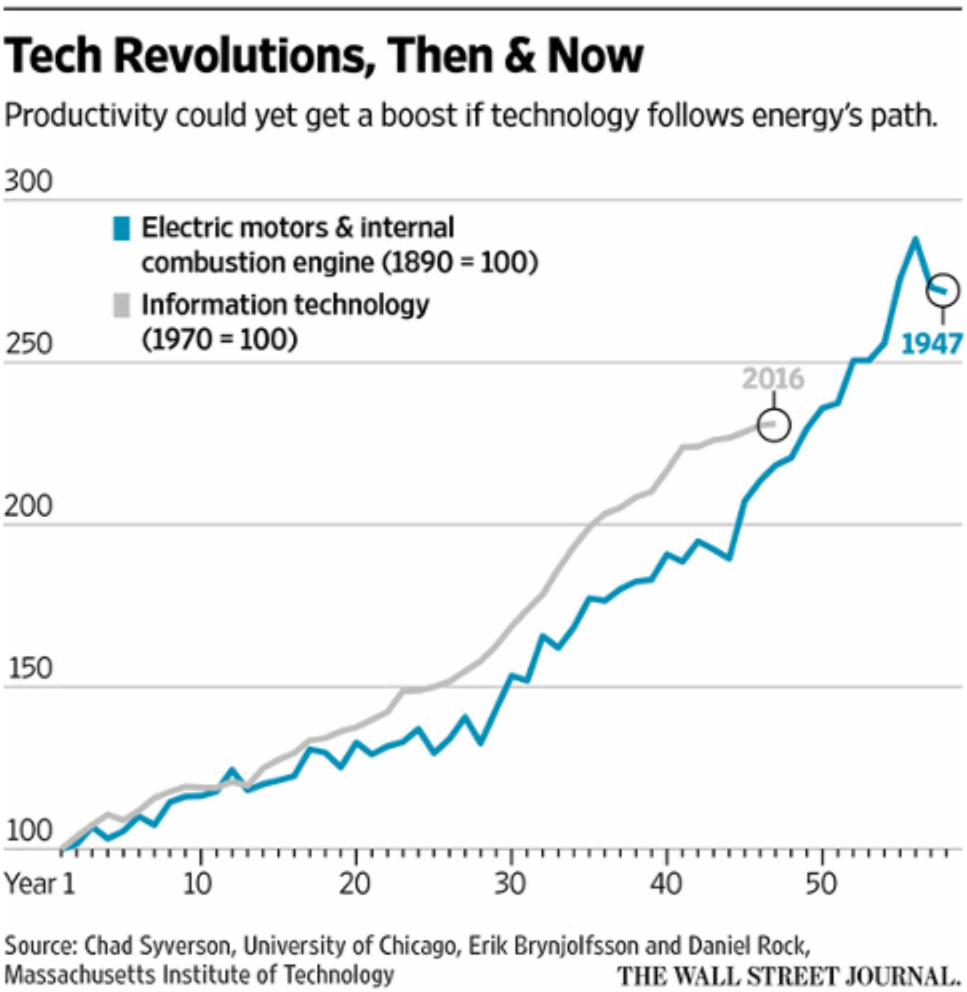
Internet sales, for example, now represent 9% of total retailing, putting discernible downward pressure on inflation.

True, U.S. growth has accelerated in 2017, but productivity, which J.P. Morgan estimates to have been 1.2%, is in line with the sluggish pace of the expansion, and one of the best performing industries, oil and gas, is responding mostly to the price of oil.

But perhaps the U.S. is at a point when technology and an economy growing solidly with low unemployment become mutually reinforcing. Entrepreneurs are more willing to take risks, including investments in new technologies, when the economy is running hotter, says Mr. Brynjolfsson. "This will speed up the adoption of the kinds of conventions needed to take full advantage of artificial intelligence and other new technologies," he said.

Consider the parallels between the present and 1998: The capital-gains tax rate was cut in 1997 and, with inflation quiescent, the Federal Reserve declined to jack up interest rates as unemployment dropped to new lows, creating the ideal environment for the dot-com boom. As stock wealth stoked spending,economic growth picked up sharply.

The party ended when the tech bubble burst in 2000 and the a recession followed in 2001. Similarly, Marc Sumerlin, who runs the research firm Evenflow Macro, predicts that the next two years could be the best of the expansion yet -- but they will be "the last hurrah."



Document J000000020171228edcs0000y

THE WALL STREET JOURNAL.
U.S. EDITION

Economic Surprise Index Hits a High

By Ben Eisen
399 words
28 December 2017
The Wall Street Journal
J
B10
English

The U.S. economy is ending the year on a high note, but that might not be a good sign for stocks.

Economic data are beating expectations by the most in nearly six years, according to a gauge compiled by Citigroup Inc. The bank's U.S. economic surprise index was at 84.5 last week, its highest since the beginning of 2011, and near those levels this week. The further above zero the index is, the more readings on the economy that are coming in better than economists' forecasts. The further below zero, the more the numbers are missing expectations.

The index was in negative territory as recently as September. Its massive run higher is one sign that the economy has gained momentum this year. The U.S. is now having the best sustained growth in three years. Manufacturing data continue to come in strong. And the U.S. continues to add jobs at a brisk clip.

A robust economy typically goes along with a rising **stock market**. The strengthening economy and corporate earnings growth have helped send the **S&P 500** up 20% this year.

But the Citi index by its nature can't stay at such lofty heights. Better data typically cause economists to lift their forecasts. Eventually, the expectations get high enough that the data can't stay ahead of what economists are predicting. When data start missing expectations, the index turns negative.

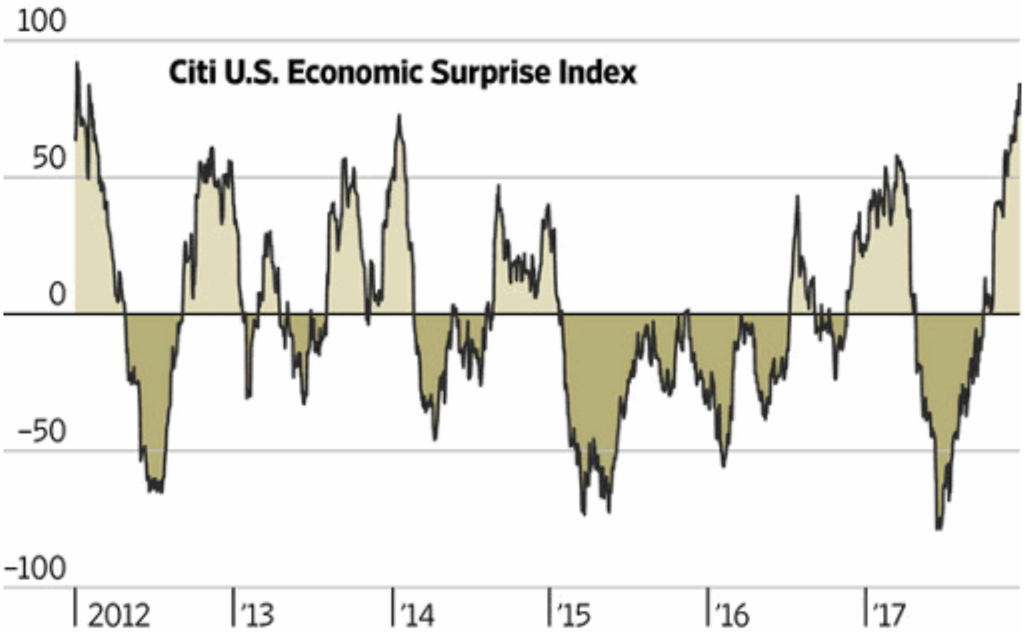
"Even if the recovery remains healthy in 2018, it can't continue to surprise," said Jim Paulsen, chief investment strategist at the Leuthold Group, in a note to clients. "The current economic surprise index is higher than 99.6% of the readings since January 2003."

Mr. Paulsen notes that the high readings on the index may mean lower returns over the next few months. When the Citi index is above 70, the **S&P 500** has had annualized returns of 2.75% over the next six months, according to data going back to 2003.

The **stock market** usually does best when expectations are moderate enough that economic data can comfortably beat them, encouraging traders to load up on stocks. When expectations get high, though, the data aren't likely to be strong enough to keep the **stock market** rising as fast as it has been.

Sudden Surge

U.S. economic data are coming in at their strongest level, relative to forecasts, in nearly six years.



Note: The more positive the reading, the higher data are relative to expectations. The more negative the reading the lower the data.

Source: FactSet

THE WALL STREET JOURNAL.

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The New York Times

Nonfiction
Books; Book Review
The Oil and Gas Sector Is Changing — and So Is Geopolitics

By ROBERT D. KAPLAN
1,081 words
28 December 2017
05:00 AM
NYTimes.com Feed
NYTFEED
English

WINDFALL

How the New Energy Abundance Upends Global Politics and Strengthens American Power

By Meghan L. O'Sullivan

479 pp. Simon & Schuster. $29.

Geopolitics is power played out against geographical settings. In this battle, ideas and ideologies matter. But it is often the most technical and complex factors — the ones we least understand and therefore discount, according to Columbia University's Robert Jervis — that carry the greatest weight. There may be no factor more influential in contemporary geopolitics and yet least understood by journalists and policymakers than the energy revolution, which is less about renewables like wind and solar power than about how the oil and gas sector itself is changing. A Harvard professor and former assistant to President George W. Bush, Meghan L. O'Sullivan, has dissected the intricacies of this industry to offer a riveting and comprehensive geopolitical theory in "Windfall."

The decline in crude **oil prices** from $100 per barrel to around $60 and below over the past two years, along with the widespread ability to extract shale gas through hydraulic fracturing of rock, or fracking, has moved the United States from being "the world's thirstiest consumer of overseas oil to a position of greater self-sufficiency," O'Sullivan writes. Falling energy prices have also stabilized Europe's economy, helped Japan manage the aftermath of the Fukushima nuclear disaster, allowed China to more aggressively pursue its new Silk Road strategy across Eurasia (while reducing the pain of a decelerating economy), kept Russia from becoming an energy superpower and weakened the prospects for energy-rich sub-Saharan African countries. "On the whole," the author says, "the new energy abundance is a boon to American power — and a bane to Russian brawn." In fact, it was new extraction techniques in tight oil and shale gas that helped ease America out of the recession.

But triumphalists beware. Though the United States is now the world's largest energy producer, it can never be the swing producer of hydrocarbons that Saudi Arabia once was, able to determine world prices by simply deciding how much to pump. That is because the United States is not an autocracy with a national oil company, but a vast network of hundreds of small producers making their own decisions and taking their own risks.

At the same time, the energy revolution has laid the basis for a more politically and economically unified North American continent. For this reason, O'Sullivan criticizes Barack Obama for alienating Canada with his delays of the Keystone XL pipeline and Donald Trump for alienating Mexico with his insults and talk of a "wall" between the two countries. O'Sullivan's book lays out Trump's ignorance of the whole United States-Mexico relationship. In 2015, the two countries traded "more than $1 million of goods and services every minute." Rather than "simply trading in final products, the United States and Mexico build goods together, utilizing complex supply chains that crisscross the border," a grid-work that includes 20 natural gas pipelines.

It was on the American side of the Gulf of Mexico where a floating storage and regasification unit was deployed in 2005 for the first time. Once natural gas is shipped in liquefied form, it can be converted back into gas upon arrival across the sea for actual use. Such units are now helping countries in Central and Eastern Europe receive gas from abroad, lessening their dependence on Russia for energy and creating a more globally integrated energy system. No longer dependent on continental pipelines, countries can now receive more gas by sea. This, in turn, has led to cheaper prices worldwide and stark geopolitical implications. China, for one, has benefited. It became less reliant on piped gas from Russia just at the moment when Moscow, reeling from the shale gas boom, was desperate for a natural gas export deal. The result was price concessions to Beijing that Russia otherwise would not have made.

For Russia, the rise of liquefied natural gas has placed the country in an increasingly greater disadvantage in competing with China for markets and influence in former Soviet Central Asia. Russia may still have an advantage because of its energy reserves, but it cannot wield energy for political ends as bluntly as it used to. While Russia is weakened, O'Sullivan posits that China will become in some respects a better global actor, since cheaper gas and oil will gradually reduce China's need for friendship with energy-rich autocratic regimes and, as O'Sullivan observes, "reinforces Chinese confidence in one of the key elements of the liberal international order: the market."

Though not wholly original, O'Sullivan writes with great clarity about a frankly dry and complicated subject. In tackling the Middle East, she observes a number of devastating ironies. Cheap oil does not spell the end of Middle East oil producers. It actually helps them, since it could price out high-cost American, Canadian and European oil. A United States that is more self-sufficient in energy will still have to be active in the Middle East to fight terrorism, resist nuclear weapons proliferation, support Israel and bolster other regional allies. Cheap oil spurs economic reform in Saudi Arabia, but also weakens the cause of Kurdish independence, since a successful Kurdish state will depend on oil revenues. Because energy is still only one factor in geopolitics, albeit a crucial one, power shifts will usually be oblique rather than immediately obvious.

Yet will Saudi Arabia have a revolution? Will Russia eventually become a low-calorie version of the former Yugoslavia? Will oil-rich Nigeria collapse, or oil-rich Venezuela continue to implode? Much will depend on the price of hydrocarbons in the years and decades ahead. In geopolitics, a $40-per-barrel world will be vastly different from a $100-per-barrel one. Rather than the usual policy pablum, "Windfall" is a smart, deeply researched primer on the subject.

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Robert D. Kaplan is the author of "Earning the Rockies: How Geography Shapes America's Role in the World." He is a senior fellow at the Center for a New American Security and a senior adviser at Eurasia Group.

Chevron's Station 36 plant in California, an oilfield that first came into production in 1899. | Jim Wilson/The New York Times

Document NYTFEED020171228edcs00235

The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Market Quietly Recoups Its After-Christmas Losses

By THE ASSOCIATED PRESS
829 words
28 December 2017
The New York Times
NYTF
Late Edition - Final
2
English

U.S. stock indexes capped another quiet day on Wall Street Wednesday with slight gains, recouping some of the market's modest losses from a day earlier.

Technology, health care and industrials stocks accounted for much of the gain. A report showing that pending U.S. home sales inched higher last month helped lift homebuilder shares.

Retailers and consumer-goods manufacturers declined the most, following a late-afternoon slide. Energy stocks also fell along with the price of crude oil. Bond yields fell following a report showing U.S. consumer confidence dipped this month.

"Trading is obviously very light, but the market is certainly going out on a high as we head into the end of the year," said Erik Davidson, chief investment officer for Wells Fargo Private Bank.

The **Standard & Poor**'**s500 index** gained 2.12 points, or 0.1 percent, to 2,682.62. The **Dow Jonesindustrial average** added 28.09 points, or 0.1 percent, to 24,774.30. The **Nasdaq** rose 3.09 points, or 0.04 percent, to 6,939.34. The Russell 2000 index of smaller-company stocks lost 0.29 points, or 0.02 percent, to 1,543.94.

Wednesday was another quiet, post-holiday day for the markets, though a couple of economic reports helped drive some trades.

The National Association of Realtors said signed contracts to buy U.S. homes increased 0.2 percent in November. The report is a barometer of future purchases. Most homebuilder shares moved higher after the report. LGI Homes led the pack, climbing $2.47, or 3.4 percent, to $75.46.

Separately, the Conference Board said its latest consumer confidence index declined slightly this month, just missing analysts' forecasts. The decline in the index drove a pickup in bond purchases, sending prices higher. The yield on the **10**-**year Treasury** slid to 2.41 percent from 2.48 percent late Tuesday.

"This is probably a little bit of an air pocket on light volume in terms of yields, but it is clearly being impacted by the somewhat softer number that we saw out of consumer confidence today," said Bill Northey, senior vice president at U.S. Bank Wealth Management.

Technology stocks were among the biggest gainers Wednesday. Qorvo was up the most, adding $1.36, or 2.1 percent, to $67.26.

Several health sector stocks also notched gains. Envision Healthcare picked up 82 cents, or 2.4 percent, to $34.56.

Shares in Macy's and other big retail chains declined a day after scoring gains on strong holiday season sales. Macy's slid $1.21, or 4.5 percent, to $25.64, while Kohl's lost $1.58, or 2.8 percent, to $55.29.

Callaway Golf tumbled 6.9 percent after the company said it invested another $20 million in entertainment company Topgolf, giving it a 14-percent stake. Callaway lost $1.04 to $14.02.

Benchmark U.S. crude dropped 33 cents to settle at $59.64 a barrel on the New York Mercantile Exchange. Brent crude, which is used to price international oils, slipped 58 cents to close at $66.44 per barrel in London.

The slide weighed on oil producers and other energy companies. Chesapeake Energy fell 12 cents, or 3 percent, to $3.88.

Gold added $3.90 to $1,291.40 an ounce. Silver gained 15 cents to $16.76 an ounce. Copper was little changed at $3.28 a pound.

The dollar rose to 113.26 yen from 113.18 yen on Tuesday. The euro strengthened to $1.1899 from $1.1867.

The price of bitcoin fell 3.9 percent to $15,125 as of 4:50 p.m. ET, according to the tracking site CoinDesk. Bitcoin futures on the Cboe Futures Exchange slid 5.5 percent to $14,945. The futures contracts allow investors to make bets on the future price of bitcoin.

In other energy futures trading, wholesale gasoline was little changed at $1.79 a gallon. Heating oil was flat at $2.04 a gallon. Natural gas rose 10 cents, or 3.6 percent, to $2.74 per 1,000 cubic feet.

Major stock indexes in Europe finished mostly higher. Germany's DAX was flat, while France's CAC 40 edged up 1 percent. Britain's FTSE 100 rose 0.4 percent.

Earlier in Asia, Japan's benchmark Nikkei 225 edged up nearly 0.1 percent, while Australia's S&P/ASX 200 was virtually unchanged. South Korea's Kospi added 0.4 percent. Hong Kong's Hang Seng inched 0.1 percent higher.

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); Consumer Confidence: Index measures attitudes toward the economy, 1985 = 100. (Source: The Conference Board)

Document NYTF000020171228edcs0004b

THE WALL STREET JOURNAL.
U.S. EDITION

Property: Manhattan Prices Lose Steam --- Oversupply and worries about tax overhaul cloud a banner year

By Josh Barbanel
697 words
28 December 2017
The Wall Street Journal
J
A8B
English

By some measures 2017 was a banner year for Manhattan residential real estate, with median prices setting a record, and sales volume rising above 2016 levels.

But the year ended not with a bang, but worries over the future of the market. While median apartment prices are up from 2016 to 2017, they began falling toward the end of this year.

The median Manhattan apartment price of $1.08 million in the fourth quarter was up 4.6% compared with the same quarter in 2016. But it fell 9.8% compared with the record it hit in the second quarter of 2017, according to an analysis of city property records by The Wall Street Journal.

Brokers and analysts attributed the slide to an oversupply of expensive apartments in Manhattan, and uncertainty over a major overhaul of the tax code that was signed by President Donald J. Trump last week.

Now some analysts said that as buyers understand the implications of tax changes more clearly, the Manhattan market could pick up some momentum next year. Of course, all bets are off if there is upheaval in the economy or the **financial markets**.

Pamela Liebman, the president of the Corcoran Group, a major New York-based brokerage, said that many buyers are convinced that prices peaked in 2017 and have fallen since and may continue to be under pressure.

"We lost a lot of deals in the fourth quarter, while people waited to see the outcome of the tax bill, she said. "Now that the uncertainty is gone they will be able to make a decision."

She said buyers were active but "focused on value and reasonable pricing."

"The good news is there are a lot of buyers who are ready to purchase next year," Ms. Liebman said. "Sellers who don't overshoot the mark should do well."

In 2017, records were set for median prices for both co-ops and condominiums, with the overall median price of a Manhattan apartment setting a record of $1,150,000, up 6.5% from 2016. Median apartment prices have risen every year since 2011, on an annual basis, according analysis by The Wall Street Journal.

The median price of a Manhattan condo was $1.7 million in 2017, up 2.7% compared with 2016, while the median price of a co-op was $800,000, up 3.2%.

The only price decline in 2017 was with new developments. Their median price of $2.6 million was down 0.6% compared with the year before.

The slowing market toward the end of this year also showed up in contract signings at the ultraluxury end of the market. The pace of contract signings for the most expensive apartments priced at $10 million or more slipped during October and November, according to real-estate data and listing site UrbanDigs.com.

Noah Rosenblatt, a broker and founder of UrbanDigs said that deal volume for lower-priced segments of the market, especially apartments listed for under $2 million, remained strong.

"I don't think this tax overhaul is going to kill the real-estate market," Mr. Rosenblatt said. "We already came down at the higher-end price point. A lot of things are priced in and baked in."

Another broker, Donna Olshan, who produces a weekly report on contract signings above $4 million, said that there were worrying signs in the luxury market, including an increase in the average time a listing spent on the market of nearly four months, from about 10 months in 2016 to 14 months this year.

The top sales of 2017 included the sale of three penthouses on the 92nd and 93rd floor at 432 Park Ave., the glass and concrete skyscraper on East 56th Street and Park Avenue, for a total price of $91.1 million.

The second-most expensive deal of the year was the $80 million sale of an Upper East Side mansion at 12 E. 86th St. Brokers say that sale is due to close before the end of the year.

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Emerging Markets Grow Up

By Richard Barley
266 words
28 December 2017
The Wall Street Journal
J
B11
English

[Financial Analysis and Commentary]

From wild youth to respectable adult?

The MSCI Emerging Markets **stock index** is turning 30: This key benchmark for investors launched in mid-1988 but has data going back to Dec. 31, 1987.

Huge political shifts and globalization have changed the face of the index over time, notes Daniel Slater, an equity strategist at investment bank Renaissance Capital. At inception, it contained just 10 countries. The Berlin Wall had yet to fall, putting Central Europe and Russia off limits; South Africa was still under apartheid; and there was, of course, no place for China, now the biggest of the index's 24 country components.

The constituent countries now make up 35% of the global economy, versus just 5% 30 years ago. Even so, emerging-market equities account for just 11% of global stocks. Meanwhile, the MSCI EM has risen 11-fold in price terms since inception, notes Renaissance, versus fivefold for the developed-market MSCI World over the period.

The rigid lines between developed and emerging markets arguably no longer exist. It is 20 years since the Asian financial crisis spread to Russia and Latin America; the most recent similar episode was the eurozone crisis. It is the U.S., Europe and Japan that have pursued unorthodox monetary policies to prop economies up.

Of course, the next shock may be lurking in emerging markets, and the 30-year ride has been bumpy. But in a low-return world, emerging assets are growing in importance for investors everywhere.

Document J000000020171228edcs0000n

THE WALL STREET JOURNAL.
U.S. EDITION

Retailers' Shares Get Lift From Holidays

By Ben Eisen
286 words
27 December 2017
The Wall Street Journal
J
B10
English

An upbeat holiday season is lifting shares of department stores, apparel companies, and specialty retailers.

The SPDR S&P Retail exchange-traded fund, which tracks an index of retail companies, jumped 1.1% on Tuesday as the **S&P 500** fell 0.1%.

A steady climb in recent months has turned the ETF positive for 2017. It is up 4.4% with three sessions left in the year.

Kohl's Corp rose 6% while Macy's Inc. climbed 4.6%, making them the best performers in the **S&P 500** on Tuesday. J.C. Penney Co. was up 5.4% while Nordstrom Inc. climbed 2%.

Foot Locker Inc. rose 2.7% and Dick's Sporting Goods climbed 2.6%. Abercrombie & Fitch was up 4.6%, Gap Inc. rose 1.5% and Express jumped 4.4%.

Retailers have struggled in recent years as e-commerce has lured business away from traditional brick-and-mortar chains. Still, strong consumer confidence and an expanding labor market propelled sales at retailers ahead of the holidays.

U.S. holiday-period sales rose at the best pace since 2011, according to Mastercard SpendingPulse, which tracks both online and in-store spending.

That has benefited investors who scooped up retail stocks at bargain prices earlier in the year. Kohl's is now up 15% for the year while Wal-Mart Stores Inc. has risen 43%. Others haven't fared as well in 2017; Macy's is down 25% and Target Corp. has fallen 8.9%.

E-commerce giant Amazon.com Inc. was also up 0.7% on Tuesday, bringing its year-to-date gains to 57%.

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
China's Problematic Oil-Yuan Plan

By Nathaniel Taplin
483 words
27 December 2017
The Wall Street Journal
J
B11
English

[Financial Analysis and Commentary]

Oil markets are already among the world's most **volatile** -- prices can leap 3% overnight on news from Middle Eastern nations many investors couldn't pinpoint on a map.

Oil guzzlers like China and India suffer the additional indignity of having to pay for this fickle resource in dollars, magnifying price swings. China would love to pay in yuan instead. And after years of preparation, it is finally launching yuan-denominated oil futures to let it do just that.

It makes sense for China to have its own benchmark: China's oil bill shouldn't remain forever pegged to the price of barrels from aging Brent fields off the coast of Britain, half a world away.

The problem is that China doesn't trust its own markets, and routinely intervenes when they move in ways it doesn't like -- particularly the yuan. As long as that is true, foreign oil producers and traders will be leery of committing capital to a market that adds regulatory and currency risk to an already **volatile** game.

China's squeeze on cross-border capital flows -- now much tighter following the run on the currency in 2015 -- already has wreaked havoc in the country's commodity markets. Dalian, where iron-ore futures are traded, is dominated by retail investors and highly **volatile**. Price swings in global markets like copper tend to be less sharp because institutional traders can take advantage of cross-border arbitrage opportunities when prices move too abruptly in New York or London.

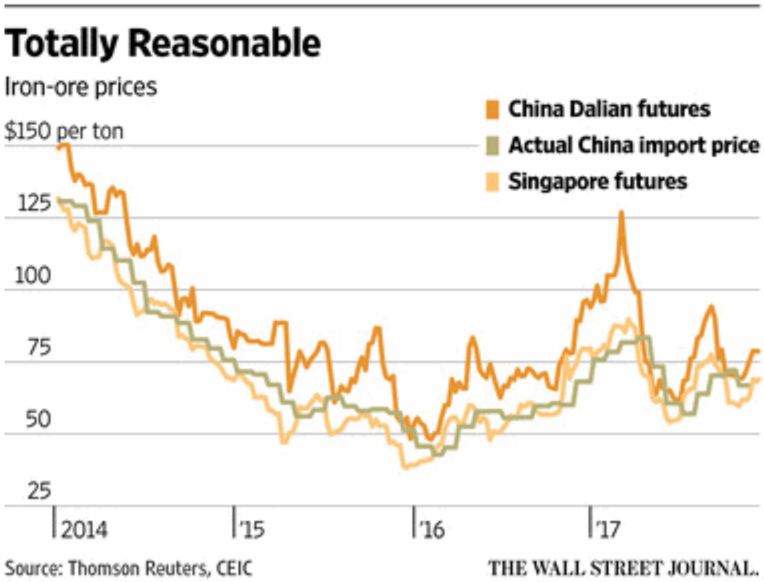
In China that isn't so easy, meaning price swings can get very wild. At various points over the past two years -- most notably in early 2017 -- near-term iron-ore futures in Dalian have traded at a roughly 50% premium to the actual average price of iron ore imported into China.

China's weight in global oil demand is also still far less than in iron ore, despite the rapid growth of recent years -- it accounted for just 13% of global demand in 2016, against 20% for the U.S.

Given the additional risks, the only real reason to use a yuan contract is to curry favor with Beijing. Big vendors like Saudi Aramco, which also happens to be hoping for a chunk of Chinese cash for its expected initial public offering, may start using the new contract to a limited extent. But it seems likely that it will continue doing the bulk of its global business using dollar-based benchmarks.

Global investors like to complain that the U.S. treats the dollar as "our currency and your problem." But the current Federal Reserve is among the most transparent central banks in history.

If you think hawking your wares in dollars is bad, boy, does China have a deal for you.



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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Economic Forecasters Score Hits, Misses

By Ben Leubsdorf
629 words
27 December 2017
The Wall Street Journal
J
A2
English

The only purpose of economic forecasts is to make astrology look respectable, according to a saying attributed to the late economist John Kenneth Galbraith.

And, yes, some of economists' early guesses for the year turned out to be off base. Still, the consensus among forecasters when 2017 was young has turned out to be fairly accurate for a number of closely watched economic indicators including hiring, output growth and inflation.

Here is how economists did this year for selected economic indicators, comparing the latest available actual figures with the average forecasts in The Wall Street Journal's January 2017 survey of academic, business and financial economists.

Unemployment Rate

Average forecast for December: 4.5%

Actual (as of November): 4.1%

The unemployment rate ended 2016 at 4.7%, and economists expected it would drift down to 4.5% by the end of 2017. Instead, it hit 4.5% in March and kept falling. As of November, it was at its lowest level in 17 years.

Inflation

Average forecast for annual change in consumer-price index in December: 2.3%

Actual annual change in CPI as of November 2017: 2.2%

Forecasters in January thought the consumer-price index would grow more than 2% this year, and they seem to have been right. Inflation was boosted in early 2017 by year-over-year gains in energy prices but hit a soft patch and then stabilized in recent months, with gasoline prices lifted by storm-related disruptions.

All that was enough to give Federal Reserve officials enough confidence to keep raising the short-term interest rate.

Hiring

Forecast for average monthly change in nonfarm payrolls during 2017: 166,000

Actual (average for January through November): 174,000

The pace of job gains has been slowing for several years as the U.S. economy approaches full employment. Employers added an average of 187,000 jobs a month in 2016. Economists expected a step down in 2017 and they got one -- though not quite as big a slowdown as they had expected.

Real GDP

Average forecast for 2017 (year-over-year growth in fourth quarter): 2.4%

Actual (year-over-year growth in third quarter): 2.3%

Another close one. For years, economists thought a pickup in economic growth was just around the corner, but temporary accelerations would fade after a quarter or two. They again marked up growth estimates after Donald Trump was elected president, anticipating tax cuts and other fiscal stimulus. Now, the economy is experiencing its best sustained growth in several years, and many forecasters are predicting another solid performance in 2018 in large part because of the Republican tax-overhaul legislation.

Bond Yields

Average forecast for closing yield on **10**-**year Treasury** notes in December: 2.89%

Actual yield as of Tuesday: 2.467%

Swing and a miss. Economists had predicted rising government bond yields in 2017, but the yield on the benchmark **10**-**year Treasury** note has moved sideways even as the Fed has pushed up short-term rates. One result: The so-called yield curve has flattened, which could be a warning sign for the economy.

Housing

Average forecast for housing starts in 2017: 1.26 million units

Actual in the 12 months ended November: 1.21 million units

Average forecast for national home prices in 2017, fourth quarter over fourth quarter: 4.4% increase

Actual (as of third quarter): 6.5% increase

Home builders have started work on fewer residential units than economists had expected as multifamily construction sagged, and home prices have risen faster than anticipated due to tight inventory. The outlook for 2018 is clouded by tax-code changes that reduce longstanding incentives for homeownership.

Falling Fast

The U.S. unemployment rate fell further in 2017 than economists had expected.

Notes: Data are seasonally adjusted. Forecast is from The Wall Street Journal's January 2017 survey of academic, business and financial economists.
Source: Labor Department

THE WALL STREET JOURNAL.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Not Much Shopping on Wall Street After Christmas

By THE ASSOCIATED PRESS
859 words
27 December 2017
The New York Times
NYTF
Late Edition - Final
2
English

A listless day of trading on Wall Street ended with major stock indexes closing slightly lower Tuesday, weighed down by losses among some big technology companies.

Apple slid 2.5 percent amid speculation that the consumer electronics giant might cut its targets for sales of its latest iPhone. Banks also declined, outweighing gains by energy companies and retailers. **Oil prices** closed higher.

Trading was light as investors returned from the Christmas holiday.

"It's a low-volume day after Christmas, with hardly anything going on," said Tom Martin, senior portfolio manager with Globalt Investments. "You have one piece of news that is significant on a major company, Apple. That moved some of the components around."

The **Standard & Poor**'**s500 index** fell 2.84 points, or 0.1 percent, to 2,680.50. The **Dow Jonesindustrial average** slid 7.85 points, or 0.03 percent, to 24,746.21. The **Nasdaq** lost 23.71 points, or 0.3 percent, to 6,936.25. The Russell 2000 index of smaller-company stocks picked up 1.30 points, or 0.1 percent, to 1,544.23.

Stocks had finished higher for five straight weeks heading into this week. They are on pace to finish every month this year with gains, when dividends are included.

The major indexes were slightly lower early on and veered little for the rest of the day. It was the lightest day of trading in about a year.

Technology companies pulled the market lower from the get-go, weighed down by chipmakers and Apple, among other big names.

Apple slid after a Taiwanese newspaper reported that the company may cut iPhone X sales targets amid weak sales. The stock declined $4.44 to $170.57.

Chipmaker Micron Technology lost $1.87, or 4.2 percent, to $42.25.

Despite the slide, technology remains the best-performing sector in the **S&P 500** this year with a gain of 37.4 percent.

Energy companies posted the biggest gains Tuesday as **oil prices** rose. Range Resources gained 53 cents, or 3.2 percent, to $16.99.

Benchmark U.S. crude gained $1.50, or 2.6 percent, to settle at $59.97 on the New York Mercantile Exchange. Brent crude, which is used to price international oils, rose $1.77, or 2.7 percent, to close at $67.02 in London.

Investors also bid up shares in big retail stocks and consumer products companies. Kohl's jumped $3.21, or 6 percent, to $56.87, while Macy's added $1.18, or 4.6 percent, to $26.85.

Traders welcomed the latest corporate deal news.

Sucampo Pharmaceuticals climbed 5.9 percent after it agreed to be acquired by drugmaker Mallinckrodt for $839 million, or $18 a share. Sucampo makes a constipation drug called Amitiza and it had $230 million in total revenue last year. Sucampo added $1 to $18. Mallinckrodt picked up 16 cents to $23.48.

KLX surged 10 percent after the aerospace products and energy services company said it will consider options including a sale. The stock added $6.28 to $69.28.

In other energy futures trading, wholesale gasoline rose 2 cents to $1.79 a gallon. Heating oil added 7 cents to $2.04 a gallon. Natural gas fell 2 cents to $2.64 per 1,000 cubic feet.

Gold rose $8.70, or 0.7 percent, to $1,287.50 an ounce. Silver added 16 cents to $16.60 an ounce. Copper picked up 4 cents to $3.28 a pound.

Bond prices rose. The yield on the **10**-**year Treasury** fell to 2.47 percent from 2.48 percent late Friday.

The dollar fell to 113.18 yen from 113.31 yen on Friday. The euro strengthened to $1.1867 from $1.1852.

The price of bitcoin rose 14.4 percent to $15,917 as of 4:45 p.m. ET, according to the tracking site CoinDesk. The price of the digital currency slumped as much as 30 percent on Friday. Bitcoin futures on the Cboe Futures Exchange rose 13.3 percent to settle at $15,810.

The futures contracts allow investors to make bets on the future price of bitcoin. The price of the digital currency has soared this year, having begun 2017 under $1,000. Many economists and market watchers believe bitcoin is in a speculative bubble that could burst any time.

Major markets in Europe were closed for a holiday. In Asia, markets were mixed in light trading. Tokyo's Nikkei 225 shed 0.2 percent, while Seoul's Kospi fell 0.5 percent and India's Sensex gained 0.2 percent. Shares in Taiwan and Singapore declined while Bangkok rose.

Markets in Hong Kong and Australia were also closed for a holiday.

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); 3-Month Treasury Bills: High rate at weekly auction. (Source: The Bond Buyer)

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THE WALL STREET JOURNAL.
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Tax Law Not So Big On Jumbo Mortgages

By Christina Rexrode
813 words
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B1
English

The jumbo-mortgage market has been a bright spot for the banking industry in recent years. The tax law could take some of the shine off it.

The tax-code overhaul, among its many other consequences, eliminates some of the benefits of homeownership, particularly for high-end homes. And the borrowers who buy those homes are exactly whom banks have been targeting.

"The banks really like jumbo mortgages," said Guy Cecala, publisher of the trade publication Inside Mortgage Finance. "It's a business they've become increasingly reliant on." Last year, jumbo mortgages hit their highest level since 2006 by dollar volume, according to the publication's estimates.

Predicting the tax law's exact effect on the jumbo market is difficult, and most banks aren't talking yet about what they expect. Complicating matters: Wealthy consumers could benefit from other parts of the new tax law. Also, the jumbo market has already slowed down this year, as higher interest rates have crimped refinancing activity.

Still, some analysts say the tax changes could further slow the pace of jumbo mortgages, though for now they expect only a modest single-digit percentage dropfrom the law.

Since the financial crisis, banks have beenpushing hard on jumbo mortgages, or loans that are too big to be sold to Fannie Mae and Freddie Mac. In most parts of the country, ajumbois any loan above $424,100. Banks generally keep the loans on their own books, as wealthy borrowers who use the products are less likely to default.

There are two main ways the tax law could hinder some of that activity. It slashes the size of loans that qualify for the mortgage-interest deduction from $1 million to $750,000. It also curbs the amount of property taxes homeowners can deduct from their tax bill. Mr. Cecala said this cap could make wealthy buyers reconsider buying a second or third home, since the property-tax deduction is one of the major benefits of doing so.

In "states like New York, New Jersey, California -- that's a big deal," said KBW analyst Christopher McGratty. Current mortgages will get to keep the $1 million cap on mortgage-interest deductibility, but that could also slow sales by persuading some high-end homeowners not to move.

The banks' increasing production of jumbo mortgages has been notable since they have pulled back on other types of mortgages, tightening lending standards and making way for nonbank lenders to take on riskier customers. Wells Fargo & Co., JPMorgan Chase & Co. and Bank of America Corp. are the three biggest jumbo mortgage producers.

At banks with $10 billion or more in assets, which includes all midsize and large banks, 19% of all mortgage originations were over the typical jumbo limit in 2016, up from 9% in 2006, according to an analysis using software from ComplianceTech's LendingPatterns.com.

For the biggest banks, the jumbo setback won't offset the expected savings from a lower corporate tax rate over all. But a few lenders like First Republic Bank that focus heavily on jumbo mortgages may face a more meaningful impact.

Over the last three months, as the tax bill came into shape, First Republic shares declined about 14%, compared with about an 11% pickup in the KBW **Nasdaq** Bank index.

"I don't think we view it as [a change] that totally stops the business and drives things to a halt," said the bank's chief financial officer, Michael Roffler, at a conference in early November. The bank declined to comment.

High-cost mortgages dominate the housing market in areas like New York City and California. In Manhattan, for example, 84% of purchase mortgages this year were for more than $500,000, according to housing-research firm Attom Data Solutions. In San Francisco, where First Republic is based, the portion is 87%.

The mortgage-interest deduction has long been a staple of American homeownership, and the psychological effect of losing part of it can have just as much an effect as the financial. Already, many borrowers are staying put longer in their current homes, partly because they don't want to lose the superlow interest rates they pay now that the Federal Reserve is raising short-term rates.

"We're already living in a rate-lock world," said Ben Graboske, an executive vice president at mortgage data and technology firm Black Knight Inc. "Now you're going to add this."

Black Knight calculates that the new interest-deductibility cap would cost a homeowner with a mortgage over $750,000 an average of $2,500 to $4,000 a year depending on their tax bracket. That would equal a 6% increase in monthly principal and interest payments for moving to a new home.

Rachel Louise Ensign contributed to this article.

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Heard on the Street
How U.S. Companies Can Take Advantage of Tax Cut Now

By Spencer Jakab
452 words
26 December 2017
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

Congratulations, chief executive of Major Corporation. After years of lobbying, Washington has passed the tax cut of your dreams.

Your shareholders, who boosted your **stock price** this year in anticipation of higher future profits, didn't wait until 2018 to celebrate. Neither should you. While it is almost time to say good riddance to high corporate tax rates, there are opportunities to be seized today. With 35 cents of each marginal dollar you earn going to Uncle Sam this week and just 21 cents next week, it sure would be nice to shift things around a little bit.

Take that underfunded pension plan you've been meaning to contribute more to for years. This is a good a time as any to put in a tax-deductible slug of cash. Companies such as Delta, FedEx and Verizon have beaten you to the punch, so don't dillydally.

No need to whip out your checkbook right now if you don't have the cash this second. The magic of accounting rules gives you until next September to make retroactive contributions. And where will you get it? Fortunately your company will be able to tap some of the untaxed profit it has been holding abroad as soon as you pay a one-time 15.5% tax on liquid assets.

Trapped cash will come in handy for other odds and ends to burnish your corporate image or employee morale. Were you considering a big employee bonus like AT&T or perhaps a large charitable donation? Do it now and tell them "the check's in the mail."

This is also a great time to order extra inventory. The effective after-tax cost of that $1 widget you were going to buy next month would be 79 cents while it is just 65 cents if bought today. Don't worry; you can pay for it later. Just don't confuse expenses with capital investments. They may both cost money, but the latter can be deducted immediately starting next year, so keep that old forklift for another week.

While your shareholders will thank you for your foresight, economists are going to have quite the time forecasting things such as wages, durable goods, corporate profits and economic growth for the next couple of quarters. Analysts will be tearing their hair out when forced to slash this year's earnings estimates and boost forecasts. **Bullish** strategists may not mind, though, as 2018 earnings growth will look even better.

Make sure to send your congressman a nice holiday card -- paid for this year, naturally.

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THE WALL STREET JOURNAL.
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MoneyBeat: Bitcoin Flips Sides Again

By Ben Eisen
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B9
English

Bitcoin fell sharply last week, bringing it into its latest **bear market**. That is a familiar place for the cryptocurrency, which has swung between bull and bear markets nearly once a month this year.

A loss of 20% typically signals the start of a **bear market**, while a gain of 20% signals a **bull market**. After entering one, it takes a 20% move on a closing basis in the opposite direction to switch from one designation to the other. That is considered a big move for most assets, which is why entire eras for markets like stocks are often bookended by shifts from one type of market to the other.

But 20% isn't all that much for bitcoin. The total of 11 flips this year from a **bull market** to a **bear market**, or vice versa, is one sign of just how **volatile** the currency has been.

The **S&P 500 index**, by contrast, hasn't suffered a decline of 20% since 2009. The market for crude oil had a particularly **volatile** year in 2016, but had only five such flips.

Of course, bitcoin's bull markets have been a lot stronger than its bear markets, which is why the cryptocurrency has multiplied in value so many times this year. The strongest of the bull markets is the most recent one, which took the closing price up 230% between Nov. 12 and Dec. 16.

Bitcoin buyers who have hung on through the bear markets are up a lot this year, but the ride certainly hasn't been smooth.

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Bitcoin Catches U.S. Regulators Off Guard

By Dave Michaels and Gabriel T. Rubin
835 words
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The Wall Street Journal
J
B1
English

WASHINGTON -- Investors are frantically trying to learn everything they can about bitcoin -- and so are regulators.

Furious trading in cryptocurrencies is testing many in the Trump administration who are eager to embrace financial innovation, after nearly a decade of tighter clamps on risk-taking put in place after the 2008 financial crisis.

The Commodity Futures Trading Commission, the agency with closest oversight of bitcoin trading, began the year by launching an in-house lab to encourage advances in blockchain, the technology that underpins digital currencies. Yet the regulator recently sounded an alarm on bitcoin itself, noting most exchanges are completely unregulated while the cryptocurrency is prone to wild price swings and potential flash crashes.

The CFTC has labeled bitcoin a commodity, but as with other commodities, the agency mostly lacks jurisdiction over the primary market. It regulates corn futures contracts but not the buying and selling of corn itself, for instance. As a result, bitcoin exchanges don't have to tell participants how they operate, such as whether they offer preferential access to certain traders.

"A lot of people, retail traders in particular, have gotten used to securities laws and commodities laws protecting them," said Kipp Rogers, a former proprietary trader who is now a blogger and researcher. "And so they don't just even know what to be on guard for."

The Securities and Exchange Commission faces challenges similar to the CFTC's. The SEC's new chairman, Jay Clayton, wants retail investors to have better access to high-return investments, which bitcoin and many of its digital relatives provide.

But the SEC is cracking down on initial coin offerings, a fundraising vehicle that piggybacks off investors' lust for bitcoin and in some cases violates core investor-protection laws.

"There is clearly demand for bitcoin investments, but the regulators are struggling with how to balance new tools for capital formation with the need for investor protections," said Michael Liftik, a partner at Quinn Emanuel Urquhart & Sullivan LLP and previously a top aide to former SEC Chairman Mary Jo White.

CFTC Chairman J. Christopher Giancarlo has enthusiastically embraced blockchain technology and has spoken positively about how it will "challenge orthodoxies" in **financial-market** infrastructure. He has warned regulators about stifling innovation by being overly prescriptive about how blockchain can be used.

The CFTC has limited power to constrain growth of cryptocurrency derivatives. Futures exchanges, which launched new contracts on bitcoin this month, can effectively launch new products without the CFTC's approval by declaring they have controls to guard against manipulation. The CFTC has emergency authority to halt trading of futures but has used it only five times in its 43-year history.

The CFTC also can regulate bitcoin markets that lend traders money to increase their bets, known as leveraged trading. Last year, the CFTC reached a $75,000 settlement with Bitfinex, an exchange that CFTC said offered leveraged trading without the commission's approval. Bitfinex didn't respond to requests to comment. Earlier, Bitfinex said it "made significant changes" to come in line with CFTC rules.

The SEC is waging its own cryptocurrency battles. It has come down hard oninitial coin offerings, or ICOs, a type of unregulated fundraising in which people pay in cash or in cryptocurrencies to get new digital tokens that can entitle their owners to future products or services developed by the company. The SEC has said many of the deals are actually securities sales.

"They are just digging in on a case-by-case basis and trying to look at all of the token offerings," said Michael Didiuk, a former regulator who specialized in blockchain technology at the SEC and now is a partner at Perkins Coie LLP.

The SEC has sued two ICOs that it said committed fraud by allegedly taking investors' money for tokens that didn't exist or promising outlandish returns. This month, the SEC intervened to halt a $15 million ICO by Munchee Inc., a restaurant app, saying the deal should have been registered as a securities offering.

Many issuers say their tokens will trade, just like cryptocurrencies, on platforms that function as exchanges. There are now so many tokens trading that some securities lawyers say the landscape resembles the market for microcap companies, thinly traded stocks that are easily manipulated by promoters and pump-and-dump artists.

"When there is a lot of money in the space, you get well-meaning entrepreneurs and you get charlatans only looking to scalp, and pump and dump, and flip ICOs," said Chris Padovano, a New York attorney specializing in advising blockchain-based businesses.

While many cryptocurrency and token exchanges are based overseas, SEC officials believe their authority can extend beyond U.S. borders, according to people familiar with the matter. The issue would turn on whether an exchange solicited U.S. investors or knew its activity would attract U.S. participants, the people said.

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THE WALL STREET JOURNAL.
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Heard on the Street
Risks Lurk in Emerging Markets

By Anjani Trivedi
439 words
26 December 2017
The Wall Street Journal
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English

[Financial Analysis and Commentary]

Emerging markets had a stellar 2017 and investors are increasingly confident about the future. Amid the euphoria, there are reminders about how quickly these markets can turn bad.

Net capital inflows in emerging markets are at their highest in two years. JPMorgan forecasts growth across emerging countries to reach 4.8% for the year, mostly driven by domestic demand. The asset class seems better placed to withstand rising U.S. interest rates than at the time of its last major selloff in 2013, the so-called taper tantrum. Emerging-market stocks and bonds are among the best assets globally on a total-return basis.

Even as U.S. interest rates have risen, the gap between yields on EM sovereign bonds and U.S. Treasurys -- known as the spread -- has narrowed. **Volatility** has been low. Investors have recently allowed the likes of Pakistan to raise billions worth of debt, helping drive U.S. dollar debt issuance by emerging countries to a record this year. Indonesia, which usually taps debt markets at the beginning of the year, has this month raised a total of $4 billion, paying less than it paid in July.

Amid all the merriment however, credit ratings have trended to their lowest level since 2010, according to an index created by the Institute of International Finance. In addition to sovereign downgrades for China, South Africa and Turkey, there were 43 corporate downgrades in emerging markets in the third quarter, compared with 16 upgrades, according to S&P. The ratings trend suggests the agencies are still worried about the sustainability of many emerging countries' high levels of debt and ability to refinance it as rates rise.

The supposedly gleaming outlook could be muddied by other as-yet unheeded factors. One of the biggest, most unquantifiable risks of emerging-market investing -- politics -- is set for a big year. At least 18 elections are scheduled, including in emerging-market giants like South Africa and Indonesia.

The risk of unexpected outcomes is high. As India has witnessed this year, reformist governments can slow economies far lower than investors -- or policy makers -- had expected. Then there is the perennial question around China's growth.

Investors have been comforted by factors like better current accounts. But government balance sheets have deteriorated and are in fact weaker since 2013, judged by metrics like their budget deficits and debt levels. There is also the looming risk of high debt maturities over the next three years. The gains have been strong, but investors shouldn't become complacent.

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The New York Times

Contributing Op-Ed Writer
Opinion
Which Nation Does the World Trust Most? (Hint: Follow the Dollar)

By RUCHIR SHARMA
1,418 words
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NYTFEED
English

There is a popular narrative these days that President Trump is undermining America's standing in the world and ceding the mantle of global leadership to China. By insisting that America should act like any other country and put its own interests first, these declinists say, Mr. Trump is demoting America to the status of any other country and straining its postwar alliances to the breaking point. Global polls show that Mr. Trump is far less trusted than President Barack Obama was and Mr. Trump's America is viewed far less favorably than Mr. Obama's was.

A provocateur like Mr. Trump will trigger strong opinions, but opinions are flighty. A president's character is indeed likely to affect America's soft power — its cultural and diplomatic influence — while he is in office. It is less clear, however, that any erosion of soft power under Mr. Trump represents a permanent threat to America's hard power, including its measurable economic and financial strength.

Even before Mr. Trump, the declinists cited data showing China gaining a greater share of the global economy at America's expense, a trend that is easy to exaggerate. America's current 24 percent share looks much diminished compared with 30 percent in 2000 but about the same as the 26 percent share in 1980. It's simple to cherry-pick a start date that makes American decline look bad, but the reality is that China is gaining global economic share at the expense mainly of Europe and Japan.

America is a tested economic superpower, having survived 21 recessions and a Great Depression since 1900. China remains untested, having suffered not one outright recession since its modern renaissance began around 1980. It has yet to be seen just how well China will weather such a test, which is inevitable for any large economy.

China's rise has already slowed sharply. When the Chinese economy grew at a double-digit pace last decade and its currency appreciated strongly, many forecasters thought it would match the size of the American economy by now. Instead, following a significant slowdown, China is on pace to catch up to the United States by 2030 — and then only if it experiences no major disruptions or further slowdown. Both things are highly possible.

At a time when finance increasingly dominates the global economy, America's influence as a financial superpower is as great as ever. Central banks around the world are always looking for a safe place to park their money, and they usually buy United States assets, typically Treasury bills, which show up as dollars in their foreign exchange reserves. Since 1980, the dollar's share of foreign exchange reserves has held roughly steady at around 66 percent. This is in part the world's way of saying it not only trusts the United States to pay its debts but also trusts it more than Europe, Japan and especially China.

Serious money does not equate America with Mr. Trump, and those obsessed with American decline ignore the state of its rivals. The euro was introduced 19 years ago, ambitious to become a reserve currency, but its youth and the recurring fears of a eurozone breakup have limited the world's willingness to trust it. Aging Japan's long stagnation acts as a permanent cap on the yen's popularity. And outsiders remain even more wary of the renminbi, owing both to China's debt troubles and the standing threat that Communist rulers pose to free flows of capital.

On the other hand, confidence in the dollar reflects longstanding faith in American financial and political institutions and effectively ignores both the recent advent of Mr. Trump, who as a candidate threatened to reduce United States debt payments, and the dysfunction in his White House.

When businesses in two countries — say, India and Argentina — want to conduct a deal, they almost always arrange payment not in rupees or pesos but in dollars. Everyone wants to hold the world's most trusted and liquid currency. Nearly 90 percent of bank-financed international transactions are conducted in dollars, a share that is close to all-time highs.

The world is on a dollar standard, and in some ways the reach of the dollar is expanding. When individuals and companies borrow from lenders in another country, they increasingly borrow in dollars, which now account for 75 percent of these global flows, up from 60 percent just before the global financial crisis in 2008. Even though the crisis began that year in the United States, American banks dominate global finance more now than they did before the crisis — in part because debt troubles have dogged banks in Europe, Japan and China even more persistently.

The share of countries that use the dollar as their main "anchor" — the currency against which they measure and stabilize the value of their own currency — has risen to 60 percent today from about 30 percent in 1950 and 50 percent in 1980. And those countries collectively account for some 70 percent of the global gross domestic product. In other words, most of the world chooses to live in a dollar bloc.

Critically, there is no sign that the dollar's status on any of these measures — as a reserve, an anchor or the favored currency for cross-border transactions and loans — has declined since Mr. Trump took office.

In a dollar world, most countries are happiest when the dominant currency is cheap and plentiful. A strong dollar raises the cost of borrowing, which slows global economic growth and has often triggered debt crises in the emerging world. A weak dollar has the opposite effect, which is why the weakening of the dollar this year offers more evidence of its dominance: Partly as a result, the world is enjoying an unusually broad recovery encompassing every major economy.

The global embrace of the dollar matters not only as a sign of trust. Having the world's favorite reserve currency is a practical advantage, lowering borrowing costs and boosting G.D.P. growth in America, while symbolizing great power status. Not surprisingly, then, China in particular has been eager to challenge the dollar's supremacy.

Instead, the renminbi has gained no ground as a reserve currency and probably won't as long as China's **financial markets** remain largely closed, underdeveloped and subject to government meddling. One reason foreigners like to hold the dollar is that they know they will never get stuck with it, thanks to the vast, open and highly liquid American stock and bond markets.

Many observers nonetheless assume that with China rising as an economic power, financial clout will follow. Perhaps, but the United States surpassed Britain as the world's largest economy in the late 19th century, and the dollar did not fully displace British sterling as the leading reserve currency until after the world wars, which left British finances shattered. That doesn't mean it will take World War III to end the dollar's reign, but it will take time and a shock bigger than one unpredictable president.

History also suggests that economic size alone will not be enough to propel China to financial superpower status. From 1450 through the late 1700s, the leading reserve currency was held by smaller countries — first Portugal, followed by Spain, the Netherlands and France. These nations were all major trading and military powers with credible financial systems, but not one was the world's largest economy. Throughout those centuries, the leading economy was primarily China. It never gained the advantages of having the leading reserve currency because, then as now, its financial system lacked credibility.

No one doubts that China poses a growing military and economic challenge to the United States. But Mr. Trump's critics may be overstating both the scope and inevitability of American decline and the role one president can play in advancing it.

To identify which nation the world really trusts in the long term, follow the money. And money still flows downhill to the dollar — arguably the vote of confidence in America that matters most.

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

Ruchir Sharma, author of "The Rise and Fall of Nations: Forces of Change in the Post-Crisis World," is the chief global strategist at Morgan Stanley Investment Management and a contributing opinion writer.

Petar Kujundzic/Reuters

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THE WALL STREET JOURNAL.
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Weekend Investor: New 'Fear Gauge' on Tap

By Gunjan Banerji
571 words
23 December 2017
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J
B5
English

The VIX is getting a rival.

Nasdaq Inc. is working on launching futures and options linked to an index that uses a different way to track **volatility** in the **S&P 500**, the benchmark gauge for the U.S. **stock market**, said people familiar with the matter. The launch is subject to regulatory approval and would compete against the market's so-called fear gauge from Cboe Global Markets Inc.

Nasdaq also has discussed internally a similar gauge for the **Nasdaq**-100, the tech-heavy measure that is owned by the exchange, the people said. With the plan, New York-based **Nasdaq** is vying for a slice of the **volatility** trading business, which has shown little sign of slowing despite historic calm in global markets.

Chicago-based Cboe has long been the principal player in the **volatility** trading universe. It oversees the Cboe **Volatility** Index, or the VIX. This year, the VIX was the target of skepticism amid claims that it was vulnerable to manipulation.

The biggest difference between **Nasdaq**'s **volatility** index, called the Nations VolDex, and Cboe's VIX is that the **Nasdaq** version is based on options for the largest **S&P 500** exchange-traded fund -- the SPDR **S&P 500** ETF Trust, which is one of the most traded securities in the U.S. **stock market**.

In contrast, Cboe's VIX tracks options on the **S&P 500 index** itself.

Options on the **S&P 500** ETF actually have become more popular than the index contracts. **S&P 500** ETF contracts were the No. 1 traded U.S.-listed stock option this year through September, according to Tabb Group. Options on the **S&P 500 index** itself followed, the data show.

Another difference between the two: Cboe's VIX includes options that can be exercised if the **S&P 500 index** spikes dramatically up or down. In contrast, the VolDex is based on options prices that are closer to where the **S&P 500** ETF is trading. VolDex's creator said in a white paper that focusing on the more liquid options is a more accurate measure of **volatility**.

John Griffin, professor at University of Texas at Austin, co-wrote a paper earlier this year that says the VIX's design can be manipulated. In general, the types of options used in VolDex "are less susceptible to being pushed," he said.

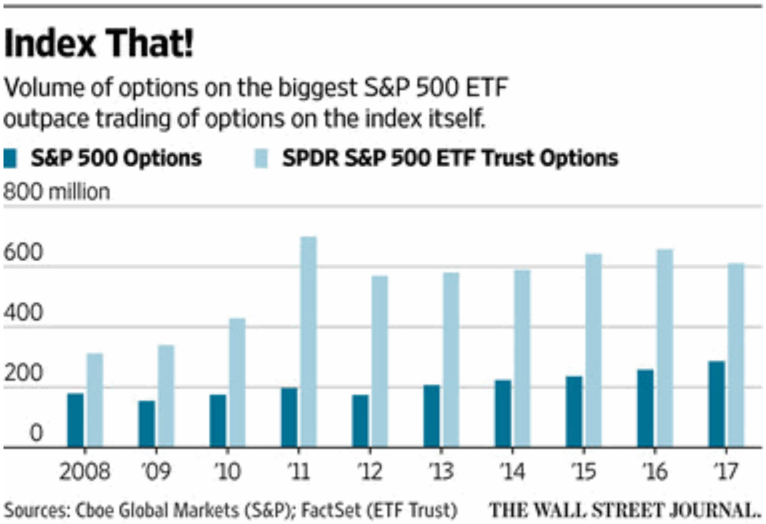
In May, in response to the manipulation claims, a Cboe spokeswoman said that trading flagged as irregular in the paper is consistent with legitimate trading. She also said at the time that Cboe maintains a surveillance program for behavior like manipulation.

VolDex futures would expand **Nasdaq**'s **volatility** portfolio. The exchange operator gained control of the VolDex when it bought the International Securities Exchange last year.

On **Nasdaq**'s plans, Cboe's Bill Speth said, "It's not unusual to see competition when you have a successful product like the Cboe **Volatility** Index."

"We have great confidence that the VIX will remain the premiere **volatility** benchmark," said Mr. Speth, who is vice president of research and product development at Cboe. Even competing products can help VIX products because hedgers often use liquid VIX futures and options to offset other positions, he said.

Despite prolonged tranquility in the **equity market**, volume of VIX options hit several records this year.



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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Buying the Dips Is Getting Harder

By Spencer Jakab
454 words
23 December 2017
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

Mark your calendars for Friday, Jan. 5. Unless calamity strikes the U.S. **stock market**, it will mark the longest stretch in history that the **S&P 500** or its predecessor hasn't fallen 5% within any six-month period. The old record, the longest over nine decades, was 394 trading days, according to Goldman Sachs Group.

Depending on their ideological persuasion, ecstatic investors might thank Janet Yellen, Donald Trump, Barack Obama or just dumb luck for this stretch of extraordinarily smooth sailing. Elevated stock valuations are at least partially explained by fewer pullbacks, because behavioral finance teaches us that an asset's choppiness makes it less desirable and cheaper.

Some credit for the calm goes to a group of traders who follow a strategy that goes by the acronym BTFD: "Buy the [expletive] Dip."

Perhaps because central banks have had the market's back for nearly a decade, pullbacks have become profit opportunities. The proliferation of investment products that allow individuals to make outsize bets on indexes has given the masses real market heft.

Such securities regularly register more volume than all but a few stocks on U.S. exchanges.

One bold trader points out, for example, that, since the advent of central banks' quantitative easing nine years ago, all you had to do is own the **S&P 500** and then double that exposure using leverage at the market close if it dropped at least 1% in a day, holding on for two days. A quick check shows that this has worked well.

Such naive strategies have been almost too successful, though, as there are hardly any dips left to buy. The last time that the **S&P 500** lost at least 2% in a session was nearly two months before last year's U.S. presidential election. There have been only four days in 2017 with at least a 1% drop. That is extraordinary.

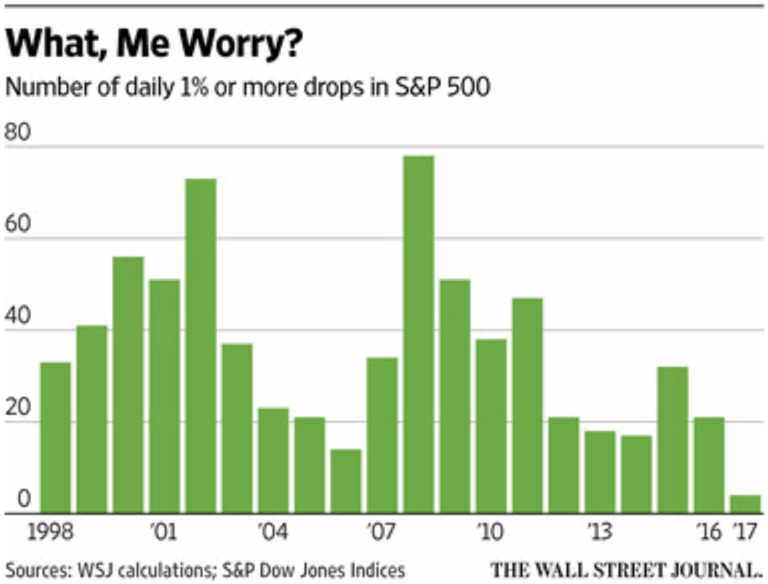
In the preceding three decades there have been 1% drops every seven or eight trading days, on average, and 2% drops about 10 times a year.

The upshot is that some traders have looked elsewhere for rapid gains.

Cryptocurrency exchange Coinbase reportedly has more clients than online broker Charles Schwab. Other investors are adding to their riskiest holdings, forgetting how much money they can lose.

Traders have been trying and failing to find the Holy Grail of riskless reward as long as there have been stocks.

When an unexpectedly sharp and prolonged market selloff occurs, it will vaporize a good deal of the BTFD crowd's capital and, along with it, a shock absorber for stocks.



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THE WALL STREET JOURNAL.
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Heard on the Street
Consumers Can't Be the Economy's Saving Grace in 2018

By Justin Lahart
429 words
23 December 2017
The Wall Street Journal
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B12
English

[Financial Analysis and Commentary]

Good things can happen for the U.S. economy next year, but only if companies really pick up the ball.

The Commerce Department reported November income and spending figures on Friday, and it showed that Americans were in a buying mood.

Personal spending rose 0.6% from a month earlier, putting it on track for a solid performance in the fourth quarter. But that increase was driven not by income gains, but by people saving less.

The personal saving rate -- saving as a share of after-tax income -- fell to 2.9%, marking its lowest level since just before the last recession began in late 2007.

The low saving rate will make it difficult for spending to advance any faster than income next year.

If people opt to start saving even just a bit more -- a development that is entirely likely given today's extremely low level -- spending will advance more slowly.

So even though the coming tax cuts will provide a bit of a lift to many workers' take-home pay, consumer spending growth may be less than stellar in the year to come.

That means it will probably be up to businesses to push the economy along. One way they can do that is by paying people more, something they have been reluctant to do throughout the economic expansion.

At this point, though, with the unemployment rate at 4.1% and probably heading below 4% soon, they may not have much choice. Moreover, with the tax cuts set to boost profit margins next year, increasing compensation might not feel quite so painful.

The other way companies can boost growth is to step up investment. They have been doing that this year, though a separate report Friday was a bit of a downer on that front.

Orders for nondefense capital goods excluding aircraft -- an early read on capital spending trends -- slipped 0.1% in November from a month earlier and was well below economists' estimates. That was somewhat offset by upward revisions to October figures, however, so a **bullish** case for investment has hardly gone away.

Still, for the economy to expand strongly over the next year, the signs are going to have to be a lot less ambiguous than what was served up on Friday.

Companies received their big tax cut, and that should help the economy in 2018, but much depends on how and if they decide to spend it.

Piggy Bank

The personal saving rate

Source: Commerce Department

THE WALL STREET JOURNAL.

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The New York Times

Business/Financial Desk; SECTB
Health Care and Bank Stocks Edge Indexes Lower; Volatile Trading for Bitcoin

By THE ASSOCIATED PRESS
740 words
23 December 2017
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NYTF
Late Edition - Final
2
English

Stocks finished slightly lower on Friday in subdued trading ahead of a three-day holiday weekend. Health care companies and banks slipped.

President Trump signed the Republican-backed tax bill into law, but for the fourth day in a row, stocks did not move much. They had made strong gains in recent weeks as investors became more sure the $1.5 trillion package would pass.

High-dividend stocks made small gains even as bond yields remained near their recent highs. The price of bitcoin fell as much as 30 percent after making gigantic gains throughout the year.

The price of bitcoin was down about 8 percent in the late afternoon after trading in a gigantic range between $10,834 and $15,830 during the day, according to the tracking site CoinDesk.

"The bubble is really in the conversation about bitcoin at this point," Brett Ewing, chief market strategist of First Franklin, said. "If you were to go out and talk to 100 people you know, all of them know about bitcoin. But how many of them actually own it?"

The **Standard & Poor's 500-index** fell 1.23 points, or less than 0.1 percent, to 2,683.34. The **Dow Jonesindustrial average** lost 28.23 points, or 0.1 percent, to 24,754.06. The **Nasdaq composite** fell 5.40 points, or 0.1 percent, to 6,959.96.

The Russell 2000 index of smaller-company stocks dipped 4.18 points, or 0.3 percent, to 1,542.93. Those companies, which stand to benefit more than others from lower tax rates, outpaced the market this week.

Stocks are below the record highs they reached on Monday but still finished higher for the fifth week in a row.

Markets will be closed on Monday for Christmas. With just four days of trading left in 2017, stocks are on pace to finish every month of the year with gains, when dividends are included.

Nike slumped $1.48, or 2.3 percent, to $63.29. The company had a strong quarter overall, as both its profit and sales beat Wall Street projections. But Nike's North American business continued to struggle.

Bond prices were little changed. The yield on the **10-year Treasury** note remained at 2.48 percent.

Banks took modest losses. They have done far better than the rest of the market as the tax bill has been at the forefront of investors' minds and interest rates have moved higher.

The S&P 1500 banking index, which tracks small, medium and large-sized banks, has soared 9 percent over the last month. The S&P 1500 is up about 3 percent over that time.

The founder of Papa John's, John Schnatter, will step down as the pizza chain's chief executive next month, about two months after he criticized the N.F.L. leadership over national anthem protests by players. The company did not say if the move was related to those comments, for which Mr. Schnatter later apologized.

The chief operating officer, Steve Ritchie, will become chief executive on Jan. 1, while Mr. Schnatter, remains chairman and the company's biggest shareholder. Papa John's stock shed $2.33, or 3.9 percent, to $56.90.

World Wrestling Entertainment dropped $2.32, or 7.3 percent, to $29.55 after the company disclosed that its chairman and chief executive, Vince McMahon, sold 3.3 million shares to raise money for new investments in sports and entertainment, potentially including football.

Benchmark U.S. crude rose 11 cents to $58.47 a barrel in New York. Brent crude, which is used to price international oils, rose 35 cents to $65.25 a barrel in London.

Wholesale gasoline picked up 1 cent to $1.76 a gallon. Heating oil rose 2 cents to $1.97 a gallon. Natural gas jumped 7 cents to $2.67 per 1,000 cubic feet.

Gold rose $8.20 to $1,278.80 an ounce. Silver climbed 21 cents to $16.44 an ounce. Copper gained 2 cents to $3.24 a pound.

The dollar fell to 113.31 yen from 113.35 yen. The euro fell to $1.1852 from $1.1873.

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

National Desk; SECTA
U.S. Tax Law May Spur Cuts by Other Nations, Fueling Trade Tensions

By ALEXANDRA STEVENSON and JACK EWING; Alexandra Stevenson reported from Hong Kong and Jack Ewing reported from Frankfurt. David Gelles contributed reporting from New York and Melissa Eddy contributed reporting from Berlin.
1,299 words
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English

To President Trump and congressional Republicans, the overhaul of the tax code that became law on Friday will make the United States a better place to do business. To the rest of the world, it has the potential to challenge the global economic order, creating an uneven playing field and setting off a race among countries to cut corporate taxes.

The overhaul is already threatening economic relations, adding to concerns that Mr. Trump is advancing a nationalistic agenda at the expense of other countries.

European leaders this week raised the prospect of a trade battle, implying that they may fight the new tax rules before the World Trade Organization. Chinese officials are readying defensive measures to protect the country's economy and its competitiveness.

On Friday, Mr. Trump again emphasized his ''America First'' mantra, saying at a signing ceremony that the tax bill would mean more jobs and investment in the United States. ''A lot of things are going to be happening in the U.S.A.,'' the president said. ''We're going to bring back our companies. They've already started coming back.''

It all starts with the corporate tax rate.

The new rate -- down to 21 percent, from 35 percent -- takes the United States from the top of the global tax spectrum to the lower end. Countries like Australia, France, Germany and Japan, all of which have effective corporate tax rates of at least 30 percent, will be under pressure to follow.

''It's a huge incentive to governments around the world who want to see more investment to be part of that,'' said Andrew Mackenzie, the chief executive of the mining giant B.H.P. Billiton, which has its headquarters in Australia and major operations in North and South America. ''They will have to follow suit.''

Corporate rates were already on a downward trajectory. Many countries have used low taxes as an advantage over the United States, which offers a huge domestic market, plentiful venture capital and relatively light workplace regulation.

''There will be pressure for a new round of lowering corporate taxes,'' said Stefano Micossi, the director general of Assonime, an Italian association of publicly listed companies.

China, a frequent target of Mr. Trump's over its trade practices, may also be forced to play the tax game.

For all of its appeal as a manufacturing hub thanks to its skilled work force, solid infrastructure and other benefits, China charges high taxes. On top of a standard corporate rate of 25 percent, companies are required to make social security contributions and other payments that push their tax burden higher there than it is in many other countries.

Last week, China's vice finance minister, Zhu Guangyao, pledged to ''take proactive measures'' in response to the tax overhaul, according to Xinhua, China's state-run news agency. ''The external impact of tax policy change in the world's largest economy cannot be overlooked,'' Mr. Zhu said, according to Xinhua.

Mr. Zhu did not offer details about the measures China might take, but they could include streamlining regulations that foreign businesses face, or deferring certain taxes if money is reinvested locally, according to Andrew Choy, a tax partner for Greater China at EY.

Deep in the tax package's fine print were provisions that looked like protectionism to Asian and European companies.

The European Commission, which manages the European Union, objected to a tax break that companies in the United States would get for so-called foreign-derived intangible income -- money they make from selling property or services abroad.

The measure is supposed to encourage companies to produce goods in the United States and sell them overseas. But European officials said the provision appeared to violate agreements among countries against subsidizing their exports.

''The commission will reflect on all possible measures that may need to be taken if the bill enters into force as agreed today,'' the commission said in a statement. ''All options are on the table.''

''As the world's largest economy, we would expect the U.S. to ensure that tax reform will be nondiscriminatory and in line with its W.T.O. obligations,'' the commission said.

The commission also said that a measure in the bill known as the base erosion and anti-abuse tax ''appears to be discriminatory'' against foreign companies.

The provision is meant to keep companies from shifting income to low-tax countries. But it adds a levy to some transactions between a bank or insurance company's American operations and its foreign affiliates, which would affect real deals, not just tax maneuvers. The Swiss bank Credit Suisse said on Friday that it would have to cut $2.3 billion from fourth-quarter profit because of the new tax regime.

The tax ''may harmfully distort international **financial markets**,'' a group of European finance ministers wrote to officials in the United States last week.

In China, officials are preparing to deal with a wrinkle unique to their country: a challenge to tough Chinese laws that keep money from leaving its borders.

China sets tight controls on how much money flows out of the country, as a way of controlling the value of its currency and keeping its financial system stable. Companies that want to take more than $5 million out of the country must apply for permission from China's central bank, a process that can take months. The limits, which were tightened last year as Beijing tried to stem a tide of money leaving the country, have led to complaints from foreign companies doing business there.

''Companies know that when they send money to China, it's basically a one-way gate,'' said Christopher Balding, an associate professor of finance at the Peking University HSBC School of Business in Shenzhen, China.

Some Chinese officials worry that the tax measure will cause more American companies to try to take money out and are mulling new restrictions on capital flows. The newly approved tax incentives could appeal to companies that are frustrated by China's rising labor costs, ambitious local competitors and tangled legal systems, or that would rather spend their money at home or elsewhere.

How much money American companies keep in China -- and how much they would want to bring home -- is unclear. Many firms use accounting techniques and complicated cost-sharing arrangements with other companies to book profits in other countries.

Companies with big investment plans in China would probably prefer to keep the money there than to bring it home; others may simply want to keep it there on a bet that China's currency will strengthen in value.

Experts said it was unlikely to come anywhere close to the flood of outflows that has prompted China to spend $1 trillion in recent years to prop up its currency. Still, tax experts say, some American companies are exploring their options.

Patrick Yip, a tax partner at Deloitte China, estimated that his clients -- large companies with many years of experience in China -- could move $20 million to $30 million on average from the country over the next year. Some clients who have accumulated as much as $80 million or $90 million in recent years could look to bring that money back, he said.

"We have clients who are in the process of thinking about where to deploy their investments," he said.

Workers making automobile accessories in a factory in Anhui Province, China. For all of its appeal as a manufacturing hub, China charges high taxes. (PHOTOGRAPH BY CHINATOPIX, VIA ASSOCIATED PRESS)

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The New York Times

National Desk; SECTA
Steep Drop and Surging Panic Show Bitcoin Has a Flip Side

By NATHANIEL POPPER and TIFFANY HSU
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23 December 2017
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NYTF
Late Edition - Final
1
English

You can't exactly say that Bitcoin was burning a hole in anyone's pocket, but the virtual currency burned a hole in quite a few hearts on Friday when it plunged 30 percent in less than 24 hours after defying gravity for the past few months.

Many skeptics of the virtual currency, which operates with no government or company in charge, have predicted that it was in bubble territory and due for a collapse.

Still, the drop to around $12,000 a Bitcoin from around $17,500 was enough to set off a panic among buyers, even while **stock market** investors remained calm and much of the world, unaware that Bitcoin exists, was oblivious to the uproar.

On Reddit, the online forum visited by many Bitcoin followers, people posted phone numbers for suicide hotlines for bereft investors. A popular service that sells Bitcoin to many individual investors went down, overwhelmed by orders.

''If someone is depressed by the sudden drop in price, remember that many of us are going through the same thing,'' read one post on Reddit, which got more than 400 responses. ''Please don't think nothing crazy. You can use my thread to vent.''

Bitcoins can be used to pay for things online, but they have mostly been treated as an investment because there is a cap of 21 million on the number of Bitcoin that will ever be released. The records of all Bitcoins are maintained by a network of computers around the world. The creator of Bitcoin, someone using the name Satoshi Nakamoto, has never been tracked down, though many have tried.

For a time, Bitcoin was known as the currency of drug dealers and other bad actors skulking on the internet. In recent months, hedge funds and ordinary investors around the world have piled into Bitcoin, lured by the promise of a borderless digital investment with no one in charge. That has pushed the price of Bitcoin up from $1,000 at the beginning of the year to more than $19,000 this week, with its run-up raising comparisons to the Dutch tulip mania of the 1600s and the late 1990s dot-com boom.

Yet when the virtual currency, which is highly **volatile**, experienced its fall late Thursday and early Friday, many of its new fans were unprepared. The downturn hit not just Bitcoin, but almost every other virtual currency that has soared over the last year. Ethereum, and lesser-known tokens like EOS and ZCash, fell even more sharply than Bitcoin.

Vadim Semenov, 24, a programmer in New York, had maxed out the credit lines on two credit cards to buy $35,000 of Bitcoin on Monday, when the currency's price was briefly above $19,000. Bitcoin's dive left him feeling unmoored on Friday morning.

''I panicked a lot, and was checking everything to find news about why it is dropping,'' he said.

By late Friday morning, he had decided to sit tight. And by Friday afternoon, the virtual currency markets had regained some of their composure, leaving the price of Bitcoin down from earlier in the week -- but still 1,200 percent higher than where it began the year.

Although Bitcoin has left behind some of its associations as a black market currency, the infrastructure surrounding the virtual currency is still largely unregulated and untested.

The flood of new users into the virtual currency in recent weeks has put stress on that loose system. The trading platform Coinbase, a San Francisco company that has become the primary place where ordinary Americans have purchased Bitcoin -- and is one of the most highly regulated companies in the industry -- has gone down at several points under the weight of so many new investors. That happened again on Friday when Bitcoin's price was plunging, leading to agony for many people who wanted to sell along with the rest of the crowd.

For people who have been loudly saying that Bitcoin is a bubble or even a fraud of some sort, Friday's jolt was a vindication.

William F. Galvin, the Massachusetts state securities regulator who has cautioned investors about Bitcoin in the past, put out another warning on Friday. ''Bitcoin is just the latest in a history of speculative bubbles that most often burst, leaving the average investors with a worthless product,'' he said. ''Recent developments indicate that this so-called currency is not a secure investment.''

The **volatility** appeared to cause some second thoughts for even sophisticated investors.

Michael Novogratz, a former Goldman Sachs partner, said a few months ago that he was starting a $500 million virtual currency hedge fund and expected the price of a Bitcoin to hit $40,000. On Friday, he told Bloomberg that he had called off the plans for the fund because he did not want to deal with the ''schizophrenic emotional side of it.'' He also said he thought Bitcoin could fall as low as $8,000, at least in the short term.

This is not the first time that Bitcoin and other virtual currencies have been through a boom-and-bust cycle. In 2013, Bitcoin's price rose first to above $200 before crashing. Later that year, an investing mania in China drove the price to another high above $1,200, followed by yet another plunge.

Anyone who got in during those earlier run-ups is still easily in the money. The Winklevoss twins, Cameron and Tyler, had $11 million of Bitcoin in 2013 and watched it rise to $1.3 billion earlier this week. Even with Friday's declines, those holdings are still worth more than $1 billion.

Longtime investors said that Friday's drama is probably a healthy reminder that Bitcoin is still an investment where people should only have money that they are willing to lose.

''It's a healthy speed bump that will remind people of the newness of the space, and inherent **volatility** that goes with it,'' said Chris Burniske, author of the book ''Cryptoassets,'' which is about virtual currencies.

Mr. Semenov, who maxed out his credit cards to buy Bitcoin this week, first got into Bitcoin in 2014 when it was at $700 and sold when it dropped to $300 that year. Watching Bitcoin rise since then is what convinced him not to sell on Friday.

''I already once made a mistake of dumping everything,'' he said. ''This year definitely showed that adoption is not going to slow down.''

Follow Nathaniel Popper and Tiffany Hsu on Twitter: @nathanielpopper and @tiffkhsu.

A man at a Bitcoin A.T.M. in Hong Kong. Prices plunged 30 percent Friday in less than 24 hours. Still, Bitcoin is 1,200 percent higher than it was at the start of the year. (PHOTOGRAPH BY KIN CHEUNG/ASSOCIATED PRESS) (A17)

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THE WALL STREET JOURNAL.
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Bitcoin Plunges 25% Over a Day In Market Rout

By Steven Russolillo, Gregor Stuart Hunter and Paul Vigna
846 words
23 December 2017
The Wall Street Journal
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B1
English

The price of bitcoin tumbled sharply, wiping away one-fourth of its market value in 24 hours at one point, as a wave of selling hit the broader cryptocurrency market.

Late Friday, bitcoin was trading at about $14,445 after earlier falling to as low as $10,835, according to research site CoinDesk. Thursday morning, bitcoin had traded at about $16,000. The notoriously **volatile** digital currency started December at about $10,000 and shot up to nearly $20,000 this past weekend, but has been in retreat since.

The latest jolt to the already fragile market came Friday morning when one of the biggest hedge-fund supporters of cryptocurrencies, Michael Novogratz, tweeted that bitcoin could slide another $4,000 before resuming its **bull-market** run.

In an interview, Mr. Novogratz said that he postponed a new crypto-focused fund last week that was slated to open Dec. 15. "It's a challenging time to launch a fund," he said, adding that he recently sold a significant amount of virtual-currency holdings, though he still has about 50 investments in that sector, including bitcoin.

The former fund manager at Fortress Investment Group LLC said he would revisit plans for the fund in the new year.

Meanwhile, one of the largest bitcoin trading platforms, Coinbase, announced a little after 11 a.m. New York time that "all buys and sells have been temporarily disabled." Twenty-five minutes later, it said that some "buys and sells may be temporarily offline." Friday afternoon, the company said its systems were working again.

From its recent peak, bitcoin has lost about $110 billion of its total market value in less than a week, twice the market cap of Tesla Inc.

It wasn't the only currency feeling the pain. Many "altcoins," alternative versions of bitcoin, also declined. And of the 31 digital currencies that have at least a $1 billion market value, 29 were recently down, according to data provider CoinMarketCap.

While bitcoin has been **volatile** in the past, the timing of Friday's selloff caught many investors by surprise.

Jani Hartikainen, a 30-year-old software developer in Finland who owns bitcoin and other digital currencies, was working early Friday morning when a message from a friend in a private group chat at 4 a.m. alerted him to bitcoin's sudden drop.

After receiving that message, Mr. Hartikainen, who said he first bought bitcoin in March, said that he sold almost all of his position.

"There's been a lot of talk about how bitcoin is in a bubble," he said, adding that he had been worried about how sharply bitcoin had rallied recently. "If I keep holding this, how long is it going to keep going up in value, and if it starts crashing, am I going to have enough time to get out of it?"

Ether, the second-biggest digital currency by market value, dropped 26% over the past 24 hours. Another currency called litecoin was down 32%. Its creator, Charlie Lee, said earlier this week that he sold all his holdings of the currency.

Digital currencies exploded into the mainstream this year, garnering attention for huge price gains as well as significant swings and drawing scores of investors around the world. The market's price moves contrast with how most traditional asset classes have fared this year, such as stocks and bonds, in which **volatility** has been relatively low.

At one point, bitcoin had fallen more than 30% over the past four days, its fifth such decline of that magnitude this year, said Charlie Bilello, director of research at Pension Partners, an investment-advisory firm in New York. In the prior four instances, it took bitcoin an average of 38 days to hit a fresh high. It later pared losses on Friday but was still down more than 20% over that span.

Bitcoin trading volumes in recent months have been driven to a large extent by investors in South Korea, Japan and other parts of Asia, where digital currencies have gained greater recognition.

Rising interest from institutional investors and Wall Street firms has also helped legitimize the currency and contributed to bitcoin's big gains.

Bitcoin futures prices on Cboe Global Markets Inc. and CME Group Inc., both of which started trading the contracts this month, were both more than 10% lower on Friday. They were recently pricing in a lower value for the digital currency in the first quarter of 2018 than its current value, a state known in futures markets as backwardation and a potentially **bearish** sign.

A popular alternative currency called Bitcoin Cash has fallen 40% over the past 24 hours, according to CoinMarketCap. The bitcoin offshoot climbed in value earlier in the week after Coinbase said its users would be able to trade the currency on its systems.

The explosive growth in cryptocurrencies has drawn plenty of skeptics, including central banks, government officials and top bankers.

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U.S. News: Households Are Spending Rather Than Saving

By Harriet Torry and Suzanne Kapner
525 words
23 December 2017
The Wall Street Journal
J
A2
English

Americans are spending more and saving less this holiday season, driven to consume by low unemployment, robust confidence and buoyant **financial markets**, with the prospect of tax cuts hitting their paychecks by February potentially adding fuel in the months ahead.

Analysts expect one more burst of holiday shopping this weekend given that Christmas falls on a Monday. That means shoppers will have an extra weekend day to hit the malls compared with last year, when Christmas fell on a Sunday.

Personal-consumption expenditures, a measure of household spending on everything from airfares to washing machines, increased a seasonally adjusted 0.6% in November from the prior month, the Commerce Department said Friday, beating economists' expectations for a 0.4% increase and up from October's 0.2% increase. Spending was up 4.5% from a year earlier, a pickup from year-over-year gains of 4% during summer months.

The pace of American household spending is outstripping the pace of the income gains, suggesting households are either stretching their finances or counting on more stock and real-estate gains to support their spending. Real disposable incomes -- a measure of how much households make after taxes and inflation -- increased only 0.1% in November, a pullback from a 0.3% increase in October.

The U.S. saving rate fell to a 10-year low of 2.9% in November, falling below 3% for the first time since November 2007, just before the latest recession hit.

"Very elevated consumer confidence makes people more comfortable saving less," Ian Shepherdson, chief economist at Pantheon Macroeconomics, said in a note to clients. "But the saving rate can't fall forever, so income growth needs to pick up if consumers are to continue spending at their recent pace."

Similar declines in the saving rate in the 1990s and 2000s were associated with financial bubbles that burst and left many households with depleted resources.

For now, though, many economists have a positive outlook for the months ahead.

Under normal circumstances, the drop in the saving rate would call into question the sustainability of spending, said Mickey Levy, chief economist at Berenberg Capital Markets, in a note to clients. "Yet, with a very low unemployment rate, robust job gains and the individual income tax cuts in 2018, households should be able to sustain and even improve their rate of spending."

The University of Michigan on Friday said its final reading for consumer sentiment in December was 95.9, compared with 98.5 in November and 100.7 in October, its highest level since 2004.

Recent readings point to a U.S. economy that is closing 2017 on a strong footing. Gross domestic product grew at a 3.2% annual rate in the third quarter, the government said Thursday, a touch below a prior estimate but pointing to economic momentum.

Other sectors of the economy may also be on an upswing. Orders for long-lasting factory goods rose 1.3% in November from the prior month, the Commerce Department said Friday.

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The Weekend Interview with Pat Toomey: Tax Reform's Growth Whisperer

By Kate Bachelder Odell
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English

Washington -- President Trump signed tax reform into law Friday, but in late November it almost had a heart attack in committee. Sens. Ron Johnson of Wisconsin and Bob Corker of Tennessee were balking, the former over the details of business taxation and the latter over the deficit. The GOP has a bare 12-11 majority on the Senate Budget Committee, and Democrats were united in opposition, so a single Republican dissenter would have stalled the bill. But Messrs. Corker and Johnson voted aye, and it advanced.

Much of the behind-the-scenes credit for tax reform belongs to Sen. Pat Toomey of Pennsylvania, who as a member of both the Budget and Finance committees helped persuade a rotating cast of Republican critics. When the GOP celebrated its victory at the White House this week, Nevada's Dean Heller mugged for the cameras toward the front. Mr. Toomey stood less conspicuously a row back. He's the player who doesn't dance in the end zone but stays up watching game film.

It was Mr. Toomey who laid the groundwork for tax reform by brokering a September budget deal that called for $1.5 trillion in tax cuts over the next 10 years. He had started to worry about tax reform months earlier, during the failed effort to repeal ObamaCare. He found himself "increasingly concerned that we are going to have a huge problem if we don't sort of socialize, among Republican senators, the idea that it's OK to have tax reform that will score as a net tax cut," he tells me this week at his Capitol Hill office.

Mr. Toomey recalls that Majority Leader Mitch McConnell said, "Well, I think the two polar extremes in the conference are Pat Toomey, who is very **bullish** on the prospects of a growth feedback, and Bob Corker, who is more skeptical and very, very much a deficit hawk." If they could agree, the rest of the caucus probably could, too. After some back-and-forth they settled on a net tax cut of $1.5 trillion over 10 years. The budget deal passed the Senate in October. That was crucial because the House budget was revenue neutral without room for a net tax cut. Mr. Toomey had worked with Speaker Paul Ryan and the House acceded to the Senate budget number.

The tax-reform debate marks the coming-out party for Mr. Toomey as the Senate's leading intellectual force for growth economics, to the public and off camera with his fellow Senators. It's a role once held by Texas' Phil Gramm, whom Mr. Toomey cites as one lawmaker he admires. "We've got arguably the worst tax code in the world," Mr. Toomey says. "It should be possible for us to make the kinds of reforms that would very plausibly generate the growth you need to offset lost revenue within reasonable parameters."

The 56-year-old Mr. Toomey served three terms in the House before challenging Sen. Arlen Specter, a liberal Republican, in a 2004 primary. He narrowly lost but the campaign introduced him to Keystone State Republicans, and in 2005 he became president of the free-market Club for Growth. In 2010 he ran for Senate again. This time the party-switching Specter lost the Democratic primary, to Rep. Joe Sestak, whom Mr. Toomey beat that November.

Last year Mr. Toomey won a second Senate term, as Donald Trump became the first Republican presidential candidate since 1988 to carry Pennsylvania. But Mr. Toomey didn't exactly ride on Mr. Trump's coattails. Both men won narrowly and did well in different parts of the state. The senator ran far ahead of Mr. Trump in affluent suburbs, while Mr. Trump outperformed Mr. Toomey in some rural and working-class counties.

With a Republican in the White House, the congressional Republican majorities finally got a chance to make policy. "When the American people put one party in complete control of the elected government, you're expected to govern," Mr. Toomey observes. But "by far the big headline event was the failure" -- the ObamaCare repeal debacle. In Washington failure tends to produce more failure, but the GOP managed to recover. Mr. Toomey says he has a "very high level of confidence" that failure to repeal ObamaCare focused Republican minds.

One reason he says the party turned the corner is the existence of a rough "tax orthodoxy" for growth-oriented reform. Compare that with health care: Take "any one of the big reforms," Mr. Toomey says, and there are "guaranteed to be five different opinions on it."

It helped, too, that the White House insisted on a 20% corporate rate. In tax reform, Mr. Toomey says, politicians can move the dials and "go on forever with an infinite number of possible combinations of policies. Something needs to anchor that." And the President "really, really helped to establish that by focusing on the low corporate rate."

The corporate rate ended up at 21%, which is the most pro-growth part of the bill. "In an ideal world, we would have had at least $2 trillion and given ourselves more flexibility to do more things," Mr. Toomey says. "But knowing where we wanted to end up, I was pretty confident we could get there if we had $1.5 trillion."

The press and the left complained about the deficit and mocked Republicans for thinking tax cuts will "pay for themselves." Many of these critics insist that a return to the U.S. historical norm of 3% annual growth is impossible -- that "secular stagnation" means 2% growth as far as the eye can see.

What the deficit hawks miss, Mr. Toomey says, is how "tiny" the growth bump needs to be to offset the lost revenue. Here he gets a bit into the weeds. He explains that the revenue estimates from the Congressional Budget Office and Joint Committee on Taxation are based on the assumption that various popular tax breaks will expire as scheduled, even though Congress invariably extends them. That accounts for more than $400 billion of the $1.5 trillion to be added to the deficit. Thus the actual tax cut in the new law is closer to $1 trillion over a decade. That "sounds like a ginormous number," Mr. Toomey allows -- but compare it to the $43 trillion the Congressional Budget Office expects the Treasury to collect over the next decade.

'You have to ask yourself a simple question," he says, "and it's just arithmetic: How much extra GDP growth does it take, such that the taxes applied to that bigger economy fully offset that lost trillion dollars?" Even invoking the weak assumptions of the Washington budget gnomes, he says the range is 0.2 to 0.4 percentage point, "per year, on average, for 10 years."

There will be "estimates all across the board," he continues. "Joint Tax will have theirs, and private economists will have theirs. But just ask yourself at a gut level: Do you think it's plausible that we can go from the 1.9% that CBO currently projects, to 2.3% average growth over the next 10 years, if we do a great job with the tax-reform bill?"

The tax-reform law also repeals ObamaCare's individual mandate tax on the uninsured, which Mr. Toomey calls an "outrageous infringement on the freedom of the American people." For once the bizarre rules of Washington budget scoring worked in favor of the GOP.

The CBO assumes that repealing the individual mandate will "save" more than $300 billion over 10 years, and the savings continue in the decades following. The reason: If Americans aren't forced to buy health insurance, some will choose not to. That means fewer people availing themselves of ObamaCare's tax subsidies.

"I think we surprised the House with our ability to do that," he says, which is an understatement. One trouble in Congress this year has been that what can pass the House is too conservative to pass the Senate. Yet what can cobble together a majority in the Senate is too moderate to clear the House. Mr. Toomey helped unite the factions.

Mr. Toomey's political style is relaxed and good-humored, and he shrugs off most of my questions on how he approaches elections and compromise with colleagues. "You just work with people," he says of the tax process, and notes that the GOP was "methodical" about sitting down with people who had objections.

Likewise with his rise in Pennsylvania politics, and particularly his re-election campaign amid the Trump factor. "My approach was to be just very candid. Here's where I agree with the president. I'm fine with everything that he's saying about tax policy, for instance. But then, there were things that he said that I disagreed with and I was candid about that."

What about the Democrats? They might have saved progressive priorities like the deduction for state and local taxes, which largely serves as a subsidy for blue states -- if they had showed up to negotiate. (The new law limits the SALT deduction to $10,000.)

Some 45 Senate Democrats earlier this year sent a letter to Republicans offering to come to come to the table. It was mere pretense, Mr. Toomey says: "The conditions were obviously designed to take them out of the room."

One of the demands was "veto power" for Democrats. "We have to reserve to them the right to kill it by filibuster." Another: "There can be no net tax relief for the people who pay 40% of all of the taxes" -- namely the top 1% of American taxpayers.

Democrats might respond that Republicans preferred to pass the bill on a party-line vote. Mr. Toomey counters that Republicans "would have absolutely had that conversation," because with "Democrats joining us, we wouldn't have had all of these constraints" from the Senate's arcane "reconciliation" procedure, which allowed the GOP to pass the bill with a simple majority. Among those restraints is the stipulation that a bill can lose revenue in the first decade, but not a penny in the years after -- "an absurd requirement," he says, and a distinction with no relation to good policy.

More to the point, he says there are "no Bill Bradleys left in the Senate," referring to the New Jersey Democrat who helped pass Ronald Reagan's bipartisan tax reform in 1986. The left rolled out the stock response that the GOP bill is a windfall for the wealthy, even as the initial Senate bill lowered the top rate on individuals a tiny 1.1 percentage points. The House left the top rate untouched at 39.6% and included a "bubble bracket" of 45.6% for some high earners.

That backfired in at least one way. Mr. Toomey says that the prepackaged liberal attacks "absolutely" made it easier to lower the top rate on individuals to 37% when the House and Senate reconciled their bills in conference. That's good news for high-income earners in high-tax states like New York and California, who will be hardest hit by the limits on deductibility for state and local taxes.

"My theory is that when a Republican gets up in the morning and pours himself a cup of coffee, the Democrats accuse him of tax cuts for the rich," Mr. Toomey says. "That's all it takes. It is absolutely going to happen, every time, no matter what. So do the right thing and explain what you've done."

Mrs. Odell is an editorial writer who covered the tax debate for the Journal.

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Spotify's Direct Listing Advances --- SEC go-ahead would mark key step in music streamer's plan to skip traditional IPO

By Maureen Farrell and Alexander Osipovich
607 words
22 December 2017
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J
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English

Spotify AB is expected to receive approval from the Securities and Exchange Commission to move forward with a listing of its shares on the New York Stock Exchange, a key step in the music-streaming service's plan to avoid a traditional initial public offering.

Spotify plans to list its shares on the NYSE using an unusual method known as a direct listing. Before it can do so, the exchange must win approval from the SEC to change its rules. The NYSE has applied for such a change, and the SEC has indicated to Spotify it is likely to approve, people familiar with the situation said.

The Swedish company was valued at $8.5 billion during a private capital injection in 2015. Its valuation is now closer to $20 billion, based on a recent share swap between Spotify and Chinese internet giant Tencent Holdings Ltd., some of the people said. Spotify has been targeting March or April for its debut, according to people familiar with the matter.

The SEC hasn't yet made an official decision on the NYSE's proposal. It could potentially reject it or ask for further amendments. Spotify could also still change its mind and decide to delay or even not move forward with a direct listing.

If the debut goes well, it could encourage other highly valued and cash-rich startups like Airbnb Inc. to pursue direct listings, people familiar with the matter have said.

In a direct listing, a company transfers its shares to an exchange without raising money, as is done in a typical IPO. Companies have shied away from the unusual process in part because there is a greater risk that the shares could flop since there are no underwriters to set and prop up the price.

Among the draws: Direct listings enable companies to save on the hefty underwriting fees associated with traditional IPOs, and there aren't restrictions on when insiders can sell shares.

The NYSE in March filed its initial proposal with the SEC to amend its direct-listing rules. Since then, it has repeatedly amended the plan, most recently on Dec. 8, regulatory filings show.

The SEC has until Feb. 15 to either approve or disapprove, according to an order released by the agency last week.

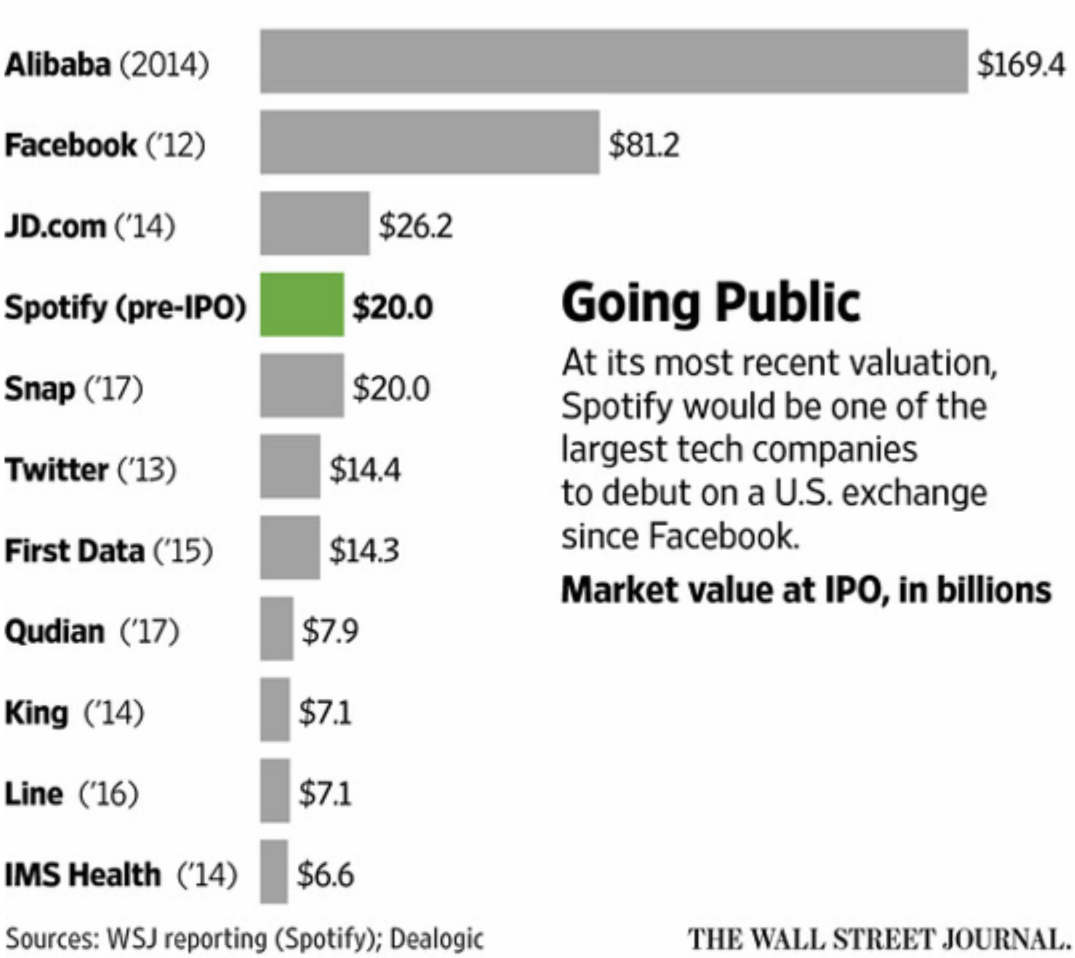
The SEC had concerns that Spotify's direct listing could open the door for other companies with potentially risky financial profiles to access the public markets without giving investors sufficient protection, the people said.

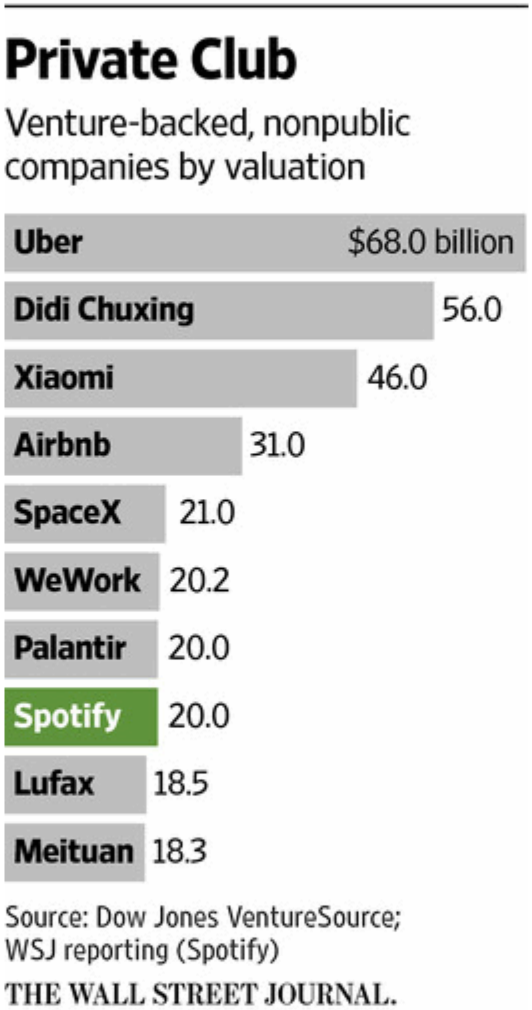
The NYSE added various safeguards to its original proposal, filings show. Under one, there would be a company providing a third-party valuation that would have an arm's-length relationship with the company seeking to list shares on the Big Board. The valuation couldn't come from a firm that had recently sold the company investment-banking services, for instance.

Direct listings are shaping up to be an opportunity for stock exchanges, too.

The NYSE, a unit of Intercontinental Exchange Inc., competes fiercely with **Nasdaq** Inc. for listings. **Nasdaq** had traditionally been the home of tech IPOs, but since Facebook Inc.'s troubled 2012 debut, the NYSE has won many of the largest ones, including those of Alibaba Group Holding Ltd. and Snap Inc.

Nasdaq has been the go-to exchange for direct listings by private companies for the past decade, completing about a half-dozen since 2006, while the NYSE has had none, according to the two exchanges.





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Copper Shines in the Year of the Rally --- Strong global growth and supply concerns have pushed the base metal up 26% in 2017

By Amrith Ramkumar
591 words
22 December 2017
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B12
English

Copper is on track to post its best year since 2010, supported by a favorable world-wide economic backdrop and the prospect of mine disruptions across the globe.

The most actively traded copper contract is up 26% in 2017 and hit its highest level in three years in October. Steady demand for the industrial metal -- often considered an economic indicator because of its use in things from houses to smartphones to vehicles -- has supported prices, signaling investors' confidence in this year's rebound in global growth. All of the countries tracked by the Organization for Economic Cooperation and Development are on track to post growth this year for the first time since 2010.

"It's just the synchronized nature of this expansion" that stands out, said Francois Bourdon, chief investment officer at Fiera Capital Corp. Mr. Bourdon said his firm recently sold its position in copper miners after a good run but might buy again next year if the global economy continues performing well.

China, which accounts for roughly half of the world's copper consumption, has been one of the standouts. Although some investors expected the country's economy to slow down in the second half of the year around October's Communist Party congress, China has outperformed expectations, analysts said. Robust demand from the manufacturing and real-estate sectors in particular has buoyed base-metal prices.

Mine disruptions have also led to a more auspicious supply-demand outlook. Tensions between miner Freeport-McMoRan Inc. and the Indonesian government over control of the giant Grasberg mine and labor strikes across the world have pushed copper into a supply deficit that some analysts expect will persist in coming years.

Hype surrounding a rise in electric-vehicle adoption and a possible boost to U.S. infrastructure spending that could stoke demand for copper and other industrial metals for years to come have only added to **bullish** sentiment.

Copper's gains this year have been part of a broad-based rally in metals. Nickel, aluminum and zinc also hit multiyear highs this year.

In October, the International Monetary Fund raised its forecast for global economic growth to 3.6% this year and 3.7% next year, up from 3.2% in 2016 and higher than its July projections.

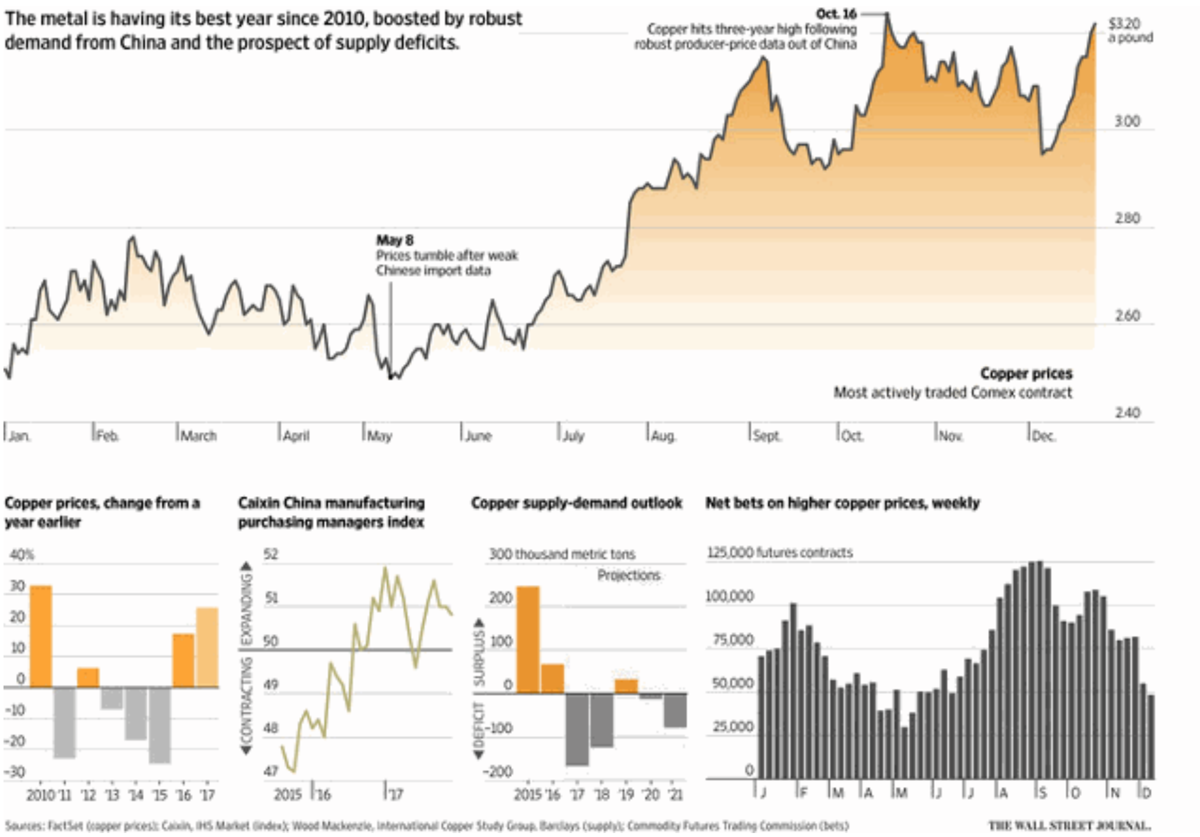
Similar forecasts and the possibility for more supply uncertainty as several labor contracts come up for renegotiation next year have copper bulls perking up again. Industrial metals were stuck in a **bear market** less than two years ago, when copper tumbled below $2 a pound.

On Thursday, copper for March delivery rose for the 12th consecutive session, up 2.35 cents, or 0.7%, to $3.2195 a pound, on the Comex division of the New York Mercantile Exchange.

"Just as we believe that global economic growth is likely to remain strong in 2018, we expect metals to continue to ride the cycle and perform well next year," Goldman Sachs Group Inc. analysts wrote in a note to clients Tuesday.

Not everyone agrees, given copper's rapid run-up this year. Some investors think the rally has gotten ahead of supply-demand fundamentals. Concerns about a slowdown in the Chinese economy have also flared up.

Others say a rise in electric vehicles and a potential U.S. infrastructure spending bill would likely have only a small impact on global copper demand.



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Streetwise: The 3 Things That Can Go Awry in 2018

By James Mackintosh
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English

Investors who spend their holidays looking back at what's happened this year will be wallowing in happy nostalgia, as virtually every asset went up. But investing is about the future, not the past, so break away from the complacency-inducing returns of 2017 and think about what could go wrong.

A look back at what went right is a helpful way to frame the question. Here are three big things that didn't happen in 2017 and could hurt:

-- Monetary tightening: The Federal Reserve raised rates three times this year, yet it became easier to borrow and over long periods actually got cheaper. Instead of rising, long-dated bond yields fell, and global monetary conditions were further eased by the weakness of the dollar. The Federal Reserve Bank of Chicago's National Financial Conditions index is at the loosest since January 1994, the year that surprise Fed tightening crushed the bond markets.

There are plenty of signs that the balance of power has shifted from lender to borrower. Many companies have been able to ditch the remaining covenants in their bonds, leveraged loan finance is available at heady multiples, and money has been pouring into startup private loan funds. The more extended the debts, the more tighter money will hurt when it arrives.

In the international markets, a stronger dollar would hurt overextended emerging-markets borrowers. In the past, these were mostly sovereigns, but since the 2008 crisis it has been emerging-market corporations that leveraged up. If they are smart, corporations that have borrowed in dollars and euros have matched their debt to hard-currency income. The ones that haven't will be hit hard by a stronger dollar, but it's impossible to know how much of the $10 trillion-plus of emerging-market dollar borrowing is covered this way.

-- China: The last two falls of more than 10% in global stocks were triggered by fears about China, in the summer of 2015 and the start of 2016. The dangers are unchanged; yet, markets have stopped worrying.

The risk has been discussed for years: China has too much debt and has used it to finance nonviable projects. To deal with this, China could weaken its currency (the cause of a 2015 global selloff), restructure bad debts or change the growth model to expand the economy faster than its debt pile. The first two are painful, and changes to the growth model typically led to recessions when tried by other fast-expanding countries.

The bulls were right that China's bureaucrats would allow nothing to go awry in the run-up to the October Communist Party congress, in which the ideas of President Xi Jinping were written into the party constitution.

My concerns remain. Mr. Xi's economic idea is to focus on the quality of growth, not the headline number. It makes perfect sense: Slow sustainable growth is better than a debt-fueled boom followed by bust. But it is hard to switch the economy over without shutting down old industries.

Worse, money-supply growth tends to have a lagged effect on the economy, so the impact of this year's slower expansion may be felt in 2018.

Chinese investors have been willing to bet big on Mr. Xi's success shifting the economy from saving to consumption. The best-performing domestically listed stocks this year focused on consumers, with the CSI 300 consumer-staples sector up 83% and consumer discretionary up 27%.

Back in 2015 investors trusted that China's Communist dictatorship had such control over the economy that nothing could go wrong; hence, the big market impact from a small devaluation. There's less trust now -- 14% of mutual-fund managers surveyed by Bank of America Merrill Lynch think a China debt crisis is the biggest investment risk next year -- but investors are still putting faith in a Communist bureaucracy to deliver capitalist returns based on consumption.

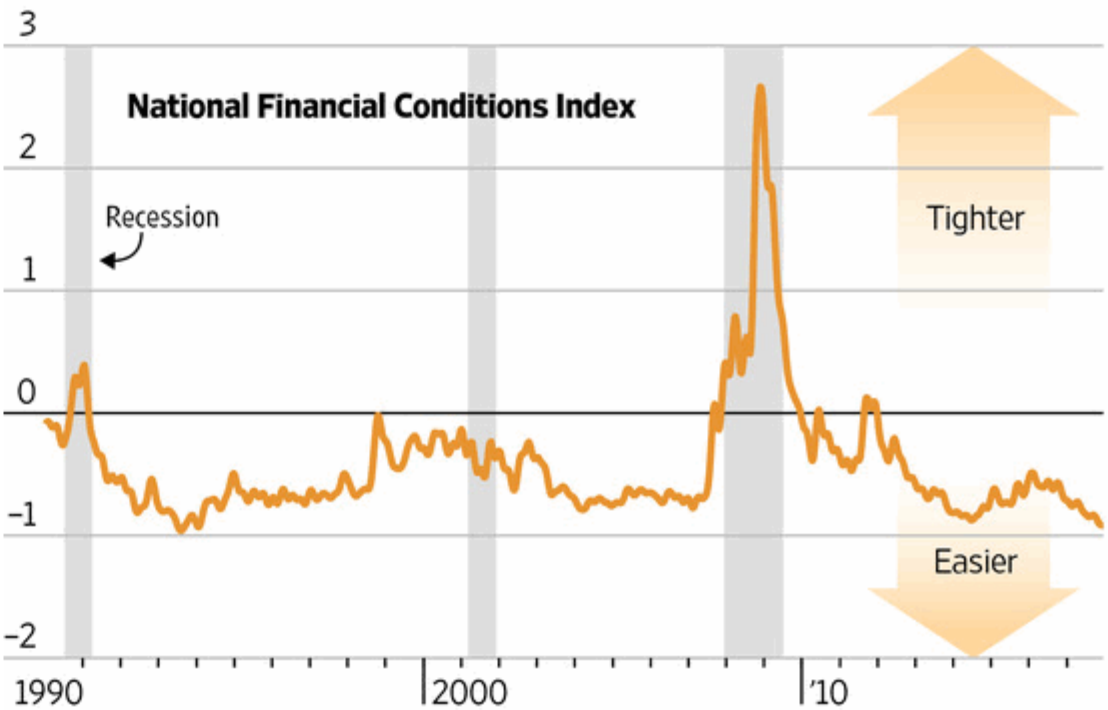
-- A correlation correction: One reason investors hold bonds is to cushion losses in an **stock-market** downturn. Since the late 1990s it has worked wonderfully, as **bond prices** tended to move in the opposite direction to shares over the short term, but the same direction in the long run.

This year has been another good year for this strategy, with bonds providing free insurance by rising in price even as shares did well. The danger is that the link between bonds and stocks goes back to how it was in the 1980s or early 1990s, with rising bond yields being bad for share prices. One plausible cause: Inflation returns, but growth stays weak. Another seems implausible, but shouldn't be ruled out completely: Central bankers finally get fed up with investors relying on easy money and decide they have to act to prevent asset prices from getting out of hand.

When investors are basking in a global Goldilocks economy that has little inflation and lots of growth, it's hard to get too concerned about anything much. But these are the times when investors need to work on their worry. A lot of good news is already baked into asset prices, so if the economy and profits are merely so-so, investors will be disappointed.

Easy Money

Even as the Fed raised rates this year, U.S. monetary conditions eased



Source: Federal Reserve Bank of Chicago

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THE WALL STREET JOURNAL.
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Short Sellers Take Aim at MBIA --- Potential heavy losses from Puerto Rico hurricane put bond insurer on hot seat

By Matt Wirz
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22 December 2017
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J
B11
English

Hedge funds are increasingly betting on whether bond insurer MBIA Inc. can survive heavy losses expected from Puerto Rico's bankruptcy in the aftermath of Hurricane Maria.

Short sellers have borrowed about 40% of the firm's stock since September, wagering that it will drop, while value investors Fine Capital Partners LP and EJF Capital LLC have taken the opposite side, buying millions of MBIA shares.

Credit hedge funds like Mill Hill Capital LLC have bought credit-default swaps that gain value as the probability of an MBIA default rises.

Bond insurers charge premiums to companies and governments that issue bonds and agree to take over interest and principal payments if the borrowers default. That business model backfired during the financial crisis, when the insurers took billions of dollars in unexpected losses on mortgage bonds. Bets against MBIA became a lucrative trade among hedge-fund managers, notably Bill Ackman.

MBIA recovered by focusing on insuring municipal bonds, but defaults in that market have mounted, calling the firm's business into question again. **Bearish** investors doubt the firm has set aside enough capital to cover likely payouts, especially now that Hurricane Maria has crippled Puerto Rico, where MBIA insured $3.4 billion of bonds.

"It's not something we've asked for or created," said MBIA's head of investor relations, Gregory Diamond, about the attention from hedge funds past and present. "We are here to operate our company as best we can and to satisfy our obligations."

Mill Hill founder David Meneret said he started buying MBIA credit-default swaps before the hurricane struck because he believed the insurer was undercapitalized given its exposure to cash-strapped Puerto Rico and financially troubled states like Illinois and Connecticut.

"We didn't know when something bad was going to happen but with a company that has so much leverage, anything bad could be very damaging," Mr. Meneret said

By one measure, MBIA has done less to prepare for Puerto Rico-related losses than its competitors. MBIA's most recently reported loss reserves amount to about 10% of its exposure to Puerto Rico, compared with about 20% for Assured Guaranty Ltd. and about 40% for Ambac Financial Group Inc., according to data from S&P Global Market Intelligence.

Most of the Puerto Rico bonds MBIA insured were issued by different entities and government agencies than the bonds insured by its competitors, and it is likely that recoveries will vary accordingly, Mr. Diamond said.

The net dollar amount of CDS contracts purchased on MBIA after the hurricane hit Puerto Rico increased $267 million to $1.13 billion through Nov. 21, the most recent date for which data are available, according to Depository Trust & Clearing Corp. The percentage of MBIA stock sold short surged to 43% on Dec. 19 from 14% in September, according to data from S&P.

CDS buyers have made large returns on their trade so far -- prices of the derivatives have tripled since September, according to IHS Markit. The stock's movement has been more erratic, falling about 40% to $6.22 in October from about $10 in early September, before rebounding to about $9 in November, when MBIA announced a $250 million share buyback. It closed at $8.10 on Thursday.

Sunesis Capital LLC founder Manal Mehta, a longtime MBIA investor, said the market is underestimating the firm's resilience. The insurer will have decades to pay off the Puerto Rico bonds it insured, which is ample time for the island's economy to bounce back and for MBIA to recover money through litigation and debt restructurings, he said.

Retro Trade

The short interest in MBIA stock has returned to financial-crisis levels as hedge funds bet against the shares again.

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Breakingviews
Business Day; DealBook
Tax Cuts Crystallize Haves, Wants, Can’ts, Won’ts

By JOHN FOLEY and GINA CHON
471 words
21 December 2017
05:28 PM
NYTimes.com Feed
NYTFEED
English

The cut in the American corporate tax rate to 21 percent from 35 percent is a windfall. But to whom? Some companies say they will share the wealth with workers and communities. But there’s less to these claims than meets the eye.

First, there are the “haves,” who have already received an early Christmas gift from the government and have good reason to repay the favor. Comcast, for example, benefits from the recent decision to kill rules that required broadband services to treat all online content equally. Now it is paying at least $100 million in special bonuses — good as it goes, but less than the $148 million it paid its top five executives in 2016. Boeing announced a $300 million investment in training and charitable giving — just as the Commerce Department finalized anti-dumping duties against the aircraft maker’s rival, Bombardier.

Then there are the “wants,” who may hope for favorable treatment. AT&T says it will pay $200 million in celebratory bonuses and invest $1 billion — even as it tries to defend its $85 billion takeover of Time Warner against a Justice Department antitrust lawsuit. AT&T stands to reap synergies with a present value of perhaps $7 billion if its grand merger goes ahead.

Compared with the potential gains from lower taxes, these gestures are trifles. In a very simplified world, cutting the tax rate by 1 percentage point adds almost $2 to the **Standard & Poor**’**s500 index**’s earnings per share, according to Citigroup estimates. Based on a tax rate falling to 21 percent from 35 percent, that’s $28 of extra earnings per share — or $280 billion in total, according to a Breakingviews analysis. Pop that on the historical price-to-earnings multiple of 15, and the biggest American companies ought to be roughly $3.6 trillion more valuable.

The reality is far more complex. Companies, in general, pay less than the top rate — around 27 percent, Citigroup estimates. In any case, those with weak pricing power are likely to find that the benefits of lower taxes get handed on to customers as lower prices, especially in sectors with fierce competition like retail and restaurants. Conversely, earnings of those with strong pricing power will benefit most, such as makers of guns, cigarettes and drugs. Forget the haves and wants — the real challenge is distinguishing the “can’ts” from the “won’ts.”

John Foley is editor for Europe and Gina Chon is Washington columnist for Reuters Breakingviews. For more independent commentary and analysis, visit breakingviews.com .

Comcast is now paying at least $100 million in special bonuses, but that is less than the $148 million it paid its top five executives in 2016. | Brendan Mcdermid/Reuters

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THE WALL STREET JOURNAL.
U.S. EDITION

Tax Vote Seals Victory for Trump --- Sweeping package heads to president

By Michael C. Bender, Janet Hook and Richard Rubin
1,000 words
21 December 2017
The Wall Street Journal
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English

WASHINGTON -- Congress gave final approval Wednesday to a $1.5 trillion tax cut, delivering a major victory for President Donald Trump and GOP leaders after nearly a year in political control of the capital.

At the heart of the plan -- the most sweeping since 1986 -- is a cut in the corporate tax rate to 21% from 35% that is expected to provide a stimulus to the U.S. economy as soon as next year. The tax plan also cuts individual tax rates and aims to simplify the tax code by eliminating some deductions, trimming others, and jettisoning a personal exemption.

Individuals could see the impact as soon as February, White House officials said. In 2019, about 48% of households will receive a tax cut of greater than $500, according to the nonpartisan Joint Committee on Taxation, though the tax cuts will peter out over time and the plan's longer-term implications for growth remain unclear.

Starting in 2019, the GOP plan also includes a repeal of the Affordable Care Act's mandate that most people get health insurance or pay a penalty, another GOP priority.

The bill encountered a last-minute hitch that required the House to revote Wednesday. And the president's signing of the bill may not happen until January.

One of Mr. Trump's top economic advisers, Gary Cohn, said Wednesday the timing of the bill's signing depends on the outcome of separate talks in Congress about a government-spending measure.

On Wednesday afternoon, the president and congressional leaders celebrated the tax plan's clearance through Congress at a gathering on the South Lawn of the White House. Earlier, surrounded by his cabinet in the Cabinet Room, Mr. Trump previewed some of his likely pitch to voters, predicting that **financial markets** would surge following passage of the legislation.

"I don't think the market has even begun to realize how good these are," Mr. Trump said. In recent months, the GOP president has touted **stock-market** gains as a reason to support the tax bill.

Mr. Trump described the package as providing "a tremendous amount of relief for the middle class."

"It's really, above all else, it's a jobs bill," he said.

Democrats said the tax plan doesn't provide enough direct relief to the middle class and warned of health premium increases and future spending cuts. They pointed to an analysis from the Joint Committee on Taxation that shows less than 25% of individual tax cuts will go to the middle class, and those breaks expire after 2025.

"Tax breaks do not lead to job creation," said Sen. Chuck Schumer of New York, the chamber's Democratic leader, after the vote. "They lead to big CEO salaries and money for the very, very wealthy."

Republicans counter that the corporate tax break and other changes to the tax code for corporate shareholders and business owners will benefit many in the middle class, too.

Business groups lauded the plan's anticipated impact on economic growth and investment. AT&T Inc. said it would make a one-time $1,000 payment to more than 200,000 workers once Mr. Trump signs the bill.

Polls suggest many people aren't convinced of the bill's benefits. Nearly two-thirds of people said they believe the package was designed mostly to help corporations and the wealthy, and 24% said the bill was a good idea, according to a Wall Street Journal/NBC News poll this month.

Passage of the bill sets the stage for a hectic period early next year, when employers change withholding in paychecks, and businesses and individuals must reconsider myriad financial decisions.

Companies, for instance, will have to evaluate their debt levels, given new limits on the deduction of interest payments, and executives will consider whether to bring back money stockpiled overseas. Home buyers will have to consider whether to take out mortgages exceeding $750,000, the amount above which interest is no longer deductible.

In Washington, political strategists have begun looking to the tax plan's impact on the midterm elections next year.

"All of our fate in 2018 is largely tied to the selling of the tax reform plan," said Corry Bliss, executive director of the American Action Network, a Republican group that spent $24 million since August promoting the tax changes in competitive House districts. "The No. 1 thing for the midterms: We have to convince people we can govern and can do things that help their everyday lives."

The party of the sitting president has traditionally fared poorly in midterms two years after an election. Democrats have said they have electoral momentum after recent statewide victories in Virginia, Alabama and New Jersey.

Mr. Trump's own approval ratings also remain near historic lows for a first-year president. But, with congressional approval ratings in the doldrums, GOP lawmakers expect Mr. Trump to take a starring role in the effort to persuade voters of the tax plan's benefits, especially to the middle class.

Democrats said they would make the tax bill an issue in the midterms, in part by targeting voters in the suburbs, where the party found success in recent statewide races.

Bill McInturff, a Republican pollster, said the tax bill probably won't immediately improve his party's political standing. Instead, he said, market gains and a declining unemployment rate give "some potential hope" for Republicans.

But Senate Majority Leader Mitch McConnell (R., Ky.) said he believes the bill is a simple sell for his party.

"If we can't sell this to the American people," he said, "we ought to go into another line of work."

Kristina Peterson and Siobhan Hughes contributed to this article.

(See related article: "A blunt warning over a game of golf helped shape a strategy that mobilized GOP on taxes" -- WSJ Dec. 21, 2017)

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THE WALL STREET JOURNAL.
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Technology
Coinbase Plans Probe of Trading --- Bitcoin Cash surged before the platform enabled trades, raising front-running suspicions

By Steven Russolillo and Gregor Stuart Hunter
644 words
21 December 2017
The Wall Street Journal
J
B4
English

One of the world's largest cryptocurrency platforms said it would investigate allegations of insider trading after the price of a bitcoin offshoot called Bitcoin Cash climbed in value before the platform began facilitating trades in the alternative currency.

The launch of Bitcoin Cash contributed to the price on the original bitcoin falling about $2,000 in less than an hour, to below $15,700, before recovering. Bitcoin recently traded around $16,250 but has dropped from a recent high of nearly $20,000 this past weekend.

Coinbase Inc., a San Francisco-based company that maintains a widely used bitcoin trading app, told its users at 7 p.m. Eastern time Tuesday that they would able to buy and sell Bitcoin Cash on its systems later that evening.

Bitcoin Cash prices surged from the get-go, and the company halted trading of the currency four minutes after trading began. Hours later, Coinbase announced an investigation into whether any employees, contractors or their friends and family used confidential information about its plans to trade Bitcoin Cash before its announcement.

Bitcoin Cash is an alternative version of bitcoin and was created in August when it was, in effect, split off from the popular cryptocurrency. Many bitcoin holders were given Bitcoin Cash, similar to when a company spins off a business. Trading of the alternative currency was previously limited to smaller platforms.

Trading of Bitcoin Cash on Coinbase's systems was enabled about an hour and 15 minutes after Coinbase said the currency would go live on its platform. Shortly after the kickoff, the price skyrocketed, with Coinbase's online exchange GDAX showing quotes as high as $9,500, more than triple what Bitcoin Cash trades at on other exchanges.

After Coinbase announced the halt, a company representative said unfilled orders would be removed and no new orders would be accepted. GDAX said all of its Bitcoin Cash markets would remain offline until noon Wednesday, Eastern time. GDAX later said it paused trading because of significant **volatility** "to ensure a fair and orderly market."

The abrupt trading halt prompted a flurry of speculation from market participants about the timeline of preceding events. Bitcoin Cash prices had climbed 28% in the 24 hours preceding Coinbase's initial announcement, according to data from CoinMarketCap. They jumped an additional 20% in the 75 minutes before trading was enabled on Coinbase's GDAX exchange.

The price moves raised suspicions among some market participants of front-running -- a practice in which someone with advance knowledge of a major market order buys for his own account, then earns a profit when the larger transaction drives up the price -- by individuals who may have known of Coinbase's plans ahead of time.

"Insider trading of crypto is so obvious," Brian Hoffman, the chief executive of Open Bazaar, an online retail site that uses bitcoin, wrote on Twitter.

Coinbase in a blog post said it "maintains a strict trading policy and internal guidelines for employees." In bold font, the company added: "Coinbase employees have been prohibited from trading in Bitcoin Cash for several weeks."

In another post several hours later, Brian Armstrong, chief executive of Coinbase, said there was "no indication of any wrongdoing at this time," but added the company's policy states employees and contractors aren't allowed to trade on "material nonpublic information," a term commonly used to describe potentially market-moving information.

Mr. Armstrong said Coinbase will be conducting an investigation into the price increase of Bitcoin Cash. "If we find evidence of any employee or contractor violating our policies -- directly or indirectly -- I will not hesitate to terminate the employee immediately and take appropriate legal action," he wrote.

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Heard on the Street
Big Tech Won't Blow Tax Bonus

By Dan Gallagher
477 words
21 December 2017
The Wall Street Journal
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B11
English

[Financial Analysis and Commentary]

Big tech companies face a high-quality problem heading into the new year: all that money, and not much good to do with it.

Passage of Republicans' ambitious tax plan theoretically frees up more than half a trillion dollars that U.S.-based tech companies have stashed overseas. It is a considerable sum -- the nine tech companies with the biggest offshore bank accounts are currently sitting on a combined $632 billion, which is about 15% of their combined market cap. That also is nearly half of what Moody's estimates will be the total offshore cash pile of U.S.-based nonfinancial companies by the end of this year.

Money to burn, in other words. But despite fantasies that such a windfall will fuel a boom in merger activity, the reality will likely prove far less exciting. Big tech companies, as it turns out, haven't really needed the money.

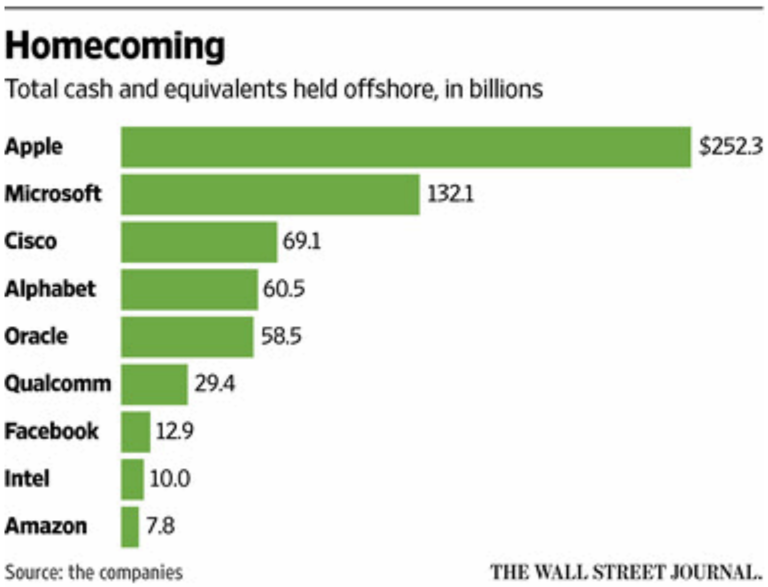
Companies already inclined to deal making haven't been constrained by the growing pile of cash trapped offshore. Low interest rates and strong cash flows have provided plenty of fuel to date.

Microsoft, with $132 billion overseas, didn't wait for a tax break before its $26 billion purchase of LinkedIn last year. Qualcomm has already committed its nearly $30 billion offshore pile to its planned pickup of NXP Semiconductors. And internet giants Amazon.com, Facebook and Google parent Alphabet Inc. still enjoy strong growth in their core businesses and are unlikely to be rewarded by investors for big-ticket mergers and acquisitions

Exceptions could be Cisco Systems and Oracle, which have been fairly acquisitive but still have large legacy businesses that are a drag on growth. The two have $69 billion and $59 billion offshore, respectively. But they would be shopping in an inflated market. The **S&P 500** Software & Services Group is up 38% this year, and many of the cloud-computing companies the two might consider buying have surged more than 50%.

Most of the freed-up cash will most likely go back to shareholders. Following a tax holiday in 2004, U.S. companies put 94 cents of every new dollar toward buybacks or dividends, according to a study National Bureau of Economic Research.

And then there is Apple Inc., which alone sits on more than one-third of tech's offshore cash pile. The iPhone maker has never had a taste for big deals, but it has managed to run up $116 billion in debt over the past four years, essentially borrowing against its cash trapped offshore to pay for its buybacks and dividends. The company is likely use at least some of its repatriated funds to pay down that debt. Not the most exciting way to use a Christmas bonus.



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The New York Times

BREAKINGVIEWS
Business/Financial Desk; SECT
How to Know if Republicans' Big Tax Bet Is Paying Off

By GINA CHON
503 words
21 December 2017
The New York Times
NYTF
The New York Times on the Web
English

The tax bill passed by Congress on Wednesday is effectively a giant bet that benefits given to companies and the wealthy will help average workers. That makes them a big risk for the Republicans who control Congress. Here are five factors to measure the policy's success.

Inequality: Republicans have done a bad job selling their plan to the public, with 55 percent of Americans opposing it, according to a CNN poll. The top 5 percent of income earners would see the biggest cuts, the Tax Policy Center said. Republicans risk the biggest backlash on this front, with reductions in tax breaks like state and local deductions hitting average Americans. Any sign that the tax bill has worsened rather than eased inequity will hand Democrats a stick to thwack Republicans in midterm elections next year.

Wages: Pay increases have been disappointing given the low 4.1 percent level of unemployment. The White House's Council of Economic Advisers said a corporate tax rate of 20 percent -- just below the 21 percent on which Congress settled -- would result in an average annual income increase of at least $4,000 at the end of 10 years. A visible rise in wages would be a positive effect of the tax bill. Yet it's also one of the most dubious projections because companies will be under pressure to share earnings gains with shareholders, too.

Stock market: One of President Trump's most common brags is on the rise of markets. On Tuesday, Mr. Trump tweeted ''DOW RISES 5000 POINTS ON THE YEAR FOR THE FIRST TIME EVER.'' Tax cuts will probably send markets even higher -- and are most likely one reason valuations are already so lofty -- but because it suggests investors think higher earnings will flow to the bottom line rather than being paid out to workers, it's perhaps not such an encouraging sign.

Capital investment: Nonresidential business investment has improved after being sluggish or negative over the last two years. Spending on equipment rose 10.4 percent in the third quarter, the fastest pace in three years. But the type of investment is important. An increase will only matter if it helps bolster sluggish productivity.

G.D.P. growth: Mr. Trump predicted tax cuts would turbocharge the economy to a 6 percent growth rate, compared with the 3.3 percent annualized expansion in the third quarter. The nonpartisan congressional Joint Committee on Taxation estimated an earlier Senate tax plan would add 0.8 percent to G.D.P. over a decade. Trump's estimate is unrealistic but a modest lift is expected. Still, the tax plan will not pay for itself, as the White House contends, and may add $1.5 trillion to the deficit over 10 years. That trade-off may be this tax bill's biggest legacy.

Gina Chon is Washington columnist for Reuters Breakingviews. For more independent commentary and analysis, visit breakingviews.com .

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Hedge Funds Join Bitcoin Party --- Futures, high prices persuade firms to weigh bets for, against digital currency

By Gregory Zuckerman
852 words
21 December 2017
The Wall Street Journal
J
B1
English

Some of Wall Street's largest players are gearing up for bitcoin.

Until recently, big-name hedge funds paid little attention to the digital currency. But the rollout of futures trading and soaring prices have some large firms considering whether it is time to wade into the market.

The funds are looking to profit either by buying bitcoin and other cryptocurrencies or by betting against them. Their entry could provide a new jolt to bitcoin's already **volatile** trading.

Just over a month ago, executives of firms including Quantbot Technologies, which trades over $3 billion for Steven Schonfeld's Schonfeld Strategic Advisors, and Steven Cohen's Cubist Systematic Strategies, met for lunch to discuss ways to profit from trading cryptocurrencies, according to people close to the matter.

Now, Quantbot and others say they are working to understand how they might be able to profit from bitcoin. "It's gotten more interesting and the barrier to entry has fallen" now that bitcoin futures are available, said Michael Botlo, Quantbot's co-founder. "We're not planning anything near term but once we get in,it will probably be quick."

Some sizable firms and big-name investors already are involved in bitcoin. Fortress Investment Group owns over $100 million of bitcoin. Horizon Kinetics LLC, a firm that manages more than $6 billion in hedge funds, mutual funds and other products and calls itself "value-oriented and "risk-averse," has been vocal about its recent purchases of bitcoin and other cryptocurrencies.

Part of the reason the firm is buying: It sees stocks and bonds as expensive and the possible upside for bitcoin as huge.

"I call it an emerging, historically and sociologically unique asset class that, if accepted, will change society, and before it does that will be enormously valuable," Murray Stahl, Horizon's chairman and chief executive, recently wrote to clients. "Cryptocurrency is merely a reaction to global market policy" that has sent all asset prices climbing.

Other big-name funds, such as Ellington Management Group, which manages $6.5 billion and has focused on debt investments, are examining trading cryptocurrencies but haven't yet decided to jump in, people familiar with the matter said.

"Cryptocurrencies can protect against high inflation and capital controls . . . . And they may prove themselves as safe havens in the next crisis," argued Rasheed Sabar, Ellington's head of systematic strategies, in a recent white paper circulated to the firm's investors. "We can think of them as an insurance policy against low-trust states of the world . . . . At the same time, they may have gone up too far too fast."

Already, around 20 funds, managing a total of roughly $2 billion in assets, solely or predominantly trade cryptocurrencies, as tracked by an index compiled by Chicago-based data group HFR. The asset total highlights how it has largely been smaller funds that have traded bitcoin, though HFR President Kenneth Heinz said the number of funds could double in size in the first quarter next year.

Some hedge-fund managers are warming up to bitcoin after facing losses in traditional investing. Michael Novogratz, the investor who announced he was leaving Fortress Investment Group in 2015 after losses, has been a vocal bitcoin investor for more than a year.

Last week, John Burbank's Passport Capital, which has struggled for years and has had clients flee,said in a letter to investors that it would close its main fund. People close to the matter said Passport will launch a new arm focused on trading cryptocurrencies.

The introduction of bitcoin-based futures by CME Group and Cboe Global Markets Inc. adds to the legitimacy of the currency for some big investors, though the volume of futures contracts so far is small relative to that in the bitcoin spot market.

Mr. Stahl of Horizon said if the futures catch on, "bitcoin becomes an institutionally tradable security, not just an esoteric, fringe idea."

Futures also give big investors a potential way to wager against bitcoin, something they weren't previously able to do easily.

It is an open question, though, whether the new interest from the big funds will push bitcoin higher or lead to a sharp correction. Markets sometimes soar until sophisticated investors gain an opportunity to short, or bet against, them.

Some large investors continue to drag their feet. Cubist and its sister firm, Point72 Asset Management, for example, have decided not to trade bitcoin or bitcoin futures until the investments have a longer record, people close to the matter said.

Cantab Capital, a Cambridge, England-based quant firm managing $4 billion, has been studying bitcoin trading and blockchain technology for more than a year. But Ewan Kirk, the firm's founder, said Cantab will remain on the sidelines until enough volume emerges in futures trading so Cantab can get in and out of a position easily. He would like to see other trading anomalies disappear, as well.

Laurence Fletcher contributed to this article.

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Technology
A Million-Dollar Bet Digital Currency Will Top $50,000

By Alexander Osipovich and Gunjan Banerji
383 words
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J
B4
English

Someone out there just made a bet that bitcoin will surge above $50,000 next year, trading data show -- about triple its current price.

Daily trading records released Wednesday by LedgerX, a startup electronic market for bitcoin derivatives, show that an unidentified trader or traders entered the **bullish** bets using bitcoin call options that expire next December. The trade wagering on a move to $50,000 was the first of its kind on LedgerX.

Just under $1 million was paid for the options in one or more trades that took place during the 24-hour period ended at 4 p.m. Eastern Time on Wednesday, the records show. It is unclear from LedgerX's data who the buyer or buyers were or whether the purchasing was done in multiple transactions or just one.

If bitcoin is below $50,000 on Dec. 28, 2018, the options will expire worthless, and the $1 million will be lost. If bitcoin rises above that level, the options will give their owners the right to buy 275 bitcoins for $50,000 apiece -- a transaction that would cost about $13.8 million.

Such a trade could be lucrative if the digital currency skyrockets to $500,000 or even $1 million or more -- something some of bitcoin's most enthusiastic supporters say will happen. The digital currency was trading at $16,280.24 late Wednesday afternoon, according to CoinDesk. It is up more than 1,500% from the beginning of this year, an extraordinary run-up that has unleashed a flood of investor interest. But skeptics such as Nobel Prize-winning economist Joseph Stiglitz call bitcoin a bubble whose price will crash.

LedgerX Chief Executive Paul Chou declined to identify who was behind the big call-options play, citing regulatory restrictions. But the scale of the purchasing reflects the mounting interest of hedge funds and other big financial firms in cryptocurrencies, he said. "Without a doubt, there are institutions out there that are looking at these types of trades or have done these types of trades," Mr. Chou said. "It's not an individual, let's put it that way."

Alexander Osipovich and Gunjan Banerji

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The New York Times

Business Day; Economy

In Tax Overhaul, Trump Tries to Defy the Economic Odds

By PATRICIA COHEN
1,297 words
20 December 2017
07:58 PM
NYTimes.com Feed
NYTFEED
English

When President Trump adds his distinctive signature to the tax bill, he will also be making a huge bet that the Republican strategy of deep cuts for businesses and wealthy individuals will fuel extraordinary growth across the board.

Perhaps more than any other American political leader, Mr. Trump knows that long shots, like his own presidential bid, sometimes pay off. In that vein, he and congressional Republicans are arguing that their bitterly contested and expensive rewrite of the tax code will ultimately create more jobs and raise wages.

If they are proved correct, they will be repudiating not only historical experience, but most experts. From Congress's own prognosticators to Wall Street's virtuosos, scarcely any independent analyses project anything like the rosy forecasts offered by the president's top economic advisers.

To Mr. Trump and his allies, the normal models just do not fully capture the high-octane "rocket fuel" embedded in the tax plan. Mr. Trump intuitively understands just how much attitudes and expectations can shape economic decisions.

With a businessman in the White House, Mr. Trump argues that companies, large and small, have a renewed faith in the economy. And the corporate tax cut, combined with the rollback in regulation, will prompt waves of new investment and hiring, as middle-class Americans liberally spend the extra money in their pockets.

"We're going to easily see 4 percent growth next year," the National Economic Council director, Gary D. Cohn, said. Steven Mnuchin, the Treasury secretary, declared the tax plan would generate enough growth to more than pay for its $1.5 trillion cost.

But those pronouncements are at odds with estimates from the former employer of both men, Goldman Sachs. The bank projected that the tax bill will add just three-tenths of 1 percent of growth in the next two years, before its impact peters out.

The firm's annual growth estimate of 2.5 percent for 2018 matched the one issued this week by the nation's central bank, the Federal Reserve, while the latest median Wall Street forecast hovered close by. And in 2019, growth is expected to drop to 1.8 percent, Alec Phillips, chief United States political economist for Goldman, said Wednesday after the Senate vote.

"We note that the effect in 2020 and beyond looks minimal and could actually be slightly negative," the company said in a recent published summary.

Such projections are unlikely to deter Mr. Trump and Republican leaders from declaring success next year. Lower taxes and extra incentives to invest in 2018 are almost certain to encourage consumers to spend and businesses to expand.

Reduced rates mean most Americans will start taking home more money right away. Roughly three-quarters of taxpayers are expected to get a cut next year, according to the nonpartisan Tax Policy Center.

Employers may offer other sweeteners, even if they were not specifically spurred by the tax plan. AT&T announced Wednesday that it was giving more than 200,000 domestic employees a $1,000 bonus when the tax bill is signed. Fifth Third Bancorp, based in Cincinnati, also promised a $1,000 bonus and said it would raise the company's minimum wage to $15 an hour.

At the same time, the anticipated cut in the corporate rate to 21 percent from 35 percent and other business perks are lifting the **stock market** to new heights. In an earnings call this week, Alan B. Graf Jr., FedEx's chief financial officer, said the company planned to use part of its tax windfall to fatten dividends.

But like a shot of adrenaline, that initial burst of economic activity is likely to fade.

Some provisions of the bill were intended to be sharp and short. Next year, for example, businesses will be able to borrow money and deduct the cost of those loans at the current rate of 35 percent. But later on, when they reap the profits, they will pay a tax rate of only 21 percent. That could end up causing firms to simply shift the timing of investments they would have made regardless of a change in the tax code.

"The really hard question a year from now is going to be is how much of the miniboom we see is just an acceleration of stuff that was going to happen anyway or additional investment that is really going to spur the economy," said Mihir A. Desai, a professor of finance at Harvard Business School.

Tax cuts can provide an added incentive to invest. But as most chief executives acknowledge, they are generally not the crucial factor.

Investment decisions are much more closely linked to demand for goods and services or technological advancement. As it is, manufacturers are not making full use of the capacity in their existing facilities.

Mr. Graf of FedEx held out the possibility of more spending on capital investment and hiring next year. But he noted that the economy as a whole would first have to "increase materially."

Over time, most of the broad-based tax cuts will disappear. Although the richest sliver of Americans will continue to get a break, most people who earn less than $100,000 will see their taxes rise, which could slow the economy's primary engine, consumer spending.

Further tightening is likely if the Republicans follow through on sharply cutting Medicare, Medicaid, Social Security and other programs that tend to put extra cash into the pockets of lower and moderate-income households.

Either way, the deficit will continue to balloon. Over the last decade alone, the deficit has more than tripled. So far, the interest needed to cover that enormous loan has remained relatively small because interest rates have been at historically low levels.

But those costs are expected to soar. The Federal Reserve has indicated that it intends to slowly but surely raise the benchmark interest rate.

Some economists support such deficit spending during recessions, but they worry that offering stimulants when the economy is on fairly steady ground can backfire. Although employers have resisted raising salaries by much, they continue to complain about the tightness of the labor market. The jobless rate has dipped to 4.1 percent while job openings have remained at record high levels.

Virtually no economists believe that the tax cuts will pay for themselves. Several studies have shown that they rarely cover more than a third of the cost. Others have questioned whether cuts produce any significant growth at all — even if they do encourage some individuals to work, save and invest. In a study that William G. Gale and Andrew Samwick did for the Tax Policy Center, they concluded that cuts that increase budget deficits "in the long term will reduce national saving and raise interest rates."

The pattern of short-term promise followed by disappointment is one that other presidents have experienced. President Ronald Reagan in 1981 and President George W. Bush in 2001 and 2003 both passed tax cuts that delivered temporary bumps to the economy followed by slowdowns and rising deficits.

"The clear consensus among independent economists is that the impact of the tax cuts on growth is nowhere close to what the administration is talking about," said Mr. Desai of Harvard. Whatever growth does occur, he added, will be "counteracted by the fiscal irresponsibility of the bill."

* How Prepaying State and Local Taxes Could Save You Money

* House Gives Final Approval to Sweeping Tax Overhaul

* Homeowners Have Had It Good. Too Good, Says the Tax Bill.

A North Carolina plant that recycles plastic bottle chips. President Trump and congressional Republicans have argued that their rewrite of the tax code will create more jobs and raise wages. | Chuck Burton/Associated Press

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THE WALL STREET JOURNAL.
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Tax Overhaul: Businesses Find Some Welcome Surprises

By Theo Francis
802 words
20 December 2017
The Wall Street Journal
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A5
English

The final tax bill offers much of what large companies hoped to gain from the Republican overhaul: the billboard corporate rate was knocked down, cuts were accelerated and key credits were preserved.

"Overall, the business community is very pleased with the bill," said Neil Bradley, chief policy officer at the U.S. Chamber of Commerce. "If someone would have said 11 months ago, by the end of the year we'd able to produce a bill and get it to the president's desk that does these things, skepticism would have been sky high."

Late modifications to reconcile conflicting House and Senate provisions -- and lobbying by companies and industries -- resolved some key uncertainties in the legislation, and offered a few surprises as well.

Among the provisions that made business leaders happiest was one that went missing in the final bill: the corporate alternative minimum tax. Its survival in the Senate bill provoked widespread consternation, as business groups worried that it would undercut a variety of tax incentives, including one fostering research and development.

Also welcome: the 21% corporate tax rate, despite being a percentage-point higher than either the House or Senate bill proposed. "That's a home run, there's no other way to look at it," Mr. Bradley said.

The rate takes effect on Jan. 1, a year sooner than proposed in the Senate bill. That promises firms an extra year of lower tax and avoids a delay that worried many tax experts.

"The level of gaming that would have occurred if you would have had a 35% rate in 2018 and a 21% rate in 2019, it would have been truly amazing," said Steven Rosenthal, senior fellow at the nonpartisan Tax Policy Center think tank.

The final tax plan splits the difference between House and Senate proposals to limit the amount of business interest companies can deduct from their taxes each year. The Senate used a measure that roughly parallels earnings before interest and taxes, or EBIT, while the House also used a measure including depreciation and amortization, approximating Ebitda, for a higher income figure and therefore a more generous cap on the interest that would be deductible.

The final bill uses the more generous House definition of income -- for the first four years, then switches to the less generous Senate calculation in 2022.

The difference isn't trivial. The House provision was expected to raise $171 billion, barely half the $307 billion the Senate calculation would have yielded.

That compromise could cause problems for some companies down the road, analysts say. Lawmakers could ultimately extend the more favorable calculation, but the provision as it stands creates uncertainty, said Height Securities LLC tax analyst Stefanie Miller.

"Companies that are highly levered or companies that are not particularly financially stable, when this switches to EBIT it could be a problem," she said.

Lawmakers ultimately dropped another closely watched interest-deduction limit, which would have applied where a disproportionate amount of a company's borrowing came in the U.S. The provision was designed to help prevent "earnings stripping," or shifting profits to lower-tax jurisdictions.

Lobbyists and corporate tax executives are still working through changes to some of the bill's most complex provisions, which attempt to limit efforts to shift corporate profits to low-tax foreign jurisdictions.

Private-equity firms kept capital-gains treatment for "carried interest," or their share of profits from portfolio investments, but only if the investment is held at least three years. Today, the treatment applies after a year.

Siobhan Hughes contributed to this article.

Foreign Profits

Face One Last Tax

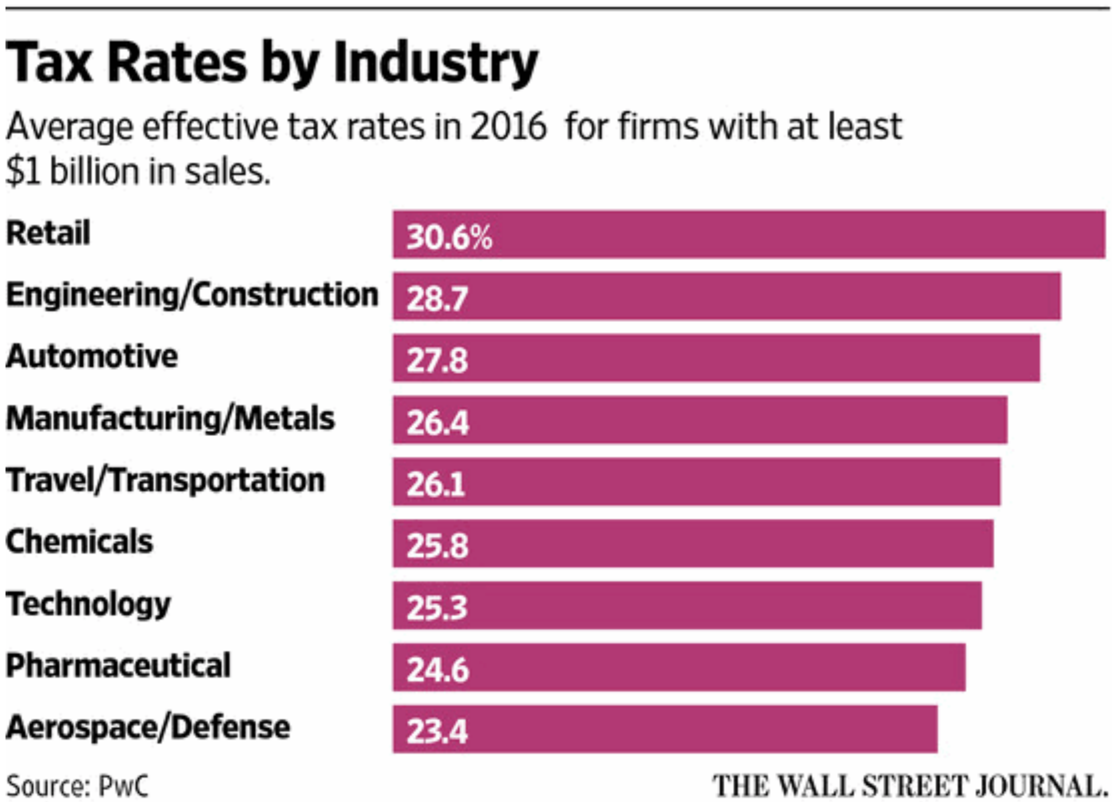
The final tax bill ratcheted up a one-time tax on accumulated foreign profits, or what is often called a repatriation tax. It is now 15.5% on liquid assets, such as cash and cash-equivalents, and 8% on illiquid assets, including factories and equipment, paid over eight years.

That is up from 14% and 7% in the House bill, and well above the 8.75% and 3.5% originally proposed by Republican leaders.

Under existing tax law, companies have been taxed at the full 35% statutory corporate rate for foreign profits brought to the U.S., beyond what was paid to foreign tax authorities.

Foreign profits indefinitely reinvested outside the U.S. went untaxed -- leading **S&P 500** companies to accumulate some $2.5 trillion in unremitted foreign earnings.

The one-time tax is meant to serve as a transition from the old "world-wide" system to a new "territorial" one in which foreign profits will generally not be taxed at all, with exceptions intended to discourage abuse of foreign tax havens. Its novelty and complexity is likely to foster further lobbying and potentially litigation.



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Analysis: Plan to Test GOP's Economic Pledge

By Nick Timiraos and Kate Davidson
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The U.S. economy is about to become the proving ground for GOP tax-cutting theories.

President Donald Trump and congressional Republicans are betting their tax overhaul will jolt the economy after a long but slow expansion. A sharp cut in the corporate-tax rate is meant to spur business investment and hiring. A rewrite of tax laws covering international profits is meant to bring corporate funds home. Lower individual rates are meant to give households more money to spend or bolster their finances. Fewer breaks, in theory, would make the economy more efficient.

Still, the case for sustained faster growth is murky when looked at through the lens of history, and no sure thing now. The 1960s and 1980s saw solid economic growth after Democrats and Republicans lowered individual and corporate rates. But U.S. growth languished in the 2000s after two rounds of tax cuts, and a tax increase on high-income households in 1993 didn't hamper a burgeoning economic boom.

This time, the Trump administration says growth of 3% or more is possible after more than a decade near 2%. The economy has already delivered faster growth in the second and third quarters. But there are significant headwinds, including an aging workforce marked by retiring baby boomers and puzzling sluggishness in worker productivity. Independent economists say the tax cuts won't pay for themselves, driving deficits higher by $1 trillion over a decade even after accounting for stronger growth.

Although polls suggest households are skeptical of the tax overhaul, expectations in markets and among some companies couldn't be much higher. The **Dow Jones Industrial Average** has rocketed up nearly 5,000 points this year.

William Sandbrook, chief executive of U.S. Concrete Inc., a Texas-based supplier of ready-mix concrete, expects to invest in new trucks and facilities. "We're not going to dividend it back, and we're not going to do share buybacks," he said. "We can expand without increasing our leverage."

Other executives say tax changes would have little bearing on their investment or hiring decisions, saying growth is constrained more by their ability to find skilled workers than by high taxes.

"If we sense a business opportunity for us, whether the tax rate is at 35% or 21% isn't going to make a difference," said Bill Hutton, president of Titan Steel Corp., a Baltimore distributor and processor of steel products. "The converse is if there isn't a viable business opportunity, lowering the tax rate isn't going to create it out of thin air."

A December Wall Street Journal survey of private-sector economists showed 9 of 10 professional forecasters expect the tax bill to boost the U.S. growth rate in the next two years, but with most seeing a modest increase. Forecasters are split on long-term effects, with nearly half saying growth will eventually return to or dip below its current pace.

The tax cut could boost growth two ways: by raising demand or raising supply. In the short run, by giving businesses and consumers more money, it could spur demand for equipment, homes and other goods. In the long run, by encouraging people to work more and businesses to invest more, it could raise the economy's supply capacity by increasing the number of workers and their productivity.

As demand stimulus, the $1.5 trillion tax cut isn't very large, even though Mr. Trump has called it the biggest tax cut in history. It accounts for 0.1% of gross domestic product each year over a decade, ranking it seventh or eighth in U.S. history, estimates Ethan Harris, chief economist at Bank of America Merrill Lynch. Demand stimulus tends to be less effective at times like these, when firms enjoy low borrowing costs, easy access to capital and an economy with low and declining unemployment.

The economy was in a different position in 1981, when President Ronald Reagan signed what Mr. Harris said were the largest tax cuts in the postwar period, cuts that lowered the top individual rate to 50% from 70%. The economy was in need of help again in 2001, when President George W. Bush lowered the top rate to 33% from 39.6%, after the tech-stock bubble drove the U.S. into a mild recession. The Fed started cutting short-term rates then, too.

Today, the economy is in the ninth of year of expansion, and the unemployment rate, at 4.1%, has fallen to a 17-year low. The Fed is raising rates and expects to continuing doing so into 2020.

For now, the tax overhaul appears unlikely to alter the Fed's strategy. Officials signaled last week they don't see a need to raise rates more aggressively to prevent new stimulus from overheating the economy, in part because of muted inflation pressures.

The Fed has raised its growth forecast to 2.5% from 2.1% for 2018 and nudged up projections by smaller amounts for the two years after that. But officials still expect long-run growth of 1.8%, even with the tax changes, a full percentage point less than Mr. Trump's advisers.

To deliver long-run growth, businesses would need to invest more in workers and equipment. So far, they are voicing a mix of caution and optimism.

Rising stocks and low interest rates "are all symptoms of an excess of liquidity," said Joel Shine, chief executive of Woodside Homes Inc., which builds homes in four Western states. "To theorize more liquidity will supercharge the U.S. economy? That's a tough argument to make."

He said lower corporate rates should make it more attractive for companies to locate operations in the U.S. On the other hand, changes in the tax code that decrease the potency of individuals' mortgage-interest deduction and curb breaks for state and local taxes could soften demand in high-tax metro areas.

Home Depot Inc. expects to save about $1.6 billion with a lower tax rate, Chief Executive Craig Menear said this month. The retailer said it would spend on previously stated investment goals, including e-commerce plans and higher wages.

"With what might be left," Mr. Menear said in an interview, "we would look at if there are other uses, whether used for [share] buybacks or whatever the best form is to return it to shareholders."

Drew FitzGerald and Sarah Nassauer contributed to this article.

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Heard on the Street
Bullish Case for Bitcoin Is Flawed

By Aaron Back
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[Financial Analysis and Commentary]

Amid all of the bitcoin nuttiness this year, some advocates for the cryptocurrency are making a reasoned argument that it could more than double in value from here. Unfortunately for bitcoin holders, the argument is flawed in two key ways.

The advocates say that with all of the advantages of bitcoin -- potentially reducing transaction costs and settlement times while protecting privacy and preventing governments from debasing its value -- a portion of global commerce eventually will be settled in the currency.

The currency can't be fundamentally debased because just 21 million bitcoins will ever be issued, so even if the portion of global commerce ultimately settled via bitcoin is small, the currency's value should rise, proponents say.

The global money supply as measured by M2 was at $79.5 trillion in 2016, according to the CIA World Factbook. If 1% of that supply were held in bitcoin, dividing that by 21 million units implies a value of around $38,000 per coin, up from around $18,500 currently.

The math is rough but it shows why some sophisticated bitcoin holders think there is room to keep rallying. According to this reasoning, if 2% of global money supply is held in bitcoin, the implied valuation would be $76,000, and so on.

There are two big problems with this argument. While the blockchain technology underpinning bitcoin has the potential to make transactions more seamless by cutting out intermediaries, bitcoin as currently constructed fails to live up to this promise. The bitcoin network can currently handle only a limited number of transactions per second, and is being overwhelmed by traffic. This is leading to delays in settlement times and high transaction fees.

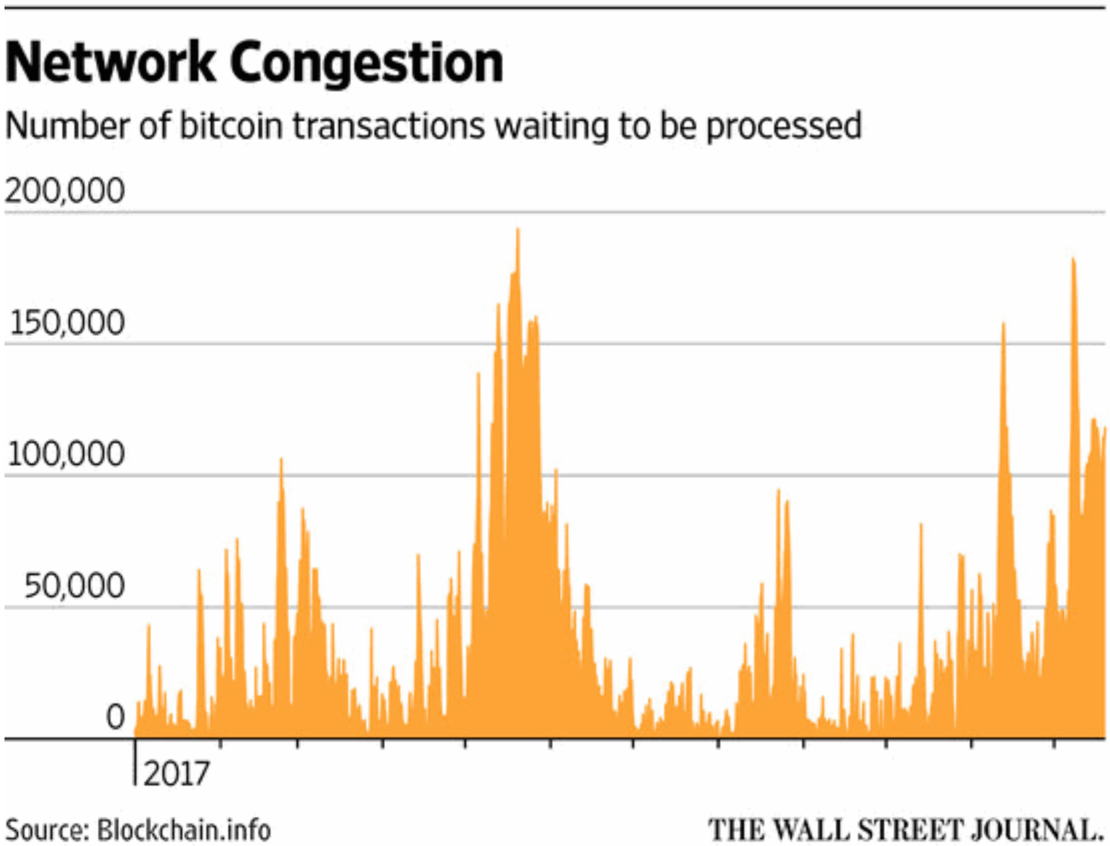
The second issue is that while the stock of bitcoin is capped, the total supply of all competitor cryptocurrencies is unlimited. Rival coins that aim to solve for some of bitcoin's problems are already taking share.

Banks and other financial institutions are aware of the disruptive potential of blockchain technology, and are working on ways to use it themselves without tapping bitcoin or any other cryptocurrency.

Certainly some portion of global commerce will be settled through blockchain in the future, but it could be controlled by a consortium of banks and government authorities.

That could still leave room for some transactions to be settled in cryptocurrencies independent of banks, but there is no saying exactly which currencies.

Bets on individual cryptocurrencies, particularly an early and flawed one, are still quite speculative and risky. Bitcoin investors need to keep that in mind as we head into 2018.



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The New York Times

Op-Ed Columnist
Opinion
Merry Christmas, Vladimir — Your Friend, Donald

By THOMAS L. FRIEDMAN
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At the end of this banner **stock market** year, you can bet that major business publications will be naming their investor of the year. You can stop now. I have the winner, and nobody is even close when it comes to his total return on investment: Vladimir Putin, the Russian president.

A recent report in The Washington Post, quoting intelligence sources, said Putin may have spent less than $500,000 to hack our last election and help (though Hillary helped much more) Donald Trump become president. And Putin's payoff is Trump's first year: a president who is simultaneously eroding some of our most basic norms, undermining some of our most cherished institutions and enacting a mammoth tax bill that will not make America great again.

If you assume, as I do, that Putin wants to see an America that is not an attractive model for his own people or others to emulate, and that he wants an America run by a chaos president who cannot lead the West, then Trump is his dream come true, whether or not there was any collusion between them.

So Vladimir Putin, come on up! You're my Investor of the Year. You're the Warren Buffett of geopolitics.

Just do the math:

On norms, we've grown numb to a president who misleads or outright lies every day. Different newspapers measure this differently. The Washington Post says Trump has averaged 5.5 false or misleading claims every day in office, putting him on pace for 1,999 in his first year. According to The Times, Barack Obama told 18 "distinct falsehoods" over his entire eight-year presidency, while Trump, in his first 10 months in office, "has told 103 separate untruths, many of them repeatedly."

Given the power of the president to shape our public discourse, it's chilling to imagine what four years and 8,000 lies or misleading statements from Trump will do to trust in government in America — and how deeply that will filter into society, giving permission to anyone and everyone to lie with impunity.

In terms of institutions, Trump has personally disparaged the F.B.I., the C.I.A. and the Justice Department. His head of the Environmental Protection Agency has turned the E.P.A. over to the fossil fuel industry. Ditto at Interior. His I.R.S. is being starved of funding to do its job. And his secretary of state is gutting the State Department, shedding our most experienced diplomats and replacing them with … no one.

The Treasury secretary's economic "analysis" of the G.O.P. tax bill consisted of a one-page — fewer than 500 words — assessment, claiming that the $1.5 trillion plan would more than pay for itself, assuming a whole set of perfect circumstances come true. Your kid's third-grade book report was longer than the Treasury's analysis of our biggest tax overhaul in 30 years.

The Times reported that the actual experts in the Treasury's Office of Tax Policy, which Treasury Secretary Steven Mnuchin had credited with running his models, said they were "largely shut out of the process" of analyzing the bill.

But this erosion of institutions is not all on the White House — the G.O.P. congressional leadership went along for the ride, spurning proper congressional oversight of the tax bill. There were no hearings with a range of economic and tax experts, and only nominal debate. It was just rammed through.

In short, the G.O.P. Congress treated this one-in-a-generation tax rewrite with as much rigorous analysis as naming a post office for Ronald Reagan! This is how democratic institutions get soiled.

And then there's the future: Putin never could have dreamed up this deformed Trump-G.O.P. tax bill, but it is precisely how you don't make America great again. We actually have a tried-and-true formula for that — one employed by every great American president since our founding. It has five parts, and this bill pretty much ignores all five.

First, we've always educated our citizens up to and beyond whatever the main technology of the day was — when it was the cotton gin, that meant universal primary education; when it was the factory, that meant universal high school; and now that it is the computer and artificial intelligence, it should be some form of postsecondary education for all — and then lifelong learning. If we were really doing tax reform intelligently, we'd make all postsecondary education tax deductible, to encourage everyone to become a lifelong learner.

Instead, this bill will spend money preserving unfair tax breaks for hedge fund billionaires and shrinking the inheritance tax on their heirs.

Second, we invested in the best infrastructure — roads, rail, ports, airports, telecom. This tax bill not only makes no provision for that, it actually erodes such investments in many states. With a limitation on the deduction for state and local taxes, and the deficit's ballooning by $1 trillion to $1.5 trillion, many cities and the federal government will have fewer resources for new schools and bridges.

Third, we had the best rules to incentivize risk-taking and to prevent recklessness. I am all for cutting corporate taxes — and payroll taxes — but I'd offset them with a carbon tax that would simultaneously combat climate change and stimulate renewable energy, the next great global industry, to make us more resilient and innovative. It never occurred to Trump.

Trump and his allies actually tried to get rid of all the regulatory subsidies to stimulate wind, solar and electric car production, and, I must say, it was fun to watch Republican senators get them all restored, because they are such important job creators in their states.

Iowa's Chuck Grassley saved the wind credits, because of the vast number of wind turbines in his red state; Dean Heller of Nevada saved the electric vehicle credits, because of all the jobs that the Tesla battery factory has created in Reno; and Rob Portman helped save all these clean tech credits because of the thousands of new jobs they've stimulated in Ohio. It shows you just how ignorant Trump is about the benefits of clean tech.

On health care regulations, though, the whole G.O.P. bought into Trump's nonsense, eliminating the Obamacare requirement that all individuals buy health insurance. It means we are returning to socialized medicine. Now lots of healthy young people, and others, will forgo health care, and when they get sick, they'll go to hospital emergency wards to get treated — and those of us with health insurance will pay for their care through higher premiums or higher hospital bills. That's called socialism. Marx would approve.

Fourth, we had, in the last century, the most open immigration policy to attract the most high-I.Q. risk-takers, the people who often start new business, as well as high-energy lower-skilled workers. I don't have to tell you where Trump is on that.

Fifth, we had the most government-funded research to push out the boundaries of science so our companies could pluck the best ideas — witness the internet and GPS — to start new industries. The surge in the deficit created by this tax bill will curtail precisely such research.

So there you have it: a tax "reform" bill that defies all five principles that made us great for two and half centuries.

Rather than starting by asking the question: What world are we in, what are the biggest trends — like rapid technological change, the automation of an increasing number of middle-skill jobs, increasing climate disruptions, a world getting more interdependent than ever — and how we can use tax policy to enable more of our citizens to get the most out of these trends and cushion the worst, we have a bill driven by the need to reward big donors and to put "points on the board" for Trump before the midterms.

Even Putin surely could not have imagined that Trump would be this foolish and the G.O.P. this cynical. It's just the extra dollop of caviar on Vladimir's Christmas blini.

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President Trump has been giving Vladimir Putin plenty of things to be merry about. | Tom Brenner/The New York Times

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The New York Times

Business/Financial Desk; SECTB
China Plans Huge Market for Trading Pollution Credits

By KEITH BRADSHER and LISA FRIEDMAN; Keith Bradsher reported from Shanghai, and Lisa Friedman from Washington. Owen Guo contributed research from Beijing.
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SHANGHAI -- China is the world's No. 1 polluter. It burns more coal than the rest of the world combined. It produces more than a quarter of the world's human-caused global warming gases, nearly as much as North America and Europe put together.

On Tuesday, the country set out to claim another title reflecting its ambitions to change all that: keeper of the world's largest **financial market** devoted to cleaning up the air.

China released plans on Tuesday to start a giant market to trade credits for the right to emit planet-warming greenhouse gases. The nationwide market would initially cover China's vast, state-dominated power generation sector, which produced almost half of the country's emissions from the burning of fossil fuels last year. If it works as intended, an emissions market will give Chinese power companies a financial incentive to operate more cleanly.

The long-awaited announcement could bolster global efforts to combat climate change after President Trump signaled this year that the United States would back away from Obama-era promises to curb emissions. It could also serve as a big -- though ultimately government-controlled -- laboratory for such carbon markets, after earlier efforts in Europe and at the local level in China stumbled.

''China's move to create the world's largest carbon market is yet another powerful sign that a global sustainability revolution is underway,'' Al Gore, the former vice president and a prominent voice on the environment, said in a statement.

The government did not issue a hard timeline, and regulations and other details still have to be worked out. But environmental groups that worked with the government said they could emerge in the next couple of years. ''Everything is gradual, step by step,'' said Li Junfeng, a senior government adviser on the carbon market plan.

China's announcement could also disappoint those who were hoping the long-promised emissions market would cover the country's broader economy, the world's second largest after that of the United States. China's booming car culture, its industrializing agriculture sector and its huge chemical complexes, cement factories and steel mills are also big emitters.

Still, environmental groups welcomed the move. Nathaniel Keohane, vice president for global climate at the Environmental Defense Fund, said the market for power-sector emissions alone would cover 3.3 billion tons of annual carbon dioxide releases. The European Union's trading system encompasses about two billion tons of emissions.

''This is like the Mount Everest of climate policy,'' Mr. Keohane said. ''It's an incredibly ambitious undertaking.''

China is reacting to pressure at home and abroad to clean up its act. Rising sea levels could devastate its heavily populated coast. The Chinese public is increasingly worried about broader environmental issues like urban smog, water quality and soil pollution.

China has invested heavily in green technologies such as electric cars, wind turbines and solar panels.

China's emissions of greenhouse gases from the burning of fossil fuels like oil, coal and natural gas have nearly tripled since 2000, according to data from the International Energy Agency in Paris. The high tonnage partly reflects its huge population; Chinese emissions per person are still somewhat less than the average per capita figure in the United States, although the gap has been narrowing.

Under emission markets, power companies and others effectively pay for the right to pollute beyond a government-mandated limit. Those that cut their emissions could sell permits to pollute to dirtier companies, ideally at a healthy price.

So far, such efforts have been underwhelming. Markets in Europe and at the provincial level in China have faltered because the authorities issued too many credits to existing polluters. That gave companies little reason to buy credits, or to cut their own emissions and sell the credits.

Zou Ji, the president of the China arm of the Energy Foundation, one of several Western nonprofit groups that advised the government on the new market, said that China was likely to issue many credits starting early next year in response to domestic political pressures, and then gradually tighten annual allocations to force up the price.

Beijing officials had been signaling for many months that the country would move beyond its existing experimental markets for emissions rights in five cities and two provinces. These provincial programs cover a variety of sectors, including electricity generation, steel mills, cement factories, chemical complexes and other energy-intensive industries. But the trading volume has been very low, with just $400 million in credits traded on all the exchanges combined in the first four years through last June, according to monitoring funded by the World Bank.

The national market could face its own political interference that could hurt its chances of becoming a model for others. Electricity generation in China from coal and natural gas is dominated by five giant, state-controlled companies. A sixth runs the civilian nuclear power sector. Regardless of effectiveness or economics, the companies will probably do what Beijing wants them to do.

Beijing's efforts also sometimes go awry. Just in the past few weeks, China has had to retreat temporarily from an ambitious plan to cut coal use in some parts of the country and rely more on natural gas, which produces fewer emissions.

''I don't take the carbon market seriously,'' said Derek Scissors, an economist who specializes in China with the American Enterprise Institute, a conservative think tank. ''The first thing I would ask people is, 'What markets in China do you think work really well?' ''

The national emissions trading system being started will initially cover power companies that emit at least 26,000 tons a year of carbon -- the equivalent of burning 10,000 tons of coal a year, and a threshold high enough to cover mainly larger users of coal and natural gas. Experimental markets in the seven original provinces and cities, which further cities and provinces are starting to replicate, will continue to cover the cement and steel industries as well as other manufacturing and industrial sectors. The goal is to eventually move them into the national market.

Beijing already regulates emissions from China's electricity sector. On the other hand, having them trade with each other might help the central government figure out more rules to regulate trading in less regulated sectors, and also to identify which companies are the most efficient at reducing emissions.

The announcement comes as the United States under Mr. Trump prepares to eliminate an Obama-era plan for reducing America's emissions. The United States has also removed climate change from its new national security strategy and has vowed to abandon the Paris agreement, under which nearly 200 nations pledged to curb greenhouse gases voluntarily and help poor countries cope with the consequences of climate change.

Asserting that the world's two largest economies must act together, the United States and China in 2014 jointly announced their emissions targets as part of the Paris agreement. China has previously promised that its carbon dioxide emissions would peak by 2030, and that it would increase its share of non-fossil fuels in its primary energy consumption to about 20 percent by that year.

Kelly Sims Gallagher, a professor of environmental policy at Tufts University, said the Chinese government was right to be cautious by starting with just the electricity sector. Taking a good inventory of emissions, ensuring the cap is set at a level that will actually spur a reduction in carbon dioxide and sorting out emissions allocations are all complex tasks that take time, she said.

"It's important to realize you can't do that overnight," Ms. Gallagher said.

Follow Keith Bradsher and Lisa Friedman on Twitter: @KeithBradsher and @LFFriedman.

Pollution in Shanghai. China is reacting to pressure at home and abroad to make environmental changes. (PHOTOGRAPH BY JOHANNES EISELE/AGENCE FRANCE-PRESSE -- GETTY IMAGES) (B1); Making solar panels in Hefei, China. The country has invested heavily in green technologies like solar and wind power. (PHOTOGRAPH BY ADAM DEAN FOR THE NEW YORK TIMES) (B2)

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REVIEW & OUTLOOK (Editorial)
The Tax Reform Promise

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The tax reform that will pass Congress Wednesday fulfills a major Republican campaign promise, but more important is that it marks a return to the politics of growth after many lean years of envy and income redistribution. It offers hope of broader prosperity after a decade of slow growth and rising inequality.

On the merits, the bill is the most pro-growth tax policy since the Reagan reforms of 1981 and 1986. We should add that it is not as good for individual taxpayers as those two acts. The bill cuts marginal tax rates only a little for individuals, and that will temper its growth impact. The politics of envy that has dominated American politics since the mid-2000s has also infected many Republicans, especially its Beltway intellectual class.

This reform will rise or fall on its business tax changes, and those are arguably superior to the 1986 act. The corporate rate cut to 21% from 35% solves a core problem of U.S. economic and business competitiveness. Along with 100% expensing, the rate cut slashes the cost of capital enough to cause CEOs to think again about America as a place to invest. Sweeping away many (alas, not all) special tax breaks means fewer incentives to misallocate capital.

The timing may also be right in giving this already long expansion a second wind. The Obama expansion has been so tepid in part due to historically slow capital investment, and deregulation and tax reform are policy levers designed to revive it.

The economists who gave us the slow Obama economy now say this reform is ill-timed, but they look only at the demand side of the economy. They ignore the bill's supply-side incentives to increase the economy's productive capacity. These incentives will be all the more important as the Federal Reserve moves to normalize the monetary policies that lifted stocks and other asset prices during the Obama years. The Obama policy mix helped the affluent who had assets, while faster growth should spread prosperity more broadly.

Will it work? There are wild cards to watch like the Fed, national security shocks and Donald Trump's trade policy. But measured by business sentiment, the portents are good. The National Federation of Independent Business confidence index hit an all-time record in November, while optimism among manufacturers hit an unprecedented high in the fourth quarter. Mr. Trump is mistaken to focus so much on the **stock market**, since corrections are inevitable. But the market's rise since Election Day in 2016 isn't a political levitation act. It's an omen of confidence in higher earnings and faster growth.

As for the politics, reform's passage shows the GOP's growth wing is still prominent. This was no sure thing as conservative wonks fell for policy fads and sneered at pro-growth reform as irrelevant to the needs of the working class. In the end they watered down the reform but couldn't hijack it.

This is a credit in particular to the successive House Ways and Means Chairmen who negotiated the reform tradeoffs. Dave Camp, Paul Ryan and Kevin Brady persisted through years of political setbacks for this moment, while Senate Majority Leader Mitch McConnell shrewdly tapped Pat Toomey of Pennsylvania to maneuver the bill through the Budget and (with Orrin Hatch) Finance committees. These are examples of how individual legislators make a difference.

The victory is also a vindication for these and other Republicans who resisted the advice not to work with President Trump. The GOP is supposedly forever morally tainted by trying to pass the agenda it ran on because Mr. Trump is, well, you know. But voters who elected a Republican Congress want results that are good for the country, and Americans shouldn't suffer for four years because voters preferred Mr. Trump over Hillary Clinton. Mr. Trump deserves credit for selling reform and working with Congress to pass it.

Republicans succeeded despite a narrow Senate majority, no help from Democrats, and the near-universal hostility of the Beltway press. They also had to overcome the Keynesian bias embedded in such institutions as the Congressional Budget Office and Tax Policy Center that are treated as policy oracles when they merely offer guesses about policy outcomes that are often wrong. At least growth conservatives had the Tax Foundation as a counter-weight, but sooner or later they need to repeal the Budget and Impoundment Control Act of 1974.

The media are now chortling with Democrat Chuck Schumer that Republicans will "rue the day" they passed this. Actual CNN headline: "Public opposition to tax bill grows as vote approaches."

But we'd dislike this bill too if all we knew was what the media reported. The polls show that most Americans don't even think they'll get a tax cut, when nearly all taxpayers will. Perhaps voters will find that irrelevant in 2018, but the result is certainly better for Republicans than explaining another legislative failure. The far more important payoff will be for the country if the result is a return to faster growth that lifts wages and American confidence.

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Business News: Tax Plan Could Hurt Stock-Options Pay

By Gunjan Banerji
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Companies stand to lose a longstanding tax break on some stock options awarded primarily to high earners.

Publicly traded corporations can deduct stock options they give to top leaders earning more than $1 million a year from their tax bills -- a Clinton-era rule created to cap how much the leaders get paid. The provision applies to companies' highest-paid executives, those whose pay must be disclosed to shareholders.

Now, in the plan being proposed by U.S. lawmakers, any pay higher than $1 million a year would be subject to taxation, even so-called performance-based pay such as stock options.

Under the rules, stock options wouldn't be deductible, meaning large companies would be forced to pony up to lure the best executives.

"It's effectively going to be a tax on companies when they pay their CEOs more than $1 million [a year]," said Wayne Guay, professor of accounting at the University of Pennsylvania's Wharton School of Business.

Large corporations typically dish out three types of pay to top executives: cash salary, company shares and stock options. The last can reap millions for the employee or expire worthless.

Stock options vest over time, which means people can access them after they have been at the company for a certain number of years.

Options give executives and investors the right to buy shares of a company at a later date and at a specific prices.

Options are an attractive way to compensate company leaders because the contracts can have outsize payoffs. Executives can cash in on millions in gains, or if their shares don't rise, not exercise the contracts without taking a loss. The popularity of awarding stock options as pay tends to ebb with the rise and fall of the U.S. **stock market**, analysts say.

Some experts say that even if the proposal from Congress goes through, companies will continue to award potentially lucrative options to the most sought-after talent.

"You'll see a continuation of performance based awards and of options," said Domnick Bozzetti, a New York-based partner at law firm Morrison & Foerster. They are a "unique incentive."

Some lawyers and analysts refer to the $1-million cap as antiquated. It hasn't been updated in decades and doesn't account for the rise in inflation or other changes in compensation trends.

"The notion that Apple or Wal-Mart could get a CEO for $1 million [a year] is ludicrous," Mr. Guay said.

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Banking & Finance: Court Allows Speedy-Trader Suit to Proceed --- Big exchanges suffer blow in case entailing accusation they favored some traders

By Alexander Osipovich
473 words
20 December 2017
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B7
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A federal appeals court said Tuesday that a lawsuit accusing stock exchanges of defrauding investors by favoring high-speed traders can go forward, a blow to the New York Stock Exchange and **Nasdaq** Inc.

The two firms were among four U.S. stock-exchange operators whose units are named as defendants in the lawsuit. They have denied allegations that the exchanges favor high-frequency trading firms over slower-moving investors.

HFT firms use powerful computers and ultrafast network connections to trade large volumes of stocks.

The class-action case grew out of a lawsuit filed in 2014 by the city of Providence, R.I., after the publication of Michael Lewis's best seller "Flash Boys," which accused high-frequency traders of exploiting ordinary investors.

Tuesday's decision by the U.S. Court of Appeals for the Second Circuit reversed a 2015 ruling in which a federal district judge threw out the city's lawsuit.

In that ruling, Judge Jesse M. Furman of the Southern District of New York agreed with the exchanges' argument that they were immune to such lawsuits.

Now, the case is being sent back to federal district court. A panel of federal appeals judges ruled Tuesday that the exchanges "are not entitled to absolute immunity."

Other defendants include Bats, now owned by Cboe Global Markets Inc., and Chicago Stock Exchange.

NYSE, which is owned by Intercontinental Exchange Inc., **Nasdaq**, Cboe and the Chicago Stock Exchange declined to comment.

The original 2014 lawsuit cited such practices as co-location, in which HFT firms put the servers running their algorithms directly inside the exchanges' data centers. The lawsuit also cited the sale of superfast data feeds that offer HFT firms and other sophisticated traders quicker access to live trading data than they would have by using a cheaper public feed.

The appeals court's decision will help ensure that fast traders don't "get a jump on institutional investors," said Patrick Coughlin, a lawyer with Robbins Geller Rudman & Dowd LLP who is representing the city of Providence.

"Hopefully some of these practices will be eliminated," he said.

Exchanges have previously beat back attempts to rein in co-location and the sale of ultrafast data feeds, arguing that criticism of the practices is overblown.

Still, Tuesday's decision could open the door to the "discovery" phase of the litigation, in which the plaintiffs' lawyers will seek to obtain internal communications and other documents from the defendants to prove their case.

After the original 2014 lawsuit was filed, it was combined with similar lawsuits into a class-action case, with pension funds and other investors joining the city of Providence as plaintiffs.

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The New York Times

U.S.; Politics
Trump Takes Mantle of First Bull as the Stock Market Rises

By MICHAEL TACKETT
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NYTFEED
English

WASHINGTON — President Trump has broken with many of the norms set by his predecessors, but in few ways has this been clearer than his cheerleading about the roaring **stock market**.

He is the unapologetic First Bull.

He has crowed about the **stock market** at least once a week for the past two months. In two Twitter messages early Tuesday morning, the president cited a 5,000-point rise in the **Dow Jonesindustrial average** this year, and then said the market had more room to roar once the impact of tax legislation he is expected to sign this week becomes law.

Other presidents have occasionally talked about market booms, but often avoided saying anything that could move markets, particularly on individual company stocks. More commonly, they have talked about unemployment numbers, housing starts and other indicators that are less sensitive to market forces.

Mr. Trump has ignored those conventions, with relish.

Even at a speech on national security on Monday, he took a detour to talk again about records being set in the markets. The market performance is now an almost standard part of any address he makes.

“I think that in some sense, he might be responsible for the show he is putting on for some of the increase in stock prices, but I don’t think it is rational,” said Robert J. Shiller, a Yale University economist and a 2013 Nobel laureate.

Mr. Shiller said the president has “legitimized” the mood that “the market might continue to go up and up.”

The peril for Mr. Trump is that market cycles invariably have downturns, too, sometimes significant ones, and claiming credit for the rise could also mean owning the fall.

“I liken him to Calvin Coolidge, a pro-business president who kept constantly trying to boost the **stock market**,” Mr. Shiller said. “He was president until 1929 and then it started to crumble.”

Mr. Trump inherited a strong economy from President Barack Obama. The unemployment rate was 4.8 percent in January when Mr. Trump took office and the nation had a solid record of adding private-sector jobs.

Stock markets have been rising essentially since March 2009, when the global financial crisis was near its worst. The stock markets are now in the second-longest bull run in history, trailing only the rally that lasted from 1987 until 2000.

“There is no doubt that the promise of a big corporate tax cut and rampant deregulation have had some effect on the markets,” said David Axelrod, a former senior adviser to Mr. Obama. “It’s also a fake measure of the rooster taking credit for the dawn, as the economy here and globally were steadily improving when he arrived.”

Wall Street and investors are emboldened by the tax cut proposal as well as Mr. Trump’s reversal of several major regulatory measures on environmental matters, financial services and the telecommunications industry. But analysts also attribute the robust market performance to strong corporate earnings.

Consumer confidence is also on the rise, which helps to add to an overall pro-market investment psychology.

“The market is not the economy,” said Dean Baker, director of the Center for Economic and Policy Research in Washington. “The market is a measure of future profitability.”

About half of the country has no money invested in the **stock market**, according to Federal Reserve data. But at rallies and speeches, the president often asks “how’s your 401(k) doing?”

That is a compelling statement — as long as the market climbs. But even the longest bull markets have eventually come to an end.

“If you want to say everything on a market going up is to your credit, it would seem to follow that if it goes down, it is to your blame,” Mr. Baker said. “I wouldn’t count on that in this case.”

President Bill Clinton also benefited from a **stock market** surge in the late 1990s, but within the White House, there was concern about aligning too closely with the gains.

Paul Begala, a former adviser to Mr. Clinton, said that the Treasury secretary, Robert Rubin, “used to tell me that the thing about stocks is that they go down as well as up, so he never wanted President Clinton to associate himself too closely to the **stock market**.”

“We felt like jobs and wages were what we should focus on, as well as the deficit,” he said.

“Trump, of course, breaks every rule,” Mr. Begala added. “He wants credit for the run-up, though he’s signed no meaningful economic policy into law. Not sure his strategy is working. Stocks are at an all-time high, and President Trump’s approval is at an all-time low.”

According to a CNN poll released on Tuesday, Mr. Trump’s overall approval rating was 35 percent.

The president’s rating hit that level “with a roaring **stock market**,” Mr. Begala said. “Where do you think he will be when there’s a correction?”

* Mass Psychology Supports the Pricey **Stock Market**

Traders on the floor of the New York Stock Exchange on Tuesday. President Trump touted increases in the **Dow Jones Industrial average** on Twitter and said the market still has room to grow. | Spencer Platt/Getty Images

Document NYTFEED020171219edcj003ml

THE WALL STREET JOURNAL.
U.S. EDITION

Bitcoin Futures Slip on Day One at the CME

By Alexander Osipovich
477 words
19 December 2017
The Wall Street Journal
J
B11
English

CME Group's new bitcoin futures fell on their first day of trading, as the Chicago-based exchange giant pushed forward into the rapidly expanding market for cryptocurrency derivatives.

CME bitcoin futures for January expiration settled at $19,100 on Monday, down 2.1% from the level CME had deemed the opening price ahead of the contract's launch Sunday evening.

The January contract spiked as high as $20,650 initially, before falling to $18,345 within several hours of trading.

Bitcoin itself, which had been approaching the $20,000 mark on Sunday, sold off after the futures launch and was trading at $18,722.65 late Monday afternoon, according to CoinDesk.

About $100 million worth of CME bitcoin contracts changed hands in their first day of trading, a CME spokeswoman said. That is a relatively small slice of the billions of dollars' worth of volume in the bitcoin spot market.

But CME's launch outpaced that of its smaller competitor, Cboe Global Markets Inc., which started the first-ever U.S. bitcoin futures a week earlier.

Just over $75 million worth of Cboe's contracts changed hands on their first day of trading, which ended Dec. 11, according to Cboe.

Volume in Cboes bitcoin contracts was $81.3 million in the most recent trading day, which ended Monday, a spokeswoman for Cboe said.

Both exchange operators are seeking to cash in on investors' enthusiasm for bitcoin, which was invented less than a decade ago and is still tarnished by its association with money laundering and other illicit activities. The digital currency has surged around 1,800% since the beginning of the year.

Bitcoin futures allow traders to bet on rises and falls in the digital currency, similar to the way oil, corn or gold futures work. They also give banks, hedge funds and other Wall Street firms a way to trade bitcoin in a regulated, well-known marketplace.

So far, the new futures market has defied predictions that giving traders an easy way to "short" bitcoin -- to bet that its price will fall -- would trigger a big price drop.

"There was some fear ahead of the Cboe futures launch that Wall Street was going to come in and short bitcoin," said Garrett See, chief executive of DV Chain, a proprietary trading firm focusing on cryptocurrencies. "But we haven't seen that."

CME's bitcoin futures are listed on its flagship Chicago Mercantile Exchange, which also runs popular markets for live cattle, eurodollar and **S&P 500 stock-market** futures.

Last year, total volumes across CME Group's futures exchanges were more than 65 times greater than volume at the Cboe Futures Exchange, where Cboe's contract is listed, according to data from FIA, a futures-industry group.

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Big Tax Stimulus Is Coming in 2018

By Justin Lahart
479 words
19 December 2017
The Wall Street Journal
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B12
English

[Financial Analysis and Commentary]

There were several surprises for investors when Republicans unveiled their final tax bill Friday, but the most significant is that they add up to a bigger boost to economic growth next year.

The bigger stimulus could fundamentally change how the market behaves in 2018. Sales and profits will be stronger than most investors expect. But with the unemployment rate low, wage pressures will mount faster and inflation should pick up more. If the tax plan passes, as seems likely, it could lead the Federal Reserve to raise rates more quickly, putting the bond market at risk.

The tax plan always was expected to juice the economy, but the Senate version, which passed after the House approved its bill, had relatively modest short-term stimulus. While the **stock market** kept rising in anticipation of a cut, the bond market hardly budged. The bill unveiled Friday front-loaded more than $200 billion in stimulus for next year. Economists had been expecting a boost of one-third of a percentage point next year. Now that is looking way low.

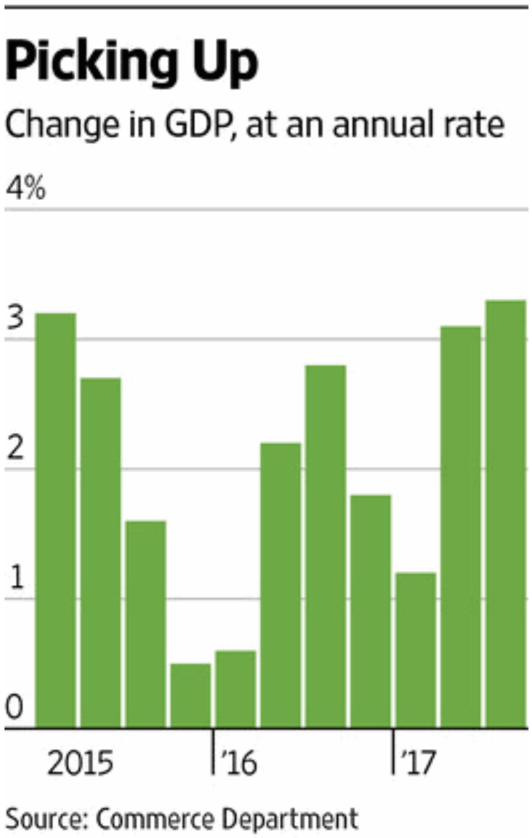
There are several big changes in the final bill. The cut in the corporate tax rate to 21% happens right away; the Senate bill had put it off until 2019. It lowers the top rate on individuals to 37% -- lower than either the House and Senate plans. It also pushes individual rates down for most other people and increases the child tax credit, which are important because middle-class households are more likely to spend extra income than the rich.

Cornerstone Macro strategist Andy Laperriere estimates that all told, the tax cut for calendar year 2018 comes to about 0.9% of GDP. The boost to growth will likely be stronger though. The one-time tax on overseas cash held by companies is technically a drag on growth, but in reality it shouldn't directly affect U.S. demand. Excluding that, the tax bill comes to 1.3% of GDP.

Not all of the tax cut cash will flow into GDP, of course. Some will head into savings rather than spending. And to the extent that higher demand pushes prices higher, some will get eaten up by inflation. Still, the pickup to growth could be substantial.

For companies that sell to consumers, the sales gains next year could be substantial. That should help support their stocks.

The Treasury market might not fare so well, however. Not only does the tax bill add to the likelihood that the Fed raises rates by more than the three times it expects to next year, but it will also add to the deficit, leading the government to sell more debt. The economy could look stronger in a year, but interest rates could be substantially higher.



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THE WALL STREET JOURNAL.
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The Year in Review: Stocks Hit New Highs, Defying Predictions

By Akane Otani
406 words
19 December 2017
The Wall Street Journal
J
A9
English

A global **stock-market** surge powered by corporate earnings and economic growth sent major indexes to repeated records this year, defying predictions that the rally would peter out.

At the start of 2017, a group of 18 Wall Street strategists expected the **S&P 500** would rise about 5.5% for the year on average, according to an analysis by Birinyi Associates. Instead, the popular investment vehicle has climbed 20% so far this year -- hitting record highs 53 times -- as profits have grown at companies ranging from computer-chip makers to bulldozer builders.

The **Dow Jones Industrial Average** has notched 70 record closes in 2017 so far -- the most records ever for the index in a calendar year -- as it soared 25%. Some stock indexes abroad have jumped even further, with shares in Hong Kong, South Korea and Brazil outpacing the gains of the **S&P 500**.

Investors have overcome declines linked to fiery rhetoric between the White House and North Korea, and early concerns about the prospects in Congress for tax cuts.

Meantime, economic growth has picked up around the world and the dollar has weakened, boosting earnings at many large multinational corporations based in the U.S.

Though the Federal Reserve has raised interest rates, it has done so at a gradual pace -- a boon for stock investors who say the still historically low rates justify buying shares that look pricey.

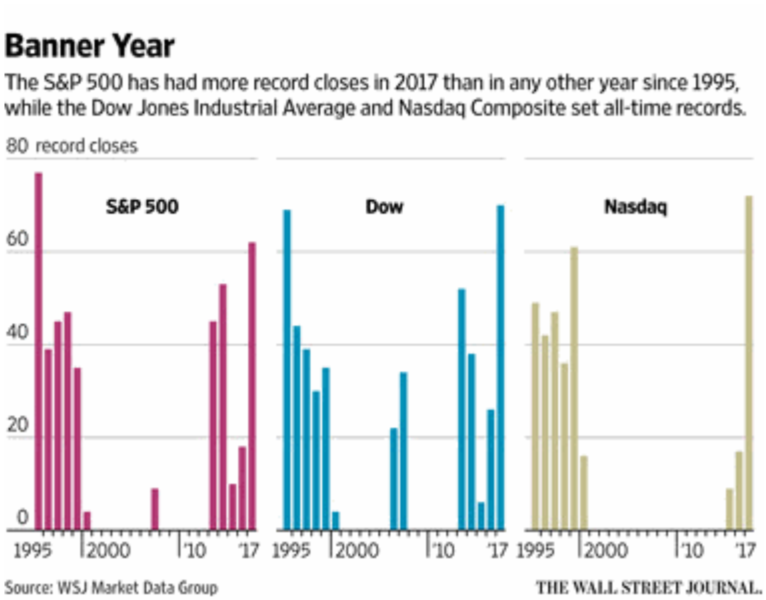
That backdrop has helped the **stock market** snap back from occasional pullbacks this year. The **S&P 500** is on track to go 66 weeks without having posted a 2% weekly drop -- the longest such stretch for the index since 1965. A measure of expected swings in the **S&P 500**, the CBOE**Volatility** Index, has plumbed record lows for much of the year.

Many investors and analysts say shares can't keep climbing at this pace in 2018.

"What I'm worried about is that things are so good that it's become the consensus expectation," said Dan Miller, director of equities at GW&K Investment Management.

Yet few see reasons for the eight-year **bull market** to end anytime soon.

"Plenty of news headlines, company-specific issues and geopolitical events have been 'serious' enough to alter this relative calm. But nothing has," said Frank Cappelleri, executive director of brokerage Instinet.



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Document J000000020171219edcj00023

THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Municipal Bonds Swing on Anxiety Over Bill's Impact

By Heather Gillers
820 words
19 December 2017
The Wall Street Journal
J
B10
English

December is typically the sleepiest month in an already sedate municipal-bond world. But this year the prospect of a new tax bill roused the market to records.

Municipalities issued $43 billion in new bonds through the first 15 days of December, the largest amount of government borrowing during that same period since 1990, according to Thomson Reuters. The total includes $8 billion of new bonds on Friday.

The flurry of new debt triggered a series of price swings that don't normally occur in such a placid market. Within an eight-day period in late November and early December, municipal-debt values hit their low and high points for the fourth quarter, according to the S&P Municipal Bond Index.

"It's been kind of raining munis," said James Iselin, head of the municipal fixed-income team at money manager Neuberger Berman.

The price **volatility** unfolded as Congress debated whether to do away with long-held tax exemptions on certain types of municipal bonds. Investors don't demand as much interest on these bonds because they don't have to pay taxes on their earnings. That lowers borrowing costs for citiesandstates as well as charter schools, museums, private universities, hospitals and nursing homes.

A final bill hammered out last week by House and Senate negotiators eliminates the exemption on advance refunding bonds, which cities and states use to refinance their old debt. The nonpartisan Joint Committee on Taxation estimates that move would mean an additional $17.3 billion in revenue to the federal government over the next decade.

Legislators decided to keep the exemption on private-activity bonds, which allow nonprofits and some for-profit firms to raise money for development projects perceived to have a public benefit. A prior House bill proposed eliminating that benefit altogether.

The full House and Senate are expected to vote on the final bill this week, and President Donald Trump is expected to sign the final version if it passes.

Borrowers and bond buyers began their scramble in November when Congress unveiled its first tax proposals. As issuance skyrocketed at the end of last month, municipal bonds reached their cheapest levels relative to 10-year Treasurys since 2015, according to Thomson Reuters Municipal Market Data.

Prices then rebounded as investors competed to buy up the new, cheap bonds. So far this month an average of $45 million in municipal-bond exchange-traded funds has changed hands daily, compared with $26 million in December of last year, according to a CreditSights analysis of Bloomberg data.

Even an announcement last Wednesday that the Federal Reserve would raise its benchmark federal-funds rate by a quarter percentage point didn't slacken demand. Rising interest rates tend to lower the price of outstanding municipal bonds that were issued in a lower rate environment.

"This may easily be the biggest December that we've ever seen when all is said and done in terms of new-issue volume," said Peter Hayes, head of the municipal group at BlackRock Inc. and a buyer of these bonds. "Usually we're known for more straight-line performance."

One reason for the demand is that many market participants expect municipal bonds to become more valuable in 2018 if governments pull back on new advance refunding bonds.

Even private-activity bonds, which will retain their tax-exempt benefit under the current bill, are likely to be scarce for the first few months of the year because so many borrowers rushed to market over the past six weeks.

One borrower whipsawed by the market movements was Forsyth County in Georgia. After Congress began its tax debates, county officials decided they would issue about $70 million in advance-refunding bonds used to refinance prior borrowings on parks and roads.

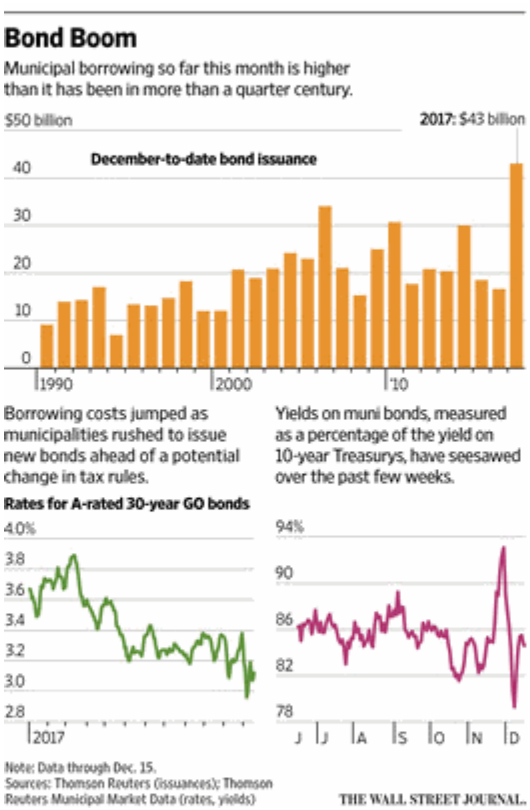
But when the county's documents were ready at the end of November, **bond prices** were lower and interest rates were higher. The county would gain little in savings, said Chief Financial Officer David Gruen, and decided to hold off.

When prices rose again this month, the county, its lawyers and underwriters changed their minds again. Mr. Gruen now expects to do the deal Wednesday if rates remain favorable.

"It is really been quite a roller-coaster ride," Mr. Gruen said.

One city, Portland, Ore., wasn't able to move fast enough. It wanted to move up an issuance of about $100 million in advance-refunding sewer bonds planned for April 2018, said debt manager Eric Johansen. But officials concluded they wouldn't be able to bring the borrowing measure before the city council and get ratings reports on the proposed bond issue from debt-ratings firms in time.

"If we had a little more time, we would," Mr. Johansen said. He said he remains hopeful that Congress will give governments a grace period.



Document J000000020171219edcj00032

The New York Times

Business/Financial Desk; SECTB

Tax Bill and Snack Deals Whet Appetites on Wall St.

By THE ASSOCIATED PRESS
739 words
19 December 2017
The New York Times
NYTF
Late Edition - Final
2
English

Stocks climbed again on Monday and set more records as investors grew more certain that congressional Republicans will pass their tax plan this week. Technology companies climbed, as did banks and retailers, which are likely to see lower taxes.

Stocks made hefty gains as Republicans appeared to shore up enough support to pass the bill, for which voting is scheduled to start on Tuesday. The biggest gains have gone to companies that pay relatively higher tax rates, including small United States-focused companies, banks and retailers.

''A lot of those companies don't have, or haven't taken advantage of, all of the nooks and crannies of the tax code,'' said Jason Pride, director of investment strategy at Glenmede. He said he thought the average company would get a roughly 4 percent increase in its profits, and a tax break on corporate investment could push companies to spend more money on equipment.

Deal news also helped put investors in a buying mood. Two major food companies agreed to buy smaller snack makers: Campbell Soup plans to purchase the pretzel maker Snyder's-Lance for $4.87 billion, and Hershey will buy Amplify Snack Brands for $1.2 billion.

The **Standard & Poor's 500**-**stockindex** gained 14.35 points, or 0.5 percent, to 2,690.16. The **Dow Jonesindustrial average** advanced 140.46 points, or 0.6 percent, to 24,792.20. The **Nasdaq composite** index traded above 7,000 for the first time but later slipped below that milestone. It rose 58.18 points, or 0.8 percent, to 6,994.76. The Russell 2000 index of smaller-company stocks climbed 18.50 points, or 1.2 percent, to 1,548.92.

Campbell Soup's deal to buy Snyder's-Lance for $50 a share will give Campbell a group of brands that includes Snyder's of Hanover pretzels, Kettle Brand chips and Pop Secret popcorn. Snyder's-Lance climbed $3.25, or 7 percent, to $50.04. It has surged more than 27 percent since Tuesday's close on reports of the bid. Campbell gained 7 cents to $49.66.

Hershey's agreement to buy Amplify Snack Brands for $12 a share will add brands like Skinny Pop popcorn, Tyrrells potato chips and Oatmega protein bars to the Hershey empire. Amplify went public in August 2015 at $18 a share but had fallen steadily for more than a year. On Monday it jumped $5.01, or 71.6 percent, to $12.01. Hershey added 12 cents to $114.26.

Financial companies including regional banks did well on Monday as investors anticipated the likely passage of Republicans' tax plan. Fifth Third Bancorp rose 44 cents, or 1.5 percent, to $30.47, and KeyCorp gained 40 cents, or 2 percent, to $20.16.

Among smaller companies, the wheel and tire supplier Titan International climbed $1.05, or 8.9 percent, to $12.84. The clothing retailer Abercrombie & Fitch rose $1.12, or 6.7 percent, to $17.83. And the lottery ticket maker Scientific Games advanced $1.25, or 2.5 percent, to $52.10.

Other leaders included technology companies. Apple gained $2.45, or 1.4 percent, to $176.42, another high. The cloud services provider Akamai Technologies leapt after Elliott Management, led by the activist investor Paul Singer, disclosed a 6.5 percent stake in the company and said it wanted to discuss changes to the company's business and other areas. Akamai climbed $7.91, or 13.7 percent, to $65.67.

Benchmark crude declined 14 cents to $57.16 a barrel in New York. Brent crude, used to price international oils, gained 21 cents to $63.44 a barrel in London.

Gold rose $7.90 to $1,262.20 an ounce. Silver added 14 cents to $16.21 an ounce. Copper picked up 1 cent to $3.15 a pound.

Bond prices dipped. The yield on the **10**-**year Treasury** note rose to 2.39 percent from 2.35 percent.

The dollar fell to 112.56 yen from 112.63 yen. The euro rose to $1.1784 from $1.1757.

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)

Document NYTF000020171219edcj00055

The New York Times

National Desk; SECTA
Republican Tax Cuts Would Benefit Some Industries More Than Others

By JIM TANKERSLEY and BEN CASSELMAN; Jim Tankersley reported from Washington and Ben Casselman from New York.
943 words
19 December 2017
The New York Times
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18
English

WASHINGTON -- The $1.5 trillion tax bill heading for a vote this week is a big win for corporations overall. But not every business benefits equally, with bigger cuts flowing to financial firms and the real estate industry than to manufacturers or mining companies, a new economic analysis finds.

The disparities illustrate the difficulty in tailoring tax cuts for two of the blue-collar industries that Mr. Trump frequently promises to invigorate through economic policy changes. That's in part because both mining and manufacturing companies already benefit from relatively low effective tax rates among Americans companies.

They also show how the tax plan is likely to shower benefits on the industry Mr. Trump built his fortune in -- and on the Wall Street firms he railed against and has promised would not benefit from the bill.

The findings come from economists at the Penn Wharton Budget Model at the University of Pennsylvania, who projected how the final tax bill would change the average effective tax rates of a variety of industries over time.

The legislation is expected to be put to a vote in the House as early as Tuesday and in the Senate on Wednesday. It would reduce the corporate tax rate to 21 percent, from the current top rate of 35 percent, and make a host of other changes to the way businesses are taxed.

Other analysts, particularly Wall Street firms, have begun estimating how specific industries would fare under the tax plan in the years ahead. On Monday, Goldman Sachs researchers said they expect the corporate cut in the tax bill to increase earnings-per-share by 13 percent on average for America's largest banks, with Wells Fargo standing to gain the most from the change.

The Penn Wharton economists found that it would reduce the average effective tax rate across industries to 9 percent next year, down from 21 percent under current law.

The cuts would boost some industries far more than others, in part because some sectors, like financial firms, pay higher effective tax rates than others, like manufacturing. Average effective rates are the tax rates that industries actually pay on profits after accounting for deductions and other tax breaks, as opposed to the statutory rate, which is set under law.

The study found that real estate firms would see a 16-point reduction in their effective rates next year, and financial firms would see a 12-point reduction. Mining companies would see a cut of just under 9 points. Manufacturers' rate would fall by less than 7 points.

"Some industries see smaller gains because they already benefit from so much preferential tax treatment," said Alexander Arnon, a researcher with the Penn Wharton Budget Model. "Manufacturing and natural resource extraction already have low effective tax rates under current law, and so there isn't much room for them to fall further."

The analysis projects that the bill will save financial firms $250 billion on corporate taxes over the next decade, a 35 percent cut from what otherwise would have been a $715 billion tax liability.

It projects manufacturers will save nearly the same amount, $261 billion. But that amounts to only a 22 percent cut, because that industry is larger than finance, and would have otherwise faced a $1.2 trillion liability over that time.

Financial firms start with a higher effective rate, and in the first few years would see a larger rate cut. In later years, though, manufacturers in particular fall prey to a pair of provisions phased in by Republicans.

One is the ability to immediately deduct the full cost of some capital investments, like heavy equipment and factories, which expires after five years. The other is a provision that effectively reduces the annual value of a tax credit for investments in research and development, which manufacturers utilize heavily.

Manufacturing lobbyists say they are **bullish** on the tax bill and plan to fight Congress in later years to ensure neither of those provisions take effect down the road.

Nearly 95 percent of respondents in a recent National Association of Manufacturers survey of its members said they were optimistic about their company's outlook, a record for the 20-year-old survey. More than three-fifths said approval of the tax bill would likely cause them to increase capital spending.

''Our members are very happy about the tax bill as it's written,'' said Chad Moutray, the association's chief economist. ''You wouldn't see that level of optimism if they didn't think this was something that's going to benefit them.''

Manufacturers currently enjoy one of the lowest effective tax rates of any industry, and they would continue to if the bill becomes law. Penn Wharton projects that manufacturers' effective rate would drop from 17.5 percent to 10.9 percent in 2018. But that number would rebound to 15.8 percent in 2027 if the law remains as written.

No other major industry would see its rate savings shrink so drastically. But, under the legislation, every industry would see its gains erode over time. The average effective tax rate across industries, the Penn Wharton researchers calculated, would fall by 12 percent in 2018 compared to current law.

By 2027, that cut would shrink to less than 5 percent.

A view of the New York Stock Exchange and Wall Street. The proposed tax bill would be a big win for financial and real estate firms. (PHOTOGRAPH BY NICOLE BENGIVENO/THE NEW YORK TIMES)

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THE WALL STREET JOURNAL.
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Santa Claus Rally Is Far From Sure Thing

By Ben Eisen
334 words
19 December 2017
The Wall Street Journal
J
B11
English

You better watch out: The Santa Claus rally may not be coming to town after all.

The venerable "Stock Trader's Almanac" says that Santa Claus "tends to come to Wall Street nearly ever year, bringing a short, sweet, respectable rally within the last five days of the year and the first two in January."

Over the past two decades, the **S&P 500** has been up 0.9% and the **Dow Jones Industrial Average** has climbed 0.7% on average over that period, according to The Wall Street Journal's Market Data Group. The tech-heavy **Nasdaq Composite** Index has been up 1.7% over those seven trading sessions, and the Russell 2000 index of small-cap stocks has risen 1.1%. Not bad for a short stretch when many people are out of the office anyway.

Some say this turn-of-the-year rally happens in part because people invest their Christmas bonuses around the end of the year. Others say it has to do with portfolio managers buying the best-performing stocks to make their portfolios look better before end-of-year statements go out.

Whatever the reasons, though, the rally has petered out a bit in recent years. Over the past decade, the S&P has risen a more muted 0.7% on average. During the last five years, the S&P has fallen 0.5%.

It is tough to know what will happen this time around. In the most recent five years, for example, the **S&P 500** has fallen twice and risen three times. But it bears watching if for no other reason than because the absence of the Santa rally has in the past preceded a **bear market**, or at least a pullback in stock prices.

Pay attention beginning on Friday to find out whether the **stock market** delivers gifts this year -- or just a lump of coal.

Document J000000020171219edcj0001d

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Trump's Vision: Economy Is Strength

By Michael C. Bender
412 words
19 December 2017
The Wall Street Journal
J
A4
English

WASHINGTON -- Declaring that "economic security is national security," President Donald Trump aimed to reframe a national debate over his domestic economic and trade policies by thrusting them into a national-security context.

"Economic vitality, growth and prosperity at home is absolutely necessary for American power and influence abroad," Mr. Trump said Monday as he unveiled his new national security strategy. "Any nation that trades away its prosperity for security will end up losing both."

Recounting a year of **stock-market** gains and unemployment-rate decreases, Mr. Trump alleged that his predecessors prioritized nation building abroad over economic growth at home. He said his new national security strategy -- released on Monday as mandated by Congress -- provided a needed contrast, and included plans for cutting taxes, rebuilding roads and bridges and building a wall along the U.S.-Mexico border.

The president also focused on a more-traditional definition of national security, including China and Russia in a list of threats he said included terrorist groups, transnational criminal networks and "rogue regimes," a phrase the president has used to describe North Korean leader Kim Jong Un.

From the campaign trail, China was a frequent target of blame from Mr. Trump for the decline in some manufacturing sectors. But in the White House, the president has backed away from some of that criticism as he has sought to tighten his bond with Chinese President Xi Jinping.

Mr. Trump also has maintained cordial relations with Russian President Vladimir Putin, prompting criticism from within his own party amid revelations of Russian tampering in the 2016 presidential election.

In the national security strategy, Mr. Trump portrayed China and Russia as dangerous rivals that have exploited attempts at engagement from previous administrations. On Monday, he referred to them as "rival powers" seeking to "challenge American influence and wealth." But in an indication of the fine line that the president is attempting to walk, he quickly pivoted to talk about cooperation.

"We will attempt to build a great partnership with those and other countries, but in a manner that always protects our national interest," Mr. Trump said.

The new strategy drew criticism from environmental groups such as Greenpeace for dropping any mention of climate change as a security threat. The American Civil Liberties Union said Mr. Trump made only "empty references" to human rights and the rule of law.

Document J000000020171219edcj00018

![The New York Times]

U.S.; Politics
Trump Delivers a Mixed Message on His National Security Approach

By MARK LANDLER and DAVID E. SANGER
1,534 words
18 December 2017
05:00 AM
NYTimes.com Feed
NYTFEED
English

WASHINGTON — President Trump presented a blueprint for the country's national security on Monday that warns of a treacherous world in which the United States faces rising threats from an emboldened Russia and China, as well as from what it calls rogue governments, like North Korea and Iran.

To fend off these multiple challenges, the report says with Cold War urgency, the government must put "America First," fortifying its borders, ripping up unfair trade agreements and rebuilding its military might.

But in his speech announcing the strategy, Mr. Trump struck a much different tone. Instead of explaining the nature of these threats, he delivered a campaignlike address, with familiar calls to build a wall along the southern border with Mexico and a heavy dose of self-congratulation for the **bull market**, the low jobless rate and tax cuts, which, he promised, were "days away."

"America is in the game, and America is going to win," he said, to an audience that included cabinet members and military officers.

The disconnect between the president's speech and the analysis in his administration's document attests to the broader challenge his national security advisers have faced, as they have struggled to develop an intellectual framework that encompasses Mr. Trump's unpredictable, domestically driven and Twitter-fueled approach to foreign policy. The same confusion has confronted foreign governments trying to understand Mr. Trump's conflicting signals.

Mr. Trump, for example, spoke of how Russia and China "seek to challenge American influence, values and wealth." But he made no mention of Russian interference in the 2016 presidential election, even though the document itself makes fleeting reference to "Russia using tools in an attempt to undermine the legitimacy of democracies."

Indeed, Mr. Trump preferred to focus on a Sunday phone call from President Vladimir V. Putin of Russia, who thanked him for intelligence that the C.I.A. had passed on to Russian authorities, which Mr. Trump said foiled a terrorist attack in St. Petersburg that could have killed thousands of people.

"That's a great thing," he said, "And the way it's supposed to work."

Outlining a national security strategy is mandated by Congress, but Mr. Trump broke with his two most recent predecessors, Presidents Barack Obama and George W. Bush, in announcing one himself. His aides said that reflected his enthusiastic approval of the exercise, and that the Trump administration published its strategy months earlier than either the Bush or Obama administrations.

The strategy — which administration officials said was drawn from speeches that Mr. Trump had delivered during the 2016 campaign and as president while at the United Nations and on trips in Europe and Asia — ranges widely and includes jihadi extremism, space exploration, nuclear proliferation and pandemics. But it is animated by a single idea: that the world has been on a three-decade holiday from superpower rivalry; and it suggests that that holiday is now over.

"After being dismissed as a phenomenon of an earlier century, great power competition returned," the document says. China and Russia, it says, "are determined to make economies less free and less fair, to grow their militaries, and to control information and data to repress their societies and expand their influence."

The document's call to push back against China on trade is familiar from the campaign, but its description of the challenge posed by Russia seems at odds with Mr. Trump's own refusal to criticize Mr. Putin for his seizure of Crimea, his efforts to destabilize Ukraine and his violations of a key nuclear treaty with the United States.

While Mr. Obama's two national security strategies emphasized cooperation with allies and economic partners, Mr. Trump's strategy attempts to walk the line between his campaign slogan of "America First" and an insistence that he is not rejecting working with American partners — as long as they do so on terms advantageous to the United States.

Mr. Trump's strategy contains more than a few hints of a return to a Cold War view of the world. Mr. Obama used his strategies to de-emphasize nuclear weapons as a key to American defense, but Mr. Trump calls those weapons "the foundation of our strategy to preserve peace and stability by deterring aggression against the United States."

The national security strategies of past administrations were sometimes strong predictors of future action: It was Mr. Bush's 2002 strategy that revived a national debate about the justifications for pre-emptive military action. And it helped frame the rationale for the invasion of Iraq six months later, arguing that the risks of inaction in the face of a major threat made "a compelling case for taking anticipatory actions to defend ourselves."

The new strategy never uses the word "pre-emption," including in its discussion of North Korea. This omission comes despite the fact that Mr. Trump's national security adviser, Lt. Gen. H. R. McMaster, has said that if diplomacy and sanctions fail, "preventive war," or a pre-emptive strike, might be needed to keep the North from attacking the United States.

Mr. Obama viewed China as a potential partner in confronting global threats, from Iran's and North Korea's nuclear programs to climate change, although he was critical of it on human rights issues.

Mr. Trump defines China as a "revisionist" power, reflecting the administration's worry that Beijing is trying to rewrite the rules of the post-World War II order to match its own economic interests and global ambitions. (Russia is also described as revisionist, though it does not have China's economic reach or influence.)

The Trump administration's language suggests it will push back hard on China's state-driven economic practices and expansionist claims in the South China Sea, while not challenging it on rights issues.

Mr. Trump has tried working with China to curb North Korea's nuclear and missile programs, even setting aside his America First trade agenda in an effort to persuade President Xi Jinping to put more economic pressure on the government of Kim Jong-un. But the document suggests a return to his campaign promises, and states explicitly that "the United States will no longer turn a blind eye to violations, cheating or economic aggression."

Another section refers to preserving the "national security innovation base," at a moment that the administration is considering steps to keep China from investing in promising American technology.

In another shift from his predecessor, Mr. Trump's strategy does not recognize the changing climate as a threat to national security. The document instead places climate under a section on embracing "energy dominance," and says that while "climate policies will continue to shape the global energy system," American leadership will be "indispensable to countering an anti-growth energy agenda."

That puts it at odds with the Pentagon, which has continued to highlight national security threats from a changing climate, including refugee flows as a result of droughts and intensifying storms and the repercussions of rising sea waters.

In describing the use of cyberattacks against the United States, the document described the problems facing the nation rather than prescribing solutions. It refers to cyberweapons as a new threat because they can strike "without ever physically crossing our borders."

"Deterrence today is significantly more complex to achieve than during the Cold War," the document reads, saying a mix of inexpensive weapons and "the use of cybertools have allowed state and nonstate competitors to harm the United States across various domains."

But the document deals with the subject at some remove, not dwelling on how Russia used cybertechniques in an attempt to interfere with the 2016 election. And it does nothing to describe any broad national strategy to guard against meddling in future elections.

Some foreign policy experts praised the report for its vigorous tone.

“It’s a robust statement of U.S. leadership on the world stage,” said Nile Gardiner, the director of the Margaret Thatcher Center for Freedom at the Heritage Foundation. “It’s a rejection of isolationism.”

Others, however, said the disjunction between Mr. Trump and his national security team raised questions about how relevant the strategy would be.

“Who does it represent? What does it represent? How seriously should we take it?” asked Richard N. Haass, who served in the State Department during the George W. Bush administration and is now the president of the Council on Foreign Relations.

“In my experience, national security strategies have a fairly short shelf life,” Mr. Haass added. “This administration will face that reality — and then some.”

* Trump Says Putin ‘Means It’ About Not Meddling

* Why Trump’s Budding Bromance With Xi Is Doomed

A portion of a draft of the Trump administration’s national security plan. | China’s man-made Subi Reef in the South China Sea, as seen from a Philippine Air Force plane in April. | Bullit Marquez/Associated Press | A portion of a draft of the Trump administration’s national security plan. | In an address on Monday in Washington, President Trump said his national security strategy will advance four vital United States interests. | By ASSOCIATED PRESS

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THE WALL STREET JOURNAL.
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CME Launches Bitcoin Futures --- Exchange giant moves into hot area after its smaller rival Cboe debuts similar offering

By Alexander Osipovich and Gunjan Banerji
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The world's largest exchange company launched bitcoin futures on Sunday, seeking to capitalize on the mania for the booming digital currency.

Chicago-based CME Group Inc. began trading bitcoin futures at 6 p.m. Eastern Time. The first contract for January expiration surged nearly 6% to $20,650 in the first trade but dropped to $18,760 after several hours of trading.

Bitcoin itself tumbled after the futures began trading. At about 9 p.m. Eastern Time, it was at $18,576.53, according to CoinDesk, after having approached the $20,000 mark earlier Sunday.

CME's launch came one week after its smaller rival, Cboe Global Markets Inc., launched a similar contract. Cboe's futures sputtered in their initial week, creating an opening for CME.

Bitcoin has soared around 1,800% this year -- an extraordinary run-up that has lured investors world-wide. Futures on bitcoin allow traders to bet on whether its price will rise or fall, and they offer Wall Street firms a way to trade it on well-known, regulated markets.

Volumes on Cboe's bitcoin futures have dropped off precipitously since Dec. 11. After more than 4,100 contracts changed hands on the first day of trading, volume averaged around 1,640 contracts the rest of the week -- a 60% slide. Cboe said its volumes are healthy for a brand-new product and expects them to pick up.

CME's launch went more smoothly in the early hours of trading than Cboe's, said Bobby Cho, head of over-the-counter trading at Cumberland, the cryptocurrency unit of Chicago trading firm DRW Holdings LLC.

Mr. Cho noted there was less of a gap between the price of CME's futures and the price of bitcoin, which indicated there were more big traders ironing out anomalies between the two markets. The spread between CME's main January contract and the CoinDesk price of bitcoin narrowed from more than $1,200 to less than $400 in the first two hours of trading.

"It definitely felt like there were more market participants ready for the CME launch than there were for Cboe," Mr. Cho said.

Compared with Cboe's bitcoin futures, CME's offering may appeal more to hedge funds and big financial firms and less to retail investors, some traders said. That is because of its larger size; each CME contract represents five bitcoins, whereas Cboe's represents just one. That means it will require more cash upfront to trade the CME contract.

But CME still faces many of the same hurdles as Cboe, including a reluctance by many banks and futures brokerages to touch the notoriously **volatile** cryptocurrency.

Conceived as a purely digital currency not backed by any government, bitcoin has gone from a curiosity beloved by libertarians and software geeks to a mainstream investing fad. But skeptics call it a bubble, and its reputation remains clouded by its association with money laundering and other illicit activity.

CME's heft and close ties to big trading firms could give it an edge over Cboe. But some of the largest banks and brokerages won't be providing their customers with access to CME's bitcoin futures, potentially putting a damper on trading activity.

JPMorgan Chase & Co., Royal Bank of Canada, Societe Generale SA and UBS Group AG didn't plan to offer their customers access to CME bitcoin futures initially, although they are monitoring the situation and could rethink their stance later, people familiar with the situation said. The same banks sat on the sidelines for Cboe's launch, according to the people.

All of them are so-called clearing firms at CME, meaning that they sit between the exchange and traders and help move cash from market participants with losing bets to those whose bets pay off. Bitcoin futures are risky for clearing firms because the extreme **volatility** of the cryptocurrency increases the odds of traders being unable to cover their losses. If that happens, the clearing firm itself can suffer losses.

"A lot of clearing firms were very nervous about this launch. They throttled back the risk quite a bit," said Joe Van Hecke, a trader at Grace Hall Trading.

Goldman Sachs Group Inc. and ABN Amro Group are clearing both CME and Cboe bitcoin futures but only for certain clients, representatives of the banks said.

Interactive Brokers Group Inc., a clearing firm and online brokerage, is offering access to both CME and Cboe bitcoin futures. In a disclosure form, it warns customers that trading bitcoin futures is "especially risky" and "there may be no fundamental or economic basis for valuation of Bitcoins and their prices may move randomly."

Popular retail brokerages Charles Schwab Corp. and TD Ameritrade Holding Corp. said they were studying CME's bitcoin futures but wouldn't be allowing customers to trade them at launch. TD Ameritrade will enable trading of Cboe's futures starting Monday, a spokeswoman said.

Ally Invest, the online brokerage arm of Ally Financial Inc., said earlier this month that it would give its customers access to CME bitcoin futures "on day one," but on Thursday, an Ally spokeswoman said the firm was evaluating the situation and "cannot confirm the timing of availability to our customers."

A CME spokeswoman said a number of trading firms were ready to support its new bitcoin futures at launch.

Bitcoin's price swings led CME to rein in the riskiness of its new contract. Last Tuesday, citing a "normal review of market **volatility**," CME raised the so-called initial margin requirement for its bitcoin futures to as much as 47% of the value of a contract for speculative traders, from 35% earlier.

That means such traders will need to deposit cash worth nearly half the value of the contract to place bets, effectively limiting the size of the bets they can place. By comparison, initial margin for CME's main oil futures contract is about 4%.

Alison Sider and Emily Glazer contributed to this article.

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Heard on the Street
Bank Stocks Can Fight the Fed, for Now

By Aaron Back
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[Financial Analysis and Commentary]

At some point, higher interest rates may become a negative for banks, but not for a while.

The Federal Reserve has been steadily raising short-term rates even as long-term rates have barely budged. The result has been a flattening of the yield curve, which conventional wisdom says should be strongly negative for banks. Banks make money by taking short-term deposits and extending longer-term loans, the reasoning goes. So when short-term interest rates are rising and long-term rates aren't, it ought to squeeze bank margins.

The most closely watched gauge of the curve is the spread between two-year and 10-year Treasurys. This year, the spread has more than halved from 1.23 percentage points to just 0.56 percentage point.

Yet over this time bank stocks have performed well, with the KBW **Nasdaq** Bank index rising 16%, including 8% in the past month as the spread fell further.

This recent outperformance could be partly due to excitement over the tax overhaul, which will cut banks' relatively high tax rates. But it also points to an important and little understood point: The yield curve's steepness simply doesn't matter as much for banks as many investors think, at least under present conditions.

Indeed, despite the flattening of the yield curve, banks' net interest margins have risen to 3.3 percentage points on average for all banks in the third quarter from 3.16 in the fourth quarter of 2016, according to data from the Federal Deposit Insurance Corp.

There are two reasons: First, many bank loans, including most consumer and business loans, are priced off short-term benchmarks like Libor, not long-term ones. This means they generally adjust upward when the Fed raises rates. Other important lending rates are going up, too. On Thursday, the prime rate, a key benchmark for credit card and other loans, rose a quarter point to 4.5%.

The second reason is that deposit rates have been very slow to adjust upward, particularly at big banks in big markets. JPMorgan Chase, for instance, is currently offering just 0.01% on ordinary savings accounts in the New York metro area, according to Bankrate.com, compared with a national average of 0.25%.

Analysts at Keefe, Bruyette and Woods estimate that just 15% of the total increase in the Fed's benchmark rate so far in 2017 has filtered through to deposit rates for the median bank. They figure this pass-through rate will rise to 34% next year, but low enough that Fed rate increases still will be a net positive for most banks.

At least for the next few rate increases, holders of bank stocks will have cause for good cheer.

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The New York Times

ECONOMIC VIEW
Money and Business/Financial Desk; SECTBU
What Is Bitcoin Really Worth? Don't Even Ask

By ROBERT J. SHILLER
1,062 words
17 December 2017
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Late Edition - Final
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English

Dabbling in Bitcoin lies somewhere between gambling and investing.

After all, true investing requires a rational appraisal of an asset's value and that is simply not possible at present with Bitcoin. Real understanding of the economic issues underlying the cryptocurrency is almost nonexistent.

It is not just that very few people really comprehend the technology behind Bitcoin. It is that no one can attach objective probabilities to the various possible outcomes of the current Bitcoin enthusiasm.

How can we even start estimating the fundamental value of Bitcoin, with its astonishing market value of more than $275 billion? Any attempt will soon sound silly.

Let's try for just a moment. It is possible to imagine a future in which Bitcoin eventually replaces some fraction of money as we know it today. Suppose that happens soon. Note that one measure of the United States money supply, M1, is today worth more than $3.6 trillion.

But don't get too excited.

Will Bitcoin really replace a large fraction of conventional money? There are reasons to be skeptical. Bitcoin is vastly more **volatile** than conventional money and relatively few people trust it as a store of value. Even if that hurdle is crossed, how much cryptocurrency will people need?

Putting it in economic terms, will the demand for Bitcoin have the same velocity as the demand for money? Will there be the same number of hoarders? And what about all the other cryptocurrencies that exist today, and those that will arise in the future? Bitcoin might well be replaced by something different and better, and end up being worth nothing at all.

I won't go further down this road. Many people are making analogous attempts to put a fundamental value on Bitcoin -- but such efforts will be intrinsically and absurdly inaccurate. The results of a serious attempt to assess the value of Bitcoin can only be ambiguous.

Ambiguity in economics is an important and developing subject.

Many academic economists still embrace the efficient markets theory: the belief that markets generally respond accurately to genuine new information about fundamentals, and react only to such information. But Bitcoin is an example of ambiguity, and the efficient market theory does not capture what is going on in the market for this cryptocurrency. There has not been enough genuine new information coming in day after day to rationally justify Bitcoin's huge price swings. Something else is afoot.

One narrative that seeks to explain the price increases this year is that they have something to do with the difficulty of betting against -- making short sales of -- Bitcoin. Absent the opportunity to engage in short sales, ''smart money'' can only watch from the sidelines while prices soar. Or so the efficient market theory claims.

But pessimistic investors hoping to profit from a Bitcoin price fall actually have had the opportunity to make negative investments for a while. Bitcoin exchanges such as Bitfinex allow shorting of Bitcoins, and it is possible to short Bitcoin-linked exchange-traded notes on online brokerages like the Bitcoin Investment Trust, GBTC. Both of these options suffer from lack of liquidity and of trust in these new institutions; GBTC has not tracked Bitcoin prices accurately, for example. Still, if enough people had managed to take a short position, that might have helped to limit the increases in Bitcoin prices that we have seen.

It is possible that the Bitcoin market will change in a meaningful way now, given the decision of Cboe, the Chicago Board Options Exchange, to start a Bitcoin futures market on Dec. 10 and of the CME Group to do so on Dec. 18. The academic literature tells us that **volatility** of an underlying asset often falls after the establishment of new futures markets for it. But the ability to short an asset more easily won't necessarily overcome the power of investor excitement.

In 1936, John Maynard Keynes suggested why. He played down the role of quantitative analysis and probability estimates in human thinking of the assessment of ambiguous future events. People in such situations are vulnerable to a play of emotions and at times a "spontaneous urge to action" that he called "animal spirits." He argued that much of what happens in **financial markets** has to do with people learning, from price movements, about each other's animal spirits.

I believe that Mr. Keynes was correct about animal spirits in general and how they affect markets like the one for Bitcoin. George Akerlof and I expanded on his perspective in our 2009 book Animal Spirits, which argued that the driving force behind human enterprise cannot be reduced to the rational optimization emphasized by traditional economics. Darwinian evolution produced a human species whose behavior sometimes seems to be emotionally driven.

Neuroscientists, psychologists and economists are leading us toward new models of human decision-making. They may help to explain phenomena like the Bitcoin price rise.

Scott Huettel, a Duke neurologist, and other researchers showed in 2006, for example, that when making decisions involving ambiguity, people do not use the parts of the brain required for calculations of probabilities and expected values. And the economists Anat Bracha of the Boston Federal Reserve and Donald Brown of Yale have provided an alternative to conventional economic theory of human behavior under uncertainty. They define a different kind of rationality -- one based on Mr. Keynes' views, not on calculations of utility -- in ambiguous situations.

Furthermore, a paper by neuroscientists including Benjamin Lu that was presented at the Society for Neuroeconomics annual convention in Toronto in October, showed that psychologically stressful experiences can result in changes in neurological processes when ambiguous situations arise.

In short, the Bitcoin market is a marvelous case study in ambiguity and animal spirits. It is providing invaluable information about how millions of human brains process stimuli coming, in this case, from public acceptance, imagination, and innovation surrounding cryptocurrencies.

This is fascinating from a psychological and neurological perspective. But it isn't grounded in solid economics. No wonder the Bitcoin market has been so chaotic.

Robert J. Shiller, Sterling Professor of Economics at Yale, is an adviser to the Chicago Mercantile Exchange, part of the CME Group. These are his views, not those of the exchange.

DRAWING (DRAWING BY MICHAEL WARAKSA)

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Heard on the Street
Gauging the Value of a Tax Cut

By Justin Lahart
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[Financial Analysis and Commentary]

Businesses stand to get a profit windfall from the Republican tax bill, but after this year's **stock market** rally, the gains won't make their shares look cheap.

Stocks have risen sharply this year, and valuations have become stretched as a result.

After climbing 19%, the **S&P 500** now trades at 18.4 times expected earnings versus a forward price/earnings ratio of 16.8 at the outset of the year, according to FactSet.

That is the richest it has been in 15 years. The cyclically adjusted P/E ratio popularized by economist Robert Shiller stands at 32.3, a level only exceeded just before the 1929 crash and during the dot-com bubble.

But this year's **stock market** gains have been based in part on an expectation that congressional Republicans and President Donald Trump would pass a significant corporate tax cut.

With House and Senate Republicans on Friday releasing the final version of the tax bill, passage appears certain.

The question now is how much of the profit windfall has already been priced into the market.

In a preliminary analysis of the tax plan's effect, based on the tax plans the House and Senate separately passed last month, Goldman Sachs Group strategists found that **S&P 500** profits would get a 5% boost. The final tax plan doesn't appear quite so generous -- the corporate tax rate is set at 21% rather than the 20% congressional Republicans initially aimed for -- but a ballpark figure of 5% still seems reasonable.

While investors have priced in at least some portion of a tax cut into stocks, analysts don't appear to have incorporated the profit gains into their estimates for 2018 earnings. A 5% boost in earnings would lower the forward P/E ratio to 17.6, making the market slightly cheaper than it is today. (The forward P/E includes this year's fourth quarter, which will be unaffected by the tax cut.) That is still above where it was at the start of the year, when stocks were already looking expensive.

Make the same 5% adjustment to Mr. Shiller's measure, and it falls to 30.8, still lagging behind only the period before the 1929 crash and during the dot-com bubble.

Of course, it is possible that the tax plan boosts economic growth, which would add more oomph to earnings than is readily apparent.

As for Mr. Shiller's measure, it may be elevated, in part, for technical reasons, making stocks appear somewhat more expensive than they actually are.

Still, stocks are finishing the year with steep valuations. The only way the market can go higher in 2018 will be if earnings surge or if valuations go steeper still.

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The New York Times

Business/Financial Desk; SECTB
Technology Companies Lead Stocks to Milestones as Tax Plan Advances

By THE ASSOCIATED PRESS
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NYTF
Late Edition - Final
6
English

Wall Street capped the week with broad gains, propelling the major stock indexes to a new set of milestones on Friday.

Investors welcomed signs that congressional Republicans were solidifying support for a major overhaul of the nation's tax laws ahead of an expected vote next week.

Technology stocks led the gains, which more than wiped out the market's losses from the day before. Health care companies and banks also posted solid gains. Energy stocks were the only laggard.

Small-company stocks, which stand to benefit most from lower corporate tax rates, rose more than the rest of the market.

''The tax bill seems to be the driver right now,'' said Erik Davidson, chief investment officer at Wells Fargo Private Bank. ''The market just thinks it will get done.''

The **Standard & Poor**'**s500 index** rose 23.80 points, or 0.9 percent, to 2,675.81. The **Dow Jonesindustrial average** gained 143.08 points, or 0.6 percent, to 24,651.74. The **Nasdaq** added 80.06 points, or 1.2 percent, to 6,936.58. The Russell 2000 index of smaller-company stocks picked up 23.47 points, or 1.6 percent, to 1,530.42.

The Dow, **S**.**&P**. **500** and **Nasdaq** closed at record highs and finished the week with gains.

Technology stocks, which are leading the market this year, notched solid gains. Intel rose $1.30, or 3 percent, to $44.56.

Banks and other financial companies were among the biggest gainers. Navient added 58 cents, or 4.6 percent, to $13.20.

A batch of strong company earnings and outlooks also helped lift the markets Friday.

Costco Wholesale rose 3.3 percent after the warehouse club operator's latest quarterly earnings and sales came in well above financial analysts' expectations. The stock added $6.20 to $192.73.

Oil futures finished mixed. Benchmark United States crude rose 26 cents to settle at $57.30 a barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, fell 8 cents to close at $63.23 per barrel in London.

Gold added 50 cents to $1,254.30 an ounce. Silver added 13 cents to $15.98 an ounce. Copper gained 6 cents, or 2 percent, to $3.11 a pound.

The dollar rose to 112.63 yen from 112.18 yen on Thursday. The euro weakened to $1.1757 from $1.1792.

Bitcoin futures finished its first week of trading on the Cboe Futures Exchange on a high note, climbing $1,305, or 7.8 percent, to $18,105.

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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Business Day

Charities' Fear Under Tax Bill: Billions Less to Help the Needy

By ANN CARRNS
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15 December 2017
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Even before congressional Republicans finalized their tax bill, charities were worried.

The final legislation roughly doubles the standard tax deduction, to $12,000 for individuals and $24,000 for couples. A higher standard deduction means fewer taxpayers will itemize their deductions on their tax returns, reducing the incentive to give to charities. Currently, only taxpayers who itemize — meaning, they detail gifts to charity and other spending on their returns — may deduct contributions.

"The nonprofit sector is alarmed," said Michael Thatcher, chief executive of Charity Navigator, a charity rating website. The change in the standard deduction is "the biggest cause of concern," he said.

Estimates of the impact from an increase in the standard deduction vary. According to the Tax Policy Center, more than 46 million filers would be expected to itemize in 2018 under current law, but that number would drop to under 20 million.

"For charities who serve families in need, the projected declines in giving will devastate our ability to provide food assistance," said Diana Aviv, chief executive of Feeding America, a network of food banks.

For many charities, 2017 is shaping up to be a good one for fund-raising, as the economy hums along and the **stock market** booms. The United Way of Greater St. Louis, for instance, which serves Missouri and Illinois, expects top donors to contribute 6 percent more than what they gave in 2016, said Orvin Kimbrough, the group's president and chief executive.

But the future is cloudy under the new tax regime. The group estimates a potential drop in taxpayer giving to charities of $169 million annually in Missouri and $431 million in Illinois, under the new tax law. "That's a lot of money," Mr. Kimbrough said. "This is about people's lives."

One short-term bright spot: Donors, uncertain about whether they can deduct a contribution next year, may be more generous this year, giving nonprofit groups a bump in 2017 fund-raising.

Some fund-raisers are asking donors to consider doing just that.

The Greater Milwaukee Foundation, which makes grants to support community and civic groups, sent an email to donors explicitly noting the effect of the tax overhaul. "If you are a taxpayer who itemizes," the email said in part, "it probably makes sense to accelerate some charitable contributions into 2017 to get a larger income tax deduction this year."

Ellen Gilligan, the foundation's chief executive, said the federal tax legislation moved so quickly that many donors were unaware of its provisions and how it might affect their taxes. Many have been appreciative of the notice, she said, and some have accelerated their contributions to the foundation's donor-advised funds. (Donor-advised funds allow people to make contributions and take a tax deduction, while designating a choice of gift recipient at a later date.)

Ms. Gilligan said the foundation has an endowment and doesn't expect its grant programs to be significantly affected in 2018, but there is concern about the longer-term impact of the tax change. "Eliminating the tax incentive," she said, "has the potential to have a very negative impact on charitable giving."

United Way Worldwide, ranked the largest charity in 2017 by donations by Forbes, is recommending that its community-based affiliates contact important contributors to highlight the changes that are coming, said Steve Taylor, the charity's vice president of public policy. United Way Worldwide provides leadership and support to its network of groups across the country. "We've been urging them to reach out to big donors and talk to them about tax reform," he said. Typically, the local United Way chief executive or head fund-raiser has a personal relationship with important donors, he said, and will talk by phone. ("My donors," said Mr. Kimbrough of the United Way of Greater St. Louis, "have my cellphone.")

Some 26,000 to 28,000 major donors nationally give a total of about $500 million a year to United Way, in gifts of $10,000 or more, Mr. Taylor said. Some of those donors may be affected by the change in the standard deduction. Donors give for altruistic reasons as well as tax breaks, Mr. Taylor said, but the increase in the standard deduction is expected to have an impact.

"They'll still give," Mr. Taylor said. "But they're going to give less."

(Millions of smaller donors, who make pledges to the United Way through workplace contribution programs, average gifts of $150 a year. They have already made their elections for next year's donations.)

Major donors are often concerned about stability, Mr. Kimbrough said. So they may structure gifts to donate more this year and receive a larger deduction, but space out the funds for spending over several years to help smooth out any budget gaps.

Elie Hassenfeld, co-founder and executive director of GiveWell, a nonprofit organization that recommends a handful of charities, said nonprofits are in a "zone of uncertainty." But the group has frequent one-on-one conversations with its donors, he said, and is raising the issue of tax reform with them. The message? "You should be thinking about the possibility that your desire to deduct is going change from this year into the future," he said.

Eileen Heisman, chief executive of the National Philanthropic Trust, which oversees donor-advised funds, said the trust is seeing some larger gifts this season. "People would rather gift when they know what their tax benefit is going to be," she said.

"One thing is very consistent," she said. "When there's a threat, donors will front load, and we're expecting that this year."

Some donors may be waiting to see the final bill approved by President Trump before making a decision about the size of their donations. So the usual burst of last-minute giving at the end of the year may be even more intense this year, said Pam Norley, president of Fidelity Charitable, a big donor-advised fund.

But not all donors have the wherewithal to double their contributions on short notice, said Michael Kenyon, chief executive of the National Association of Charitable Gift Planners. "A lot of people don't have the opportunity to give more now," he said. That probably means, he said, that nonprofit groups are unlikely to recoup enough in donations this year to make up for what they will lose next year and beyond.

"The honest answer is we don't know how many people who donate to Direct Relief are motivated by deductibility," said Thomas Tighe, chief executive of the group, which specializes in disaster relief. "It's some cause for concern, but we don't feel there's anything we can do about it other than wait and see and hope people still see value in making a contribution."

Minh Uong/The New York Times

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THE WALL STREET JOURNAL.
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U.S. News: Holiday Spending Tops Forecast

By Sharon Nunn
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English

Americans are spending more than expected this holiday season, fueled by income gains, confidence in the economic outlook, buoyant **financial markets** and modest inflation.

The boost includes in-store and online spending at brick-and-mortar retailers such as Wal-Mart Stores Inc. and Nordstrom Inc., which clocked the largest year-over-year November sales increase in seven years. Home-furnishing stores and electronics-and-appliance stores also logged strong spending numbers, despite competition from online-shopping websites, which also posted robust gains.

"It's an impressive start to the holiday season and probably the best in the last few years," said Jack Kleinhenz, chief economist at the National Retail Federation, a group that represents retail stores. "When you put the pieces together, job and wage gains, modest inflation, healthy balance sheet and elevated consumer confidence . . . there's an improved willingness to spend."

Altogether, sales at online retailers, brick-and-mortar stores and restaurants rose 0.8% in November from the prior month, well above the 0.3% increase economists surveyed by The Wall Street Journal had expected. That was up 5.8% from a year earlier, the largest yearly November increase since 2011. Despite their woes from online competition, general merchandisers such as department stores fared well, registering a 3.6% sales increase from a year earlier, the best November performance since 2010.

"Overall these data are much stronger than expected," said Ian Shepherdson, an economist at Pantheon Macroeconomics, in a note to clients. "People have the inclination and the wherewithal to continue spending at a robust pace."

Taken altogether, the data suggest the U.S. is on track for robust growth in the fourth quarter. Macroeconomic Advisers, a forecasting firm, estimated the economy is growing at a 2.8% annual pace in the October-to-December period, up from a 2.6% forecast before the retail-data release. The Federal Reserve Bank of Atlanta estimated a 3.3% growth rate.

One caveat: Spending is so strong it is outpacing income gains, meaning Americans are saving at a slower rate, which could lead to a spending slowdown later or the threat of rising debt levels.

Spending comparisons to last year were boosted by a weak holiday season in 2016 for retailers, which were plagued by high inventories and a slowdown in purchases by international tourists amid a rising dollar.

This year, some brick-and-mortar stores appear to be better managing their inventory. In their most recent quarter, both Macy's Inc. and Kohl's Corp. said their stores had less excess merchandise to clear out at steeply reduced prices. "We don't have the albatross of a lot of extra inventory like we did last year," Macy's Chief Executive Jeff Gennette said in an interview on Black Friday. That, in turn, resulted in less discounting, Mr. Gennette said.

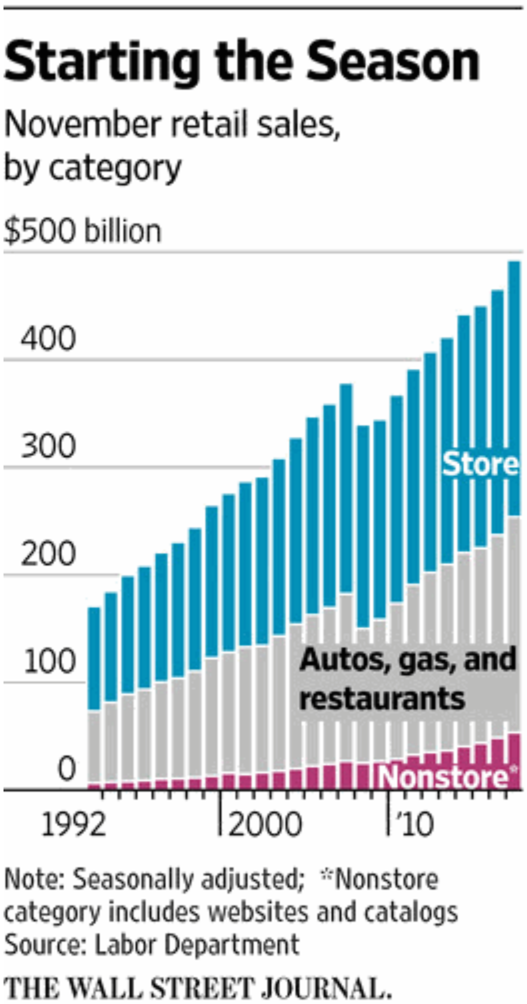
Mr. Kleinhenz said increasingly sophisticated website and app advertising is helping brick-and-mortar retailers too. "It's a combined strategy that retailers have developed that integrates the use of the internet with the brick-and-mortar shopping approach," he said.

Since Nov. 1, online revenue has risen 24% compared with the same period last year, said Slice Intelligence, a research firm that tracks online purchase receipts. Online sales at Target Corp., Kohl's Corp. and Costco Wholesale Corp. rose the fastest, the firm said, though Amazon continued to grow rapidly from a larger sales base.

Some businesses, meanwhile, are feeling a boost from the stronger labor market. Pete Benck, owner of Madison, Wis.-based vintage clothing store Good Style Shop, said this holiday season's business has been stronger than last year's.

"We have had a lot of foot traffic, and I think there's a lot of confidence in our consumers lately," Mr. Benck said.

Sarah Nassauer contributed to this article.



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THE WALL STREET JOURNAL.
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Banking & Finance: Pimco Goes Small to Get Big in Alternative Investments

By Justin Baer and Peter Rudegeair
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B13
English

Pacific Investment Management Co. is betting smaller investors can help propel the bond manager's big push into private equity, debt and real estate. That is a surprising twist given those markets are usually reserved for pension plans and wealthy families.

The bond manager will launch an online platform allowing financial advisers to pool client money in feeder funds that in turn will invest in Pimco's lineup of these alternative investments. The firm's alternative funds, which range from private equity to real estate, ordinarily have a minimum investment of $5 million. Through the platform, clients may invest as little as $100,000, Pimco said.

Pimco joined with Artivest Holdings Inc., a six-year-old financial-technology startup backed by KKR & Co. and Peter Thiel, to build and run the platform. The firm will launch the portal early next year.

Pimco, a unit of Allianz SE, has built a $1.6 trillion business largely on the back of bond funds held by investors ranging from trillion-dollar retirement plans to online brokerage accounts. Now, it is eager to make a bigger name for itself in alternatives, which demand far higher fees and often don't require a rising **stock market** to succeed, insulating the firm for now from the surging popularity of exchange-traded funds and other low-cost investment choices.

Retiring baby boomers are shifting more of their savings into investments that produce steady income as interest rates remain low and crimp returns on traditional funds. That is leading wealthy individuals to more actively seek investments in private equity, debt and real estate.

"The thing that is in short supply and high demand is yield," said Ju-Hon Kwek, a partner at McKinsey & Co., the management consultant. "And because of that, clients and their advisers are expressing unprecedented openness for different kinds of products that can fill those needs."

Institutional investors, on average, invest about 15% to 20% of assets in these private markets, while wealthy individual investors allocate less than 5%, Mr. Kwek said.

Pimco's move is part of a larger trend in which traditional money managers, under pressure to reduce fees, are wading into murkier markets. At the same time, private-equity firms are eager to market their investment ideas to individual investors. In October, Blackstone Group LP unveiled plans to target individuals with as little as $1 million.

Investors will still need to meet the qualifications for investing in alternatives, meaning they must have a net worth of more than $1 million, or have earned no less than $200,000 annually for the past two years. But the Artivest platform will allow these individuals to invest as little as $100,000 in the Pimco funds.

The Pimco funds offered through the Artivest platform aren't "liquid alternatives," or mutual funds that mimic the trading tactics used by hedge-fund managers. Liquid alts have fallen out of favor as funds underperformed, struggled to catch investors' interest or relied on strategies that didn't work well for a mutual fund.

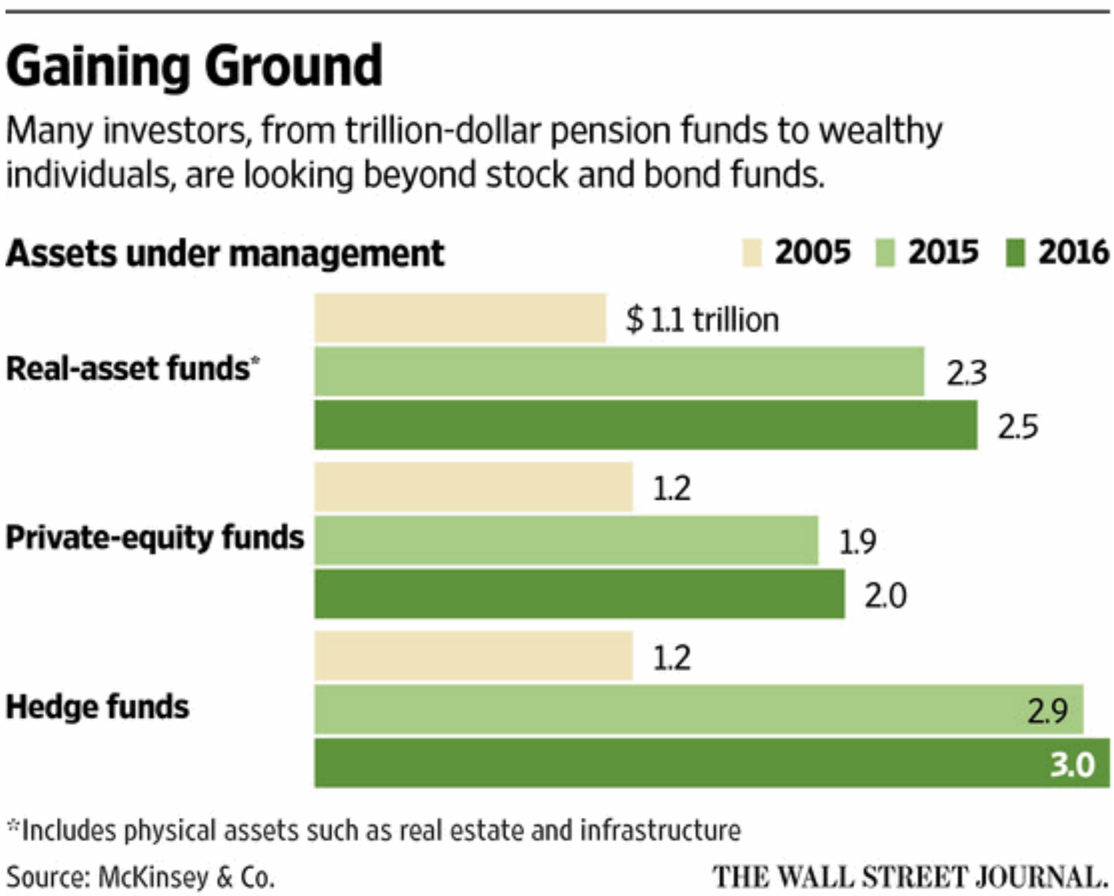
By putting money into the feeder funds, investors will earn similar returns -- and pay similar fees -- as institutional clients of Pimco's private-equity, debt and real-estate funds. Of course, those individual investors would also be subject to the same rules on when they can pull their money out. And while private investments may not rise and fall in lockstep with public markets, they aren't immune, either. A rise in loan defaults, for instance, would hurt private debt holdings, too.

Pimco believes it has a leg up on rivals because it already sells its investments through many of the some 300,000 U.S. financial advisers. Of that total, more than 10% of their clients qualify for private-equity and other alternative funds, said Eric Mogelof, head of U.S. wealth management at Pimco.

The Newport Beach, Calif., firm hired veteran hedge-fund executive Emmanuel Roman as its new chief executive last year. Its alternative funds oversee about $30 billion.

"The genesis of partnership with Artivest is to deliver alternative strategies to a broader set of investors," Mr. Mogelof said.

About 60 to 70 money managers use Artivest's technology. In addition to its deal with Pimco, Artivest developed platforms for other money managers, including Nuveen Investments.



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Coin Offerings Hit Milestone Amid Warnings

By Steven Russolillo
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English

HONG KONG -- Money raised from initial coin offerings has surged past $4 billion for the first time, even as regulators world-wide have escalated warnings about the new form of corporate funding.

An initial coin offering, or ICO, is a method of corporate fundraising that circumvents traditional capital markets. Typically tech startups, many involved in the digital-currency sector, raise money from investors in exchange for newly created digital coins or tokens, which they can trade.

An ICO is often described as being between a traditional initial public offering and crowdfunding. ICOs have attracted celebrities, including Paris Hilton and boxer Floyd Mayweather Jr., who have marketed coin offerings on social media.

But there are risks, and some regulators believe ICOs should be regulated like securities. Some ICOs back companies that don't have active products or services.

In 2017, ICO fundraising is up sharply from just $225 million in 2016, according to data provider Autonomous Research.

Proceeds have gone to ventures such as distributed ledger technology, the system underpinning bitcoin, and the Internet of Things, according to Autonomous.

ICOs have surged in popularity along with the rapid increase in value of bitcoin, a digital currency that runs on a decentralized network of computers, as opposed to traditional fiat currencies that are controlled by central banks or governments. Bitcoin recently traded at about $16,500, according to research site CoinDesk, having surged from slightly less than $1,000 at the beginning of the year. On Wednesday, Federal Reserve Chairwoman Janet Yellen called bitcoin "a highly speculative asset" in what was likely her final press conference as central bank chief.

The $4 billion milestone comes after Wall Street's top regulator issued a warning about all the money that has flooded into bitcoin trading and cryptocurrency markets, including ICOs.

"The world's social media platforms and **financial markets** are abuzz about cryptocurrencies and initial coin offerings," Securities and Exchange Commission Chairman Jay Clayton said in a statement earlier this week. "We are hearing the familiar refrain, 'this time is different.'"

Mr. Clayton's alert came on the same day the SEC halted a $15 million ICO. The agency said the offering should have been conducted under the regulator's rules for securities sales. Because it wasn't, investors didn't get the extensive disclosures that enable informed investment decisions.

The U.S. isn't the only one coming down hard on ICOs. China banned them in September, part of its broader crackdown on cryptocurrencies. Regulators in Hong Kong and Singapore have also warned against ICOs, citing fraud concerns, money laundering risks and worries about terrorist financing.

South Korean regulators have said they would ban ICOs, though it isn't clear how they will enforce the ruling.

Cryptocurrency trading has gotten so popular in South Korea that regulators this week held an emergency meeting to figure out how to curtail widespread speculation in the market.

Even so, ICO growth has shown few signs of slowing. And market participants are offering more advice on the best way for investors to participate and protect themselves in ICOs.

The Fintech Association of Hong Kong, a nonprofit group, earlier this month published a guide, "Best Practices for Token Sales." The paper aims to provide "general and practical guidance" for investors and companies engaging in ICOs, the group said.

"While the ICO frenzy may calm down in 2018, especially in terms of the number of ICOs and the amounts raised, expect the industry to further institutionalize, with the further development of best practices," said Henri Arslanian, PwC's China and Hong Kong leader for fintech and an adjunct associate professor at the University of Hong Kong.

Paul Vigna and Dave Michaels contributed to this article.

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The New York Times

Business/Financial Desk; SECTB
Health Care Companies and Banks Drive Markets Lower

By THE ASSOCIATED PRESS
745 words
15 December 2017
The New York Times
NYTF
Late Edition - Final
2
English

Health care companies and banks drove stocks lower in the United States on Thursday, pulling major indexes below their recent highs.

The afternoon slide, which erased gains from earlier in the day, came on news that some Republican senators' support for the G.O.P.'s proposed tax overhaul bill was faltering.

Small-company stocks, which would be among the biggest beneficiaries of the bill's reduction of corporate income tax rates, declined more than the rest of the market.

''The market is focused almost completely on the corporate tax reduction,'' said Quincy Krosby, chief market strategist at Prudential Financial. ''And there are still concerns that some of the key Republican senators are wavering.''

The losses outweighed gains among retailers, which got a boost from a government report showing that retail sales jumped in November.

The **Standard & Poor's 500-stockindex** fell 10.84 points, or 0.4 percent, to 2,652.01. The **Dow Jonesindustrial average** lost 76.77 points, or 0.3 percent, to 24,508.66. The **Nasdaq** shed 19.27 points, or 0.3 percent, to 6,856.53.

Despite the declines, the indexes are all on track to finish the week with a gain.

Republican Senator Marco Rubio said Thursday he will vote against the proposed tax bill unless negotiators expand its child tax credit. The bill would increase the child tax credit to $2,000 from $1,000, but the Florida lawmaker wants more. Meanwhile, a spokesman for Mike Lee, Republican of Utah, said the senator is undecided on the bill.

House and Senate leaders agreed on the bill in principle on Wednesday, but were still finalizing the legislation, which they plan to unveil Friday and then move through the Senate next week.

''With all eyes being on tax reform and getting really, really close to having it passed, now it comes down to the votes,'' said Tom Martin senior portfolio manager at Globalt Investments.

The stock indexes had been moving higher earlier in the day after the Commerce Department said that sales at retailers and restaurants jumped 0.8 percent last month. Sales in a category that mostly includes online shopping leapt 2.5 percent, while sales at electronics stores rose 2.1 percent. Furniture store sales increased 1.2 percent.

The report helped lift several retailers. Tiffany & Co. gained $3.24, or 3.4 percent, to $99.34, while Mattel added 65 cents, or 4.2 percent, to $16.24.

Health care stocks accounted for much of the market's losses. Medical care services company DaVita shed $2.27, or 3.2 percent, to $69.03.

Shares in several banks and other financial companies also declined. Navient fell 32 cents, or 2.5 percent, to $12.62.

Pier 1 Imports' latest outlook put investors in a selling mood. The home décor company slumped 29.5 percent after it cut its forecasts and said its business has struggled in December. The stock slid $1.72 to $4.12.

Traders welcomed news that Disney agreed to buy a large part of the Murdoch family's 21st Century Fox for about $52.4 billion in stock. Disney added $2.96, or 2.8 percent, to $110.57. Fox was the biggest gainer in the **S**.**&P**. **500**, climbing $2.13, or 6.5 percent, to $34.88.

Bond prices were little changed. The yield on the **10**-**year Treasury** held at 2.35 percent.

Oil prices rose, reversing an early slide. Benchmark United States crude added 44 cents to close at $57.04 a barrel on the New York Mercantile Exchange.

The dollar fell to 112.18 yen from 112.52 yen on Wednesday. The euro weakened to $1.1792 from $1.1820.

Bitcoin futures declined on their fourth day of trading, dropping $255, or 1.5 percent, to $16,800 on the Cboe Futures Exchange. The average price of an actual bitcoin was $16,496 in trading on private exchanges, according to Coindesk. The price of the digital currency has soared this year, having begun 2017 under $1,000.

Gold rose $8.50 to $1,257.10 an ounce.

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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Heard on the Street
China's Rate Rise Signals Fed Wariness

By Nathaniel Taplin
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15 December 2017
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English

[Financial Analysis and Commentary]

The People's Bank of China's move Thursday to raise its benchmark interbank rates, its first increase since March, shows it is still concerned about capital outflows.

Although the increase was small at just 0.05 percentage point, it still caught economists off guard. They had expected the central bank to stand pat after the Federal Reserve raised rates Wednesday. There is little obvious macroeconomic reason for the central bank to have tightened.

By most measures, China's central bank has been successful in tamping down outflows since late 2016. This apparent success is, however, only partly about China's new and improved Great Capital Firewall.

The other factor is that real returns on nearly every type of Chinese asset have improved over the past year, reducing the incentive for investors to send cash abroad. Preliminary data show that average, real returns on assets at Chinese-listed firms likely ticked up for the first time since 2013.

Next year is likely to be different. Growth will weaken along with the housing market, and that will put a dent in a big chunk of the **stock market**. The Fed is signaling a more aggressive 2018 as well, meaning the dollar could rebound.

That leaves higher interest rates as the main means for China's central bank to ward off a renewed siege of the nation's capital controls next year. Thursday's action was a signal that the central bank is probably willing to sacrifice better growth for higher rates next year if the dollar strengthens rapidly.

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U.S. News: Connecticut Comes Up Far Short of Cash Again

By Joseph De Avila and Jon Kamp
506 words
15 December 2017
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J
A3
English

Connecticut is once again coming up short on cash, and its rainy-day fund is already strained.

About halfway into the budget year, sales and income tax revenues have come in about $208 million under projections. That comes even after lawmakers enacted deep spending cuts, raised fees on motor-vehicle registrations and required teachers to contribute more to their pensions to pass a two-year budget in a bruising process that took 10 months.

Shortfalls have "caused us to tap our rainy-day fund, our budget-reserve funds," Paul Potamianos, the state's executive budget officer, said on a conference call. "This is a problem for us because our reserves are not growing," even though the nation is not in a recession, he said.

The state's reserves of $213 million currently comprise about 1.1% of expenditures. That compares with a forecasted median of 5.1% around the U.S. this fiscal year, according to a report released Thursday by the National Association of State Budget Officers, or Nasbo.

Connecticut Gov. Dannel Malloy, a Democrat, sent lawmakers a proposal Wednesday to close its budget hole. He is recommending a mix of spending cuts and tax boosts, including on sales and cigarettes.

Despite a growing national economy, Connecticut is one of a few outlier states that have dipped into their reserves -- funds saved to help buffer against the next economic downturn, according to the Nasbo report.

Many of the other states that tapped reserves have done so in reaction to a drop in commodity and **oil prices**. Alaska, for instance, is projecting a $2.3 billion decline in its reserves in fiscal 2018, after a drop of $10.9 billion from fiscal 2014 to fiscal 2017.

In total, 17 states reported using rainy-day funds to help manage their budget in the last fiscal year, and 10 are forecast to this year, Nasbo said. Still, most states have managed to boost these reserve balances in recent years, the group said. For instance, California is projected to expand its reserves by more than $2.6 billion over three fiscal years ending June 30.

Most states across the U.S. tightened their belts this year and adopted cautious budgets that are projected to grow about 2.3%, the lowest increase since 2010, when states were dealing with effects from the last recession, according to the Nasbo report. This confirms the restrained outlook seen earlier this year in budget proposals from governors.

"State budgets for fiscal 2018 reflect substantial caution on the part of policy makers following two consecutive years of sluggish revenue growth, coupled with mounting spending demands," the report said.

Connecticut, where growth has been weak and the population has been in decline, continues to struggle. This year, two major companies, Aetna Inc. and Alexion Pharmaceuticals Inc., announced plans to leave the state, seeking to tap talent pools in bigger cities.

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Dow 24000 and the Trump Boom

By Maria Bartiromo
1,192 words
15 December 2017
The Wall Street Journal
J
A17
English

I'm not in the habit of giving stock tips or making market calls. I've never claimed to be an investment strategist. But after spending years reporting on business and finance, I was convinced on the night of Nov. 8, 2016, that the conventional market wisdom was way off target.

As the night wore on and equity traders began to grasp that Donald Trump would become president, stock markets around the world started selling off. In the U.S., trading in **S&P 500** futures would eventually be halted after a 5% decline. After midnight, Paul Krugman of the New York Times opined: "If the question is when markets will recover, a first-pass answer is never."

I didn't see it that way. For years I'd been hearing anguished people at companies large and small bemoan the growing federal burden of taxes and regulations. Now the U.S. would have a president who intended to reduce this hardship and prioritize economic growth.

When I sat down around 10:30 on election night for a Fox News panel discussion, Dow futures were down about 700 points. Markets like certainty; it was understandable that some investors were selling. Mr. Trump seemed to present more uncertainty than Hillary Clinton, who was essentially promising a continuation of the Obama administration. Mr. Trump's talk about ripping up the North American Free Trade Agreement, for example, created big unknowns and potentially significant risks.

The election night selloff turned out to be a huge buying opportunity. Companies had been sitting on cash -- not investing or hiring. ObamaCare compliance was a nightmare for many business owners. It made them wonder what other big idea from Washington would haunt them in the future. Mrs. Clinton was likely to increase business costs further, while Mr. Trump had vowed to reduce them. Even in the middle of the election-night market panic, the implications for corporate revenue and earnings growth seemed obvious.

The next morning, with the Trump victory confirmed, I told my colleague Martha MacCallum that I would be "buying the **stock market** with both hands." Investors began doing the same. U.S. markets have added $6 trillion in value since the election, with investors around the world wanting in on America's new growth story. The Federal Reserve Bank of Atlanta is now forecasting the third straight quarter of U.S. gross domestic product growth around 3%.

It's not just an American growth story. For the first time in a long time the world is experiencing synchronized growth, which is why Goldman Sachs and Barclays among others have recently predicted 4% global growth in 2018. The entire world benefits when its largest economy is healthy, and the vibrancy overseas is reinforcing the U.S. resurgence.

As the end of the Trump administration's first year approaches, it's a good time to review the progress of the businessman elected on a promise to restore American prosperity.

Year One has been nothing short of excellent from an economic standpoint. Corporate earnings have risen and corporate behavior has changed, measured in greater capital investment. Businesspeople tell me that a new approach to regulation is a big factor. During President Obama's final year in office the Federal Register, which contains new and proposed rules and regulations, ran to 95,894 pages, according to a Competitive Enterprise Institute report. This was the highest level in its history and 19% higher than the previous year's 80,260 pages. The American Action Forum estimates the last administration burdened the economy with 549 million hours of compliance, averaging nearly five hours of paperwork for every full-time employee.

Behind these numbers are countless business owners who have told me they set aside cash for compliance, legal fees and other costs of regulation. That money could have been used to fund projects that strengthened their businesses. President Trump has charted a new course, prioritizing the removal of red tape and rolling back regulations through executive orders. The Federal Register page count is down 32% this year. Mr. Trump says red tape becomes "beautiful" when it is eliminated, and people who manage businesses certainly agree.

The prospect of tax relief is also raising expectations for growth, as the U.S. prepares to reduce the industrialized world's highest corporate income tax rate. As with regulation, U.S. businesses don't need to have the lightest burden; they only need one that's competitive with the rest of the world. As Rep. Jeb Hensarling (R., Texas) told me recently, when Washington simply "stops the beatings," growth happens on its own.

For too many years, U.S. businesses have seen mergers and acquisitions -- or moving corporate headquarters out of the country for more attractive tax havens -- as almost the only path to success. When a firm can't achieve growth organically, it must acquire it. And when it faces a combined federal, state and local income tax rate of nearly 40% in America, it will often merge with a competitor in Ireland. Moving a company's headquarters to Dublin means paying only 12.5%.

Much has changed this year. Companies from Broadcom to Boeing have announced they'll move overseas jobs back to the U.S. American companies hold nearly $3 trillion overseas and may soon be able to bring that money home without punitive taxation. Businesses have begun to open up the purse strings, which is why things like commercial airline activity are rising substantially as executives seek new opportunities. Companies are looking to invest in growth.

The promise of tax relief is raising profit expectations for the **S&P 500**, now expected to rise by double digits in 2018. For pass-through businesses, which employ more than half of private-sector workers, a large tax cut would have a significant effect. On the individual side, much of the tax debate has unfortunately not been about economic growth but about trying to ensure that high-income earners don't benefit from relief -- even though the top 10% of earners paid nearly 71% of federal income taxes in 2016. Stephanie Pomboy of MacroMavens notes that the top 20% spend more than the bottom 60%, and it's worth remembering that consumer spending is two thirds of the economy.

House and Senate negotiators are now reportedly planning to cut not just the rates for low-and middle-income taxpayers but the top rate as well. Whether a 37% top rate -- without deductions -- encourages the top earners to spend more remains to be seen, but the prospect of ending the year with no tax reform at all should focus congressional minds.

After reaching Dow 24000, where can markets and the economy go from here? I'm not going to make predictions, but it stands to reason that the economy is better off when federal policy doesn't discourage people who have a demonstrated ability to work, earn, spend and invest.

Ms. Bartiromo is anchor of "Mornings with Maria" on Fox Business Network and "Sunday Morning Futures" on Fox News Channel.

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A Booming Economy Will Challenge the Fed

By Phil Gramm and Thomas R. Saving
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The Wall Street Journal
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A19
English

The asset base of the world's financial institutions crumbled in the fall of 2008 as mortgage-backed securities collapsed and credit markets froze. The Federal Reserve responded by buying government bonds, pumping liquidity into the **financial markets**, and expanding bank reserves.

The Fed also did something that was not so widely noticed: It started to pay interest on excess reserves, effectively paying banks not to lend. That allowed the Fed to expand bank reserves and inject liquidity into the financial system without significantly expanding the money supply.

Though the recession ended in the summer of 2009, the economic recovery that followed lagged further and further behind historical norms. In an effort to stimulate the economy, the Fed undertook three monetary easing programs that doubled its postrecession balance sheet and bought, or offset by buying other securities, some 45% of all federal debt issued during the Obama era -- four times the share of federal debt the Fed purchased during World War II.

Today, banks hold $12 of excess reserves for every dollar they are required to hold, and the Fed balance sheet contains 20% of all publicly held federal debt and 34% of the value of all outstanding government-guaranteed mortgage-backed securities. While the initial injection of liquidity into the economy in 2008 clearly helped stabilize the **financial market** and was a classic central-bank response to a financial crisis, the monetary easing program of the Obama era was unprecedented. At least in part due to monetary easing, the Obama administration was able to double the federal debt held by the public while reducing the cost of servicing that debt below the interest costs that had been incurred when the debt was only half as large.

In the past eight years, private loan demand has been weak in an economy kept in a stupor by high taxes and an avalanche of regulations. In this stagnant environment, the Fed has been able to manage a massive balance sheet and inflated bank reserves without igniting inflation or causing interest rates to rise, further crippling growth. But the Fed's challenge will grow enormously when the economy returns to normal growth. That will drive up the demand for bank loans, increase interest rates, and induce banks to lend excess reserves. The money supply will start to grow.

If the Fed could find just the right mix of selling more assets and lowering the rate it pays on excess reserves, it could theoretically end up reducing its balance sheet and reducing bank reserves without either slowing economic growth or igniting inflation. But the danger posed by the Fed's bloated balance sheet and the massive level of bank-held excess reserves is that an increase in economic growth would stimulate demand for bank credit and force the Fed to move quickly to sop up excess reserves. If it moved too slowly, the money supply would expand and the inflation rate would rise. But by selling government securities to reduce bank reserves, the Fed would be competing against both the government and private borrowers for available credit. Unless banks reduced excess reserves to offset Fed asset sales, those asset sales would drive up interest rates and threaten the sustainability of the recovery. The monetary easing of the Obama years, which did little to stimulate growth, could now be paid for with runaway inflation or a crippled recovery or both.

Complicating the matter further, the Fed can decide how much interest it pays on excess reserves, but any change in market interest rates will affect the willingness of banks to hold excess reserves and alter the response of banks to a change in the rate the Fed pays on excess reserves. A rise in market interest rates will also increase what economists call the velocity of money, the ratio of the value of money the public chooses to hold relative to the size of gross domestic product. Since velocity has fallen by 27% over the past decade as the cost of holding money fell to virtually zero, we can expect that a rise in interest rates would induce people to economize on the holding of money and cause demand for goods and services to rise. To maintain price stability in an environment of rising interest rates, the Fed would not only have to soak up existing excess reserves; it would also have to reduce bank reserves to prevent the increase in velocity from inflating demand and igniting inflation. But each time it sells securities to try to prevent inflation, the Fed will be potentially increasing pressure on interest rates and endangering the recovery.

Is it possible that the Fed, like Odysseus, can hug the cliff of Scylla with its high interest rates and avoid the Charybdis of inflation without crashing into the cliff and derailing the recovery? It is possible, but the Fed will not be headed by the wise Odysseus nor advised by Athena, the goddess of wisdom; it will be run by human beings. And the monetary excesses of the Obama era represent the greatest impediment to igniting and sustaining a full-blown economic recovery.

Mr. Gramm, a former chairman of the Senate Banking Committee, is a visiting scholar at the American Enterprise Institute. Mr. Saving is a professor of economics and director of the Private Enterprise Research Center at Texas A&M University.

(See related letters: "Letters to the Editor: Federal Reserve Faces Many Huge Problems" -- WSJ Dec. 21, 2017)

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The New York Times

Business Day; DealBook

China's HNA Keeps Striking Foreign Deals as Banks Wince and Investors Flee

By ALEXANDRA STEVENSON
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HONG KONG — With some investors in its bonds running for the exits and foreign banks increasingly skeptical about its prospects, HNA Group tried this week to reassure markets that it has access to the money it needs.

At the same time, HNA, a vast but troubled Chinese conglomerate, is continuing the drive that helped cause its difficulties in the first place: completing billions of dollars in foreign deals.

The competing efforts by a company that has symbolized China's growing wealth and global ambitions are a problem for the country's leaders. They want to end wasteful overseas spending by debt-laden Chinese companies, which in the case of HNA and some others have drawn growing regulatory scrutiny in the United States and Europe.

China has yet to let one of its big conglomerates fail, and HNA is unlikely to be an exception. But it is testing how effectively China can curb such behavior, and how the country may deal with some companies that have gone too far.

HNA said late Wednesday that it had talked to eight Chinese banks, including powerful and politically connected lenders like China Development Bank and China Construction Bank, about extending the conglomerate's credit lines next year. HNA said several of the banks planned to increase the amount of money it could borrow if needed.

Bank officials believe "HNA is the best-quality client of banks," according to a statement posted on HNA's website. An HNA spokesman said the company had no further comment.

HNA made the disclosure as its problems continued to mount.

The company's publicly traded bonds have fallen in recent days as worries grew among global investors about the challenges it faces. The bonds' declining value makes it more expensive for HNA to borrow, which analysts say the company must do to meet its obligations. It owes at least $21 billion to bondholders overseas and $16 billion in so-called syndicated loans from banks, according to data from the data provider Dealogic.

"The situation is a lot worse now," said Chung Yuh Ang, a senior fixed-income analyst at iFast Corporation, an online investment platform. "HNA is only able to pay its old debts by taking new ones."

Foreign banks have already grown wary of working with HNA. Goldman Sachs and Bank of America Merrill Lynch have stopped doing business with the company, while HSBC bankers have shared concerns among themselves about HNA's acquisition binge and its ownership structure, according to internal documents and people with direct knowledge of the firms.

Despite the banks' hesitation and growing skepticism on the part of officials in China, Europe and the United States, HNA is moving ahead on completing deals it has struck this year. It announced $12 billion worth of deals in 2017, $3 billion of which are pending, according to Dealogic. In recent months, HNA units have agreed to pay $300 million for a refrigerator-logistics business owned by Automotive Holdings Group and $1 billion for CWT, a Singaporean logistics operator.

After a buying spree that began two years ago, HNA now has operations in countries from Germany to Australia, and in cities like Hong Kong, London and New York. People around the world take money from a financial institution it partially owns, fly on its planes and sleep in its hotels.

In many instances, HNA has paid dearly for its acquisitions.

“HNA has bought things at clearly high prices,” said Gordon Orr, the former Asia chairman at global management consulting firm McKinsey & Company. “The auctions they won haven’t been by a dollar but by miles.”

Beijing officials warned this summer that HNA and other private Chinese companies spending big money abroad — known locally as “gray rhinoceroses” — were threatening the country’s economic stability. Many of HNA’s peers got the message. Dalian Wanda, a once-mighty real estate and entertainment conglomerate, has sold many of its assets to pay off its debt. The chairman of Anbang Insurance, which famously swooped in to buy the Waldorf Astoria hotel in New York and tried to strike deals with the family of President Trump’s son-in-law, was detained.

At a news media event in Beijing on Nov. 28, HNA’s chief executive, Adam Tan, discussed the possibility that the company would sell some assets, like those related to real estate, which do not fall under the most strategically important investments recently outlined by President Xi Jinping.

“We will not invest in anything the government does not support,” Mr. Tan said at the event, which was hosted by Caijing Magazine.

HNA is nonetheless pressing to complete its pending deals, even as regulators from Washington to Brussels to Switzerland grow increasingly skeptical.

A lawsuit filed last week in a New York state court by Ness Technologies, a company that HNA tried to acquire, accused the Chinese company of dooming the deal by not trying hard enough to address questions from officials at the Committee on Foreign Investment in the United States, a group that scrutinizes foreign purchases of domestic companies. HNA’s ownership structure attracted a number of questions from committee officials, the suit says, but the company’s answers undermined its credibility.

In a statement, HNA said it “believes this lawsuit is baseless and without merit, and we will vigorously defend against it.”

Another HNA deal, to acquire an investment firm called SkyBridge Capital, has missed self-imposed deadlines amid scrutiny from American takeover officials. The deal drew attention because HNA would be buying SkyBridge from Anthony Scaramucci, a former White House adviser who did not take a position as a Trump administration liaison to the business community amid close examination of the deal.

[Video: SkyBridge addressed its delayed deal to be purchased by HNA. Watch on YouTube.]

Guang Yang, the chief executive of HNA Capital, the subsidiary that has agreed to buy SkyBridge, said the firm was “committed to closing the transaction with SkyBridge as soon as possible.”

In Germany, HNA’s proposed acquisition of shares in Deutsche Bank, a major global lender, has drawn questions. The European Central Bank is considering opening an inquiry into whether HNA is a qualified owner of its 10 percent stake in Deutsche Bank, according to a person with knowledge of the procedure who was not authorized to discuss it publicly. The central bank has the authority to examine an investor if it appears that the investor could exert significant influence over management.

Germany’s **financial markets** watchdog, BaFin, is also examining whether HNA fulfilled its reporting requirements as it increased its stake in the bank, according to someone with direct knowledge of the matter. Deutsche Bank, the European Central Bank and BaFin declined to comment.

A Swiss regulator has gone a step further than its counterparts in Germany and the United States.

Last month, the Swiss Takeover Board cited HNA for providing false information about its complicated share structure when it acquired Gategroup Holding, a Swiss airline catering and logistics company.

The Swiss regulator’s investigation began after HNA said the stake had been transferred to a charitable trust amid questions about one of its biggest shareholders.

Although the Swiss takeover board has no enforcement powers, it asked Ernst & Young to conduct a further inquiry, which could lead to litigation in the future.

“We cooperated fully with the Swiss Takeover Board’s inquiry,” HNA said in a statement, adding that it would “respect its authority in this matter.”

Jack Ewing in Frankfurt contributed reporting. Ailin Tang contributed research.

* Mounting Questions About Who Controls HNA, a Top Chinese Conglomerate

* Behind a Chinese Powerhouse, a Web of Family Financial Ties

* In China, Herd of 'Gray Rhinos' Threatens Economy

* The Billionaire Gadfly in Exile Who Stared Down Beijing

* China's Wanda Signals Retreat in Debt-Fueled Acquisition Binge

Adam Tan, chief executive of HNA Group, sought to calm investor fears at a media event in Beijing in November. "We will not invest in anything the government does not support," Mr. Tan said. | Imagechina, via Associated Press

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THE WALL STREET JOURNAL.
U.S. EDITION

Bitcoin Fever Spreads to Commodity Traders

By Stephanie Yang and Alison Sider
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English

Traders weary of modest returns in commodity markets are rushing into the booming world of bitcoin, seeking to mint money in one of the riskiest assets.

Bitcoin prices have surged more than 19-fold, surpassing $19,000 at one point this year, a run-up that has jolted investors world-wide into betting on the digital currency. As bitcoin has sped through sudden gains and drops, traders used to wild swings in commodity prices are trying to reap profits in cryptocurrencies.

"They've all got bitcoin fever," said Fred Grede, a former executive at the Chicago Board of Trade and Hong Kong Futures Exchange. "Existing markets are harder to trade, more competitive. They're looking for more trading opportunities."

With **volatility** and interest in commodities dwindling, some traders say they can't afford to lose out on the bitcoin frenzy, even if the nascent market is rife with risks. With a finite number of bitcoins that can be created through "mining," bitcoin isn't exotic to commodities traders used to parsing supply and demand.

So far in bitcoin's nine-year history, betting on it has required little need for the specialized tactics used by professional investors and traders in other markets. Much of this year's returns in the digital currency have come from just holding it.

As bitcoin's standing rises among investors, traders are looking to bring more traditional strategies to cryptocurrencies.

Typhon Capital Management, a hedge fund that invests in commodities, plans to launch several funds dedicated to cryptocurrencies in January. The funds, with strategies like passive investing, algorithmic trading and arbitraging price differences, will be led by George Michalopoulos, who managed the oil **volatility** portfolio at Citadel LLC until 2011.

"The interest has been staggering," said James Koutoulas, chief executive of Typhon, citing inquiries from endowments, foundations and family offices in the Middle East and Asia. "These are investors that won't return calls for our excellent commodity-trading strategies. For crypto, they're calling us."

Some critics worry that as bitcoin creeps into the mainstream -- with futures allowing investors to make leveraged bets -- its **volatility** could destabilize the financial landscape.

Futures also could revolutionize bitcoin investing by making it easier to trade, speeding up the migration into cryptocurrencies. Cboe Global Markets Inc.'s bitcoin futures contract started trading on Sunday, with **volatile** price swings triggering automatic halts on the first day. CME Group Inc., the world's largest futures exchange, plans to start trading in its own rival contract Sunday evening.

Traders hope the exuberance over bitcoin will usher in an era like the 1980s and 1990s, when investing in commodities like oil and metals took off, and investors with specialized knowledge and a high tolerance for risk could produce blockbuster returns.

"They were really good at taking educated guesses with fragmented information. Anyone trading in the cryptocurrency markets has to do that same thing," said John D'Agostino, a former New York Mercantile Exchange executive who sits on the boards of some funds that trade virtual currencies.

Now, in a world awash in data, information doesn't give traders at commodity merchants and proprietary funds as much of an advantage.

Commodities revenue at banks also has suffered. Earlier this year, Goldman Sachs Group Inc. reported its worst-ever quarter for commodities trading. The Wall Street Journal reported in October that the bank is considering a new trading operation dedicated to cryptocurrencies.

Ivana Rouse, a lawyer at Akin Gump Strauss Hauer & Feld in Houston, typically advises hedge funds and private-equity firms, including commodity funds. But that part of her business has slowed. Now Ms. Rouse spends much of her time setting up new cryptocurrency funds -- fielding five or six calls a month from aspiring fund managers.

Commodity hedge-fund closures outnumbered launches for the first time on record this year in data going back to 2000, according to data provider Eurekahedge. Eight new commodity hedge funds have launched, compared with 130 in 2011.

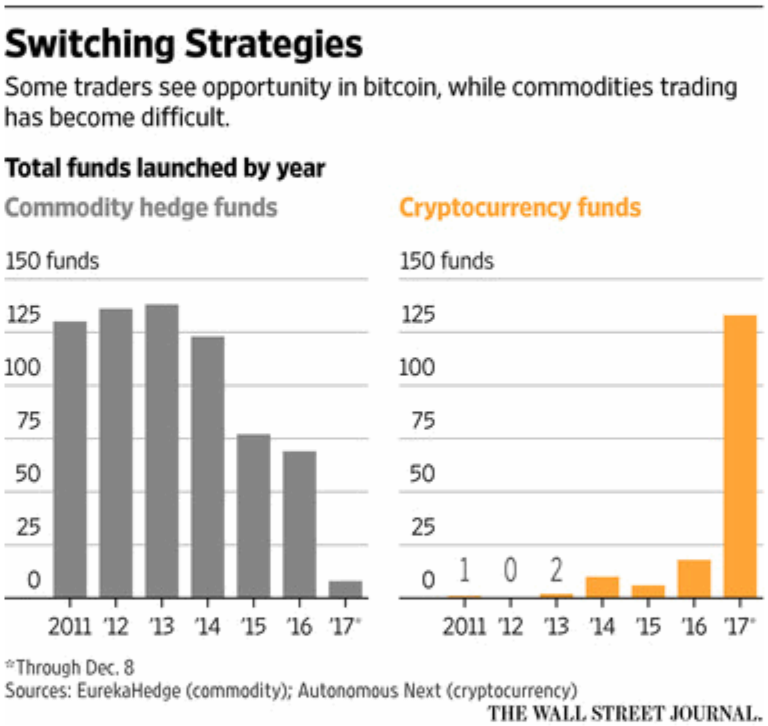
Meanwhile, out of 171 cryptocurrency funds tracked by research firm Autonomous Next, 123 launched in 2017. While the market is growing, the $2 billion in assets under management is still dwarfed by investments in traditional assets.

Brokers who execute trades for a commission have seen their roles shrink in recent years amid heavier regulation and the growing dominance of electronic trading. But former commodities broker Tim Kelly sensed a comeback opportunity in bitcoin.

"It's an unrepeatable opportunity -- it's going to be like commodities trading back in the 1980s," Mr. Kelly said.

Mr. Kelly came out of retirement this year to launch BitOoda Technologies LLC, which is looking to broker large blocks of bitcoin futures, as well as physical cryptocurrency transactions.

Two oil-industry veterans have signed on as strategic advisers. One is Jeff Frase, a former Goldman Sachs and JPMorgan head oil trader who recently stepped down as co-chief executive of Noble Group, a struggling commodities trading house that has agreed to sell its oil business to rival Vitol. The other is Todd O'Malley, a former executive at PBF Energy Inc. and Gulf Oil LP. "In the oil world, the proliferation of information has taken the advantage out of the hands of a lot of traders and muted the market," Mr. O'Malley said. "The edge is much harder to gain every single day now."



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U.S. News -- Capital Account: Bitcoin: a Mania, Not a Currency

By Greg Ip
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14 December 2017
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If you own bitcoin, congratulations. Its explosive rise this year has earned you the right to gloat. Unfortunately, if you also thought bitcoin, or any cryptocurrency, would one day displace regular money, those prospects have never looked worse.

Ever since an anonymous creator launched bitcoin in 2009, advocates have hoped that cryptocurrencies could do the job of dollars, euros and yen but more efficiently, cheaply and anonymously.

To do so, a cryptocurrency would have to fulfill at least two of the basic functions of money: a stable store of value and a widely used medium of exchange. Bitcoin's wild ride shows it can't fulfill either.

Whether bitcoin is a bubble is beside the point. That the question is asked shows bitcoin can no longer be thought of as a currency. A stock, bond or property deed confers ownership of a stream of future income. From that you can judge intrinsic value and thus whether its current price represents a bubble. Currencies aren't supposed to have any intrinsic value other than the goods or services they can buy some time in the future.

This distinction is being blurred. The surge in cryptocurrencies, especially via "initial coin offerings," is similar to the wave of initial public stock offerings that accompany **equity-market** mania. It prompted Securities and Exchange Commission Chairman Jay Clayton this week to warn against conflating currencies and securities. "Tokens and offerings that incorporate features and marketing efforts that emphasize the potential for profits based on the entrepreneurial or managerial efforts of others continue to contain the hallmarks of a security," he said, and must be regulated as such.

The surge also undermines the argument that a cryptocurrency's limited issuance protects it from inflation-prone governments. As the number of currencies grows, each becomes the digital equivalent of a limited-edition commemorative plate.

The more digital currencies resemble speculative securities, the less suitable they become as a medium of exchange. Consumers hold dollars and businesses accept them because their purchasing power doesn't change much. That isn't true of bitcoin: It has moved an average of 3% a day since 2012, and on 5% of those days it moved more than 10%. In that period, gold moved on average 0.7% a day and the dollar 0.3% against a basket of currencies. Neither recorded a move of 10% or greater. With bitcoin, what should be your safest asset, cash, becomes your riskiest.

Some of the advantages of cryptocurrencies have proved overhyped. Proponents tout their anonymity: All you need to transact is a public and private key. This is of particular appeal to anyone on the fringes of the law. Yet it was naive to think law enforcement would stand by as a chunk of the economy went into the digital underground.

Digital currencies acquired from selling drugs or hacking computers, like bundles of wrinkled bank notes, must eventually enter the banking system to be spent. The U.S. Treasury has already declared that anti-money-laundering laws and the Bank Secrecy Act apply to digital currency exchanges and banks handling digital currency transactions.

In July, Treasury's Financial Crimes Enforcement Network hit BTC-e, a digital-currency exchange based in Bulgaria, with a $110 million penalty for facilitating "ransomware, computer hacking, identity theft, tax refund fraud schemes, public corruption, and drug trafficking." Its alleged Russian operator was arrested.

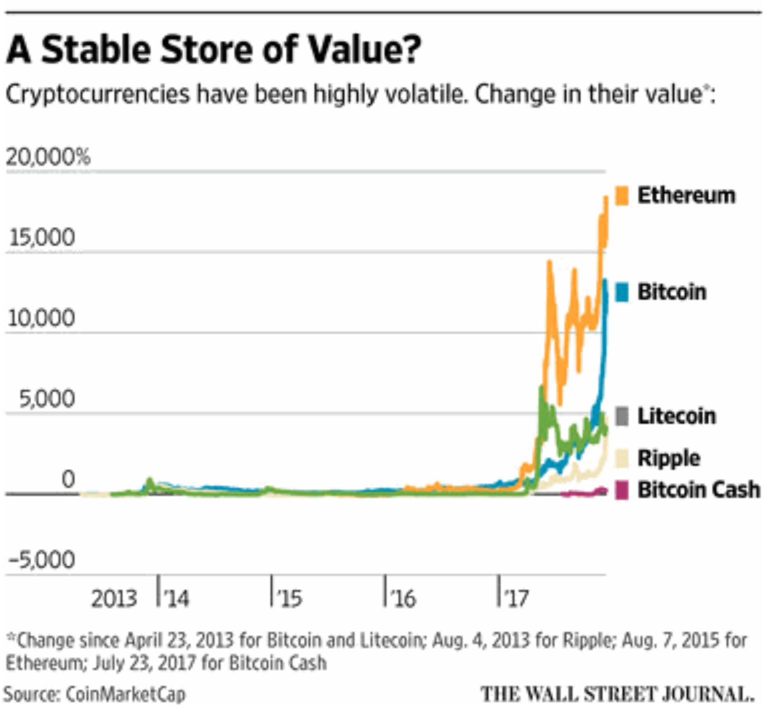
Meanwhile, the supposed efficiency of bitcoin has been compromised by bottlenecks in processing that can delay a transaction's settlement by hours or even days -- a process you can expedite if you pay an added fee.

So do digital currencies threaten regular currencies? In one key respect, yes: They're cheaper. Credit and debit cards and money transfers incur billions in fees that cover banks' costs (including fraud) and risks plus plenty of pure profit. The "fintech" revolution that has brought PayPal, Square and the Starbucks app has made paying simpler, not cheaper.

This is a system ripe for disruption, but it doesn't require a new currency outside the control of a central bank, just a new payment system.

Who might provide that system? Maybe the central bank itself. Cryptocurrency transactions are recorded on a ledger distributed among users called the blockchain rather than on a central ledger maintained by a private company or the government. The Fed already issues paper currency that you use for free. In theory, it could use the blockchain to issue digital currency you could also use for free.

David Andolfatto, an economist and blogger at the Federal Reserve Bank of St. Louis, says something like this could be a godsend to the unbanked -- people who don't use payment cards or bank accounts because of cost, inconvenience or lack of an address. Such applications would make bitcoin a success, "even if bitcoin, narrowly defined, fails to serve as money."



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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Big Lift for Small Companies After News of Tax Deal

By THE ASSOCIATED PRESS
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The major U.S. stock indexes finished mostly higher Wednesday, with small companies notching big gains as lawmakers in the House and Senate reached a deal on a sweeping tax reform package.

The **Dow Jonesindustrial average** eked out its third record-high close in as many days, driven by a jump in Caterpillar. But a last-minute pullback in bank stocks left the **Standard & Poor**'**s500 index** slightly lower.

Packaged food and beverage stocks, health care companies and industrials shares accounted for much of the market's modest gains. Banks struggled as long-term bond yields edged lower, which makes it tougher for banks to earn money from lending.

The decline in financial stocks came even as the Federal Reserve raised its benchmark rate for the third time this year. The move, which was widely expected, came as the central bank noted that the U.S. economy was on sound footing.

"Widely expected. No big surprises. No big changes," said Tim Dreiling, regional investment director at U.S. Bank Wealth Management. "It's encouraging that they continue to see economic growth continuing into 2018, which aligns with our thinking."

The **S&P 500 index** slipped 1.26 points, or 0.1 percent, to 2,662.85. The index closed at all-time highs on Monday and Tuesday.

The Dow gained 80.63 points, or 0.3 percent, to 24,585.43. The **Nasdaq** added 13.48 points, or 0.2 percent, to 6,875.80. The Russell 2000 index of smaller-company stocks picked up 8.33 points, or 0.6 percent, to 1,524.45.

Bond prices rose. The yield on the **10**-**year Treasury** fell to 2.34 percent from 2.40 percent late Tuesday.

Trading got off to a subdued start Wednesday as investors waited for the afternoon policy update from the Fed.

As expected, the central bank raised the federal funds rate -- what banks charge each other for short-term loans -- by 0.25 percentage points to a still-low range of 1.25 to 1.5 percent. The latest short-term rate increase is the third one implemented by the Fed this year and signals the central bank's confidence that the U.S. economy remains on solid footing 8½ years after the end of the Great Recession.

The Fed also said it expects the job market and the economy to strengthen further next year, which is one reason it forecast that it would raise rates three times next year.

Developments out of Washington put investors in the mood to buy small company shares about two hours before the Fed's announcement.

Republican leadership in the House and Senate forged an agreement Wednesday on the GOP's planned overhaul of the nation's tax laws. The move paves the way for final votes next week to slash taxes for businesses and give many Americans modest tax cuts starting next year. Smaller companies stand to benefit most from a reduction in corporate tax rates because they tend to pay higher taxes than bigger corporations.

"If you look at the mix today, small caps are doing better than large caps," said Sameer Samana, global technical and equity strategist for Wells Fargo Investment Institute. "Clearly, they would be the better beneficiaries because they tend to pay higher tax rates."

Packaged food and beverage companies posted solid gains. Coca-Cola rose 61 cents, or 1.3 percent, to $45.90.

Health care stocks also rose. Incyte climbed $2.70, or 2.8 percent, to $98.10.

Caterpillar led the gainers among industrials stocks, adding $5.15, or 3.6 percent, to $148.57. The construction and mining equipment company was also the biggest gainer in the Dow.

Traders also bid up shares in Western Digital after the hard drive maker resolved a dispute with its partner Toshiba over Toshiba's plan to sell its flash memory business. Western Digital rose $1.86, or 2.3 percent, to $83.63.

Investors also welcomed some corporate deal news.

Finisar jumped 22.8 percent after Apple said it will invest $390 million in the fiber optic component supplier so it can make more lasers used in facial recognition technology. Finisar increased $4.40 to $23.70.

Target rose 2.7 percent after the retailer said it plans to boost its same-day delivery capability by paying $550 million for Shipt. The delivery service company charges members $99 a year and sends people out to choose and deliver groceries from stores. Target added $1.65 to $62.67.

Shares in Diebold fell 2.7 percent after the ATM and security systems maker said CEO Andreas Mattes resigned. The stock gave up 50 cents to $18.

Banks and other financial stocks declined the most among the 11 company sectors in the **S&P 500**. Charles Schwab slid $1.23, or 2.4 percent, to $50.33.

Oil prices veered lower, giving up early gains. Benchmark U.S. crude fell 54 cents to settle at $56.60 per barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, slid 90 cents, or 1.4 percent, to close at $62.44 per barrel in London.

The decline in **oil prices** weighed on several energy stocks. National Oilwell Varco lost 55 cents, or 1.7 percent, to $32.59.

The dollar fell to 112.52 Japanese yen from 113.58 yen late Tuesday. The euro strengthened to $1.1820 from $1.1737.

Bitcoin futures fell on their third day of trading, dropping $965, or 5.4 percent, to $17,055 on the Cboe Futures Exchange. The futures allow investors to make bets on the future price of bitcoin. The average price of an actual bitcoin was $16,654 in trading on private exchanges, according to Coindesk. The price of the digital currency has soared this year, having begun 2017 under $1,000.

In other energy futures trading, wholesale gasoline fell 5 cents, or 3 percent, to $1.65 a gallon. Heating oil shed 3 cents to $1.90 a gallon. Natural gas rose 4 cents, or 1.4 percent, to $2.72 per 1,000 cubic feet.

Gold rose $6.90 to $1,248.60 an ounce. Silver gained 20 cents to $15.87 an ounce. Copper added 3 cents to $3.05 a pound.

Major stock indexes in Europe also closed lower Wednesday. Germany's DAX fell 0.4 percent, while France's CAC-40 slid 0.5 percent. London's FTSE 100 shed 0.1 percent.

Earlier in Asia, Hong Kong's Hang Seng rose 1.5 percent, while Tokyo's Nikkei 225 shed 0.5 percent. Seoul's Kospi added 0.8 percent. Sydney's S&P-ASX 200 picked up 0.1 percent and India's Sensex added 0.4 percent.

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

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

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The New York Times

Business/Financial Desk; SECTB
Fed Expects Tax Cut to Give Economy 'a Modest Lift'

By BINYAMIN APPELBAUM
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WASHINGTON -- The Federal Reserve, buoyed by a steadily strengthening economy, raised interest rates on Wednesday for a fifth time since the financial crisis and predicted that a proposed tax cut moving through Congress would modestly increase economic growth for the next few years without stoking inflation.

As a result, the Fed said it did not expect the legislation, which President Trump has called ''rocket fuel'' for the economy, to accelerate the Fed's plans to raise interest rates in 2018 and indicated it remains on track for three rate increases next year.

The Fed's highly anticipated economic assessment, delivered after a two-day meeting of its policymaking committee, amounted to a lukewarm endorsement of the Trump administration's top economic priority. Mr. Trump has suggested that the $1.5 trillion tax cut could nearly double economic growth to as much as 6 percent, a level far greater than most economists think likely.

''My colleagues and I are in line with the general expectation among most economists,'' said Janet L. Yellen, the Fed's chairwoman. She said they expected the bill to provide ''a modest lift.''

Ms. Yellen spoke at a news conference after the Fed announced a widely expected decision to increase its benchmark interest rate by a quarter of a percentage point, to a range of 1.25 percent to 1.5 percent. The increase continues the Fed's gradual march toward higher rates, which were cut to near-zero during the financial crisis. Wednesday's increase is the third time this year that the Fed has raised rates, reflecting its confidence that the economy is in good health.

The Fed and Congress are moving in opposite directions. The Fed, in raising rates, is reducing the support it has provided to the economy since the financial crisis. Congressional Republicans, meanwhile, are preparing a $1.5 trillion tax cut for businesses and individuals with the aim of stimulating economic growth.

Some Fed officials, including Ms. Yellen, cautioned earlier this year that tax cuts could push the pace of growth to an unsustainable level, resulting in higher inflation, and that the Fed might respond by raising interest rates more quickly, to restrain growth and keep a lid on inflation.

After seeing the details of the tax plan, however, Fed officials have concluded that there is no need to raise rates more quickly. A quarterly update of the Fed's economic forecast showed that officials still expect to raise rates three times next year -- unchanged from the last economic forecast.

''We continue to think that a gradual path of rate increases remains appropriate even with almost all participants factoring in their assessment of the tax policy,'' Ms. Yellen said on Wednesday.

In part, the Fed has concluded the tax plan doesn't pack a large punch. Fed officials predicted that the economy would grow at a 2.5 percent pace next year; the previous forecast was 2.1 percent.

President Trump has predicted that the tax plan could deliver 4 percent growth or more.

Apprised of those comments by a reporter, Ms. Yellen responded: ''I wouldn't want to rule anything out. It is challenging, however, to achieve growth of the levels that you mentioned.''

The Fed also has learned that it's not so easy to increase inflation, which has remained persistently low despite a tightening labor market and strengthening economy. The Fed aims to keep prices rising by 2 percent a year; it is on pace to undershoot that goal for the sixth straight year, and Fed officials on Wednesday predicted a seventh consecutive failure in 2018.

But the Fed's outlook is also politically convenient, even if some analysts described it as overly optimistic. Republicans argue that the tax cuts will deliver a lasting boost to economic growth by encouraging investment. They do not want the Fed to get in the way by raising rates.

Ian Shepherdson, chief economist at Pantheon Macroeconomics, described the Fed's forecast as ''hopelessly unrealistic.'' He noted that the Fed was predicting that growth would be stronger than it expected, and unemployment would decline further, but without any increase in inflation.

''In short, the Fed forecasts an endless expansion, with minimal inflation pressure,'' he said.

It would be relatively easy for the Fed to respond if inflation does begin to climb. A thornier problem is the concern voiced by a minority of Fed officials that the central bank is already raising rates too quickly.

Two Fed officials voted against Wednesday's rate increase: Charles L. Evans, president of the Federal Reserve Bank of Chicago, and Neel Kashkari, president of the Federal Reserve Bank of Minneapolis. Mr. Evans has argued that the Fed may be holding down inflation by undermining public confidence that it will raise inflation back up to 2 percent.

The Fed's rate increases have had little impact on **financial markets**, which have also shrugged off the Fed's efforts to tighten borrowing conditions. Rates on many loans have declined since the Fed's most recent rate increase, in June, and credit terms have loosened. Lee Ferridge, head of North American macro strategy for State Street Global Markets, said Wednesday's decision was ''a bit of a nonevent, quite honestly.''

Asset prices, which have climbed strongly this year even as the Fed has raised rates, were largely unchanged on Wednesday. The **Standard & Poor's 500-stockindex** dropped 0.1 percent, closing at 2,662.85. The yield on the benchmark **10-year Treasury** fell to 2.34 percent from 2.4 percent on Tuesday.

Mr. Ferridge said the ongoing stimulus campaigns by other central banks, notably the European Central Bank and the Bank of Japan, were offsetting the effect of the Fed's retreat.

''You've still got huge amounts of liquidity coming into the system, and that's what's driving markets,'' he said. ''You've got the Fed tightening, but you've got global policy loosening.''

Some economists see the lack of tightening in **financial markets** as a reason for the Fed to raise rates more quickly, to prevent the formation of bubbles that could cause economic disruptions.

Ms. Yellen played down such concerns on Wednesday. She said the Fed saw little evidence that a fall in asset prices would cause broader pain. The use of borrowed money, for example, remains relatively modest by historical standards. ''When we look at other indicators of financial stability risks, there's nothing flashing red there or possibly even orange,'' she said.

The Fed's rate increases also haven't had much impact on the domestic economy.

The average interest rate on a 30-year mortgage loan, at 3.94 percent last week, was lower than the 4.13 percent average rate at the same time last year, according to Freddie Mac.

But Ruben Gonzalez, an economist at Keller Williams, the real estate franchise based in Austin, Tex., said he expected mortgage rates to start rising gradually.

Mr. Gonzalez noted that housing prices were rising, and he said that higher mortgage rates could worsen affordability problems in some markets. ''Any time rates are trending upward, and prices are growing at a rapid pace, affordability is going to be a big conversation,'' he said.

The next round of monetary policy decisions will be made by a new group of leaders.

Ms. Yellen is scheduled to step down in early February, at the end of her four-year term. Mr. Trump has nominated Jerome H. Powell, a Fed governor, as the next chairman. He is awaiting Senate confirmation. Only one of the nine voting members of the monetary policy committee at the beginning of this year is expected to remain a voting member by the middle of 2018.

Ms. Yellen on Wednesday praised Mr. Powell as "somebody who understands the Federal Reserve very well and shares its values," and she said she would work to ensure a smooth transition.

Asked about her own legacy, she described her time at the Fed as "immensely rewarding."

"I feel good that the labor market is in a very much stronger place than it was eight years ago," she said.

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

Janet L. Yellen, above, the Federal Reserve chairwoman (PHOTOGRAPH BY ERIC THAYER FOR THE NEW YORK TIMES) (B1); An Amazon worker in New Jersey. By raising rates on Wednesday, the Fed signaled its confidence in the economy. (PHOTOGRAPH BY LUCAS JACKSON/REUTERS) (B4)

Document NYTF000020171214edce0004g

Business/Financial Desk; SECTB

How the Fed's Rate Increase Affects Your Debt

By TIFFANY HSU
1,118 words
14 December 2017
The New York Times
NYTF
Late Edition - Final
3
English

The Federal Reserve's decision to raise its benchmark interest rate on Wednesday, the fifth increase since the financial crisis, will probably reach beyond Wall Street and into most American homes.

Anyone with a credit card will see a small but instant shock to their interest rate, followed by borrowers with student and auto loans and, eventually, mortgage holders.

At the Fed's final meeting of the year, and the last one for Janet L. Yellen, its chairwoman, the board of governors set the target federal funds rate between 1.25 percent and 1.5 percent, a quarter-point increase.

The psychological effect of the increase, the third of 2017, may be dulled as consumers grow conditioned to the such moves.

But more are coming. The economy seems healthy, with low unemployment and the promise of stimulus measures like the Republican plan to cut taxes. Fed policymakers are raising the rate to prevent the economy from overheating, and expect three more increases in 2018.

Ethan S. Harris, an economist with Bank of America Merrill Lynch, cautioned in a note to investors that ''there is no such thing as a painless Fed hiking cycle.''

Credit Cards

Credit card debt is already expensive, with interest rates at more than 13 percent on average, according to Fed data. The latest rate increase could make using plastic slightly pricier.

Unlike homeowners and other borrowers, cardholders are immediately affected by an increase. Card rates are based on a bank's prime rate, which is usually set at 300 basis points, or three percentage points, above the high end of the Fed's benchmark. Cardholders pay a premium above the prime rate that is determined largely by their creditworthiness.

That final rate tends to be variable, allowing banks to make adjustments when their own borrowing costs increase. This could cause payments to balloon, because credit cards tend to compound interest, requiring consumers to pay interest on their base balance and on the accrued interest.

The average American household that carries credit card debt has a balance of about $15,650, according to a recent analysis by the personal finance website Nerdwallet. After a quarter-point increase in the Fed's rate, each household can expect to pay an average of $919 a year in credit card interest, up from $904, according to the study. Further Fed increases would push card rates higher.

Consumer groups suggest that debtors who cannot pay off their monthly credit card balances transfer the debt onto a card that does not charge interest for several months, and then clear the amount owed before the card switches to a variable rate.

Mortgages

Home loans usually come with 15- to 30-year terms, a far longer timeline than the short-term borrowing affected by the federal funds rate.

So mortgage rates, which have hovered below 4 percent for much of 2017, are less sensitive to incremental rate increases than to changes in the yield of the 10 year U.S. Treasury note, which stayed low this year even as the Fed rate ticked up.

Fixed rates on 30-year mortgages largely track the Treasury movements. From June 2004 to June 2006, when the Fed raised the federal funds rate 17 times, mortgage rates followed a similar pattern.

Homeowners are not entirely shielded from the impact of a Fed rate increase. Whenever the central bank makes borrowing costlier for commercial banks, those institutions have an incentive to pass those costs on to customers.

The most vulnerable borrowers are those either seeking a new mortgage or already holding one with an adjustable rate. Lenders have begun gradually pushing up rates, partly in anticipation of future Fed increases.

If mortgage rates increase, Americans may be less inclined to buy homes. Lighter demand could mean lower home prices. Homeowners with fixed-rate mortgages may hold off on refinancing, leading to less loan activity and trouble for workers in the industry.

Student loans

Students who already have a fixed-rate government loan will not see a change, but the interest rates on private variable-rate loans will probably rise because of the Fed's action. Those who anticipate borrowing for college in the near future may see an uptick in rates.

Federal loans are tied to the rate on the **10**-**year Treasury** note, which accounts for future shifts in the Fed benchmark rate. The government adjusts its loan rates each July.

Private lenders can be expected to raise variable rates on personal loans, but the shift for most existing borrowers will not happen until the date specified in their master promissory note.

''When there's a hike in the rate, you'll typically see a hike throughout the whole private lending world as well,'' said Ashley Norwood, a consumer and regulatory adviser with American Student Assistance, a nonprofit group assisting student borrowers. ''In normal years, the increases aren't significant enough to be alarming -- an extra $2,000 over the course of a 20-year, $30,000 loan isn't making or breaking you usually.''

But repeated rate increases, she said, could cause ''heartburn,'' especially for vulnerable borrowers with lower credit scores.

Auto loans

Similar forces are at work for car owners, although the impact is far more muted than it is for credit card and student loan holders. Monthly payments on new auto loans might be just a few dollars more than for existing debtors.

Auto loans have been relatively affordable for some time, with banks offering interest rates below 4.5 percent for both four- and five-year terms, usually with fixed, rather than variable, rates.

Eight in 10 new car sales are financed through a dealer, bank affiliated with an automaker or lease, said Jessica Caldwell, a senior analyst at Edmunds. Automakers and dealers are accustomed to dangling hefty incentives that they sweeten during downturns and the holidays.

Although 17.2 million new cars are projected to be sold in 2017, dealers have experienced a drop-off since last year, Ms. Caldwell said. Dealers have sizable inventory of current-year models to offload before 2018 and might temporarily ignore the effect of the Fed increase.

''When sales are going down, there's more pressure for automakers and dealers to keep market share,'' Ms. Caldwell said. ''When things are very competitive, they're more willing to eat the cost by offering low-interest-rate financing even if they have to pay more for their loans.''

Interest rates on credit card debt are expected to rise as a result of a Federal Reserve decision Wednesday to raise its benchmark rate. (PHOTOGRAPH BY BRYAN THOMAS FOR THE NEW YORK TIMES)

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Bitcoin Lures Asia Investors

By Steven Russolillo in Hong Kong and Eun-Young Jeong in Seoul
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13 December 2017
The Wall Street Journal
J
B1
English

Behind bitcoin's stunning rise lies a new force in global **financial markets**: millions of individual Asian investors.

Despite the attention focused on the launch of bitcoin futures in the U.S. last weekend, the center of gravity for trading the virtual currency, measured by volumes, has been in the East -- starting in China, before shifting earlier this year to Japan and recently to South Korea as the latest hot spot.

Unlike past financial frenzies -- such as the dot-com bubble of the late 1990s, when U.S. retail investors only piled in at the later stages of the rally -- individual investors have been first to the party, fueling bitcoin's 1,600% rise this year.

"Bitcoin is one of the few markets we've ever had in history where you've seen these astronomical gains around the world and the retail investors in Asia are the ones driving it," said Chris Weston, chief market strategist at IG Group, one of the world's largest online trading platforms. "It feels like this whole thing is being driven by the average Joe who isn't nearly as financially literate as a professional fund manager."

Various forces have stoked Asia's bitcoin fever. While individual wealth has been growing in recent years, particularly in China and South Korea, lucrative investment opportunities can be hard to find, with property markets expensive and stock markets fully valued.

Anecdotal evidence suggests that Asians are more comfortable with the concept of virtual currencies such as bitcoin, particularly younger people who have grown up in a world of e-commerce and mobile payments.

China last year made up the bulk of trading volume before regulators clamped down. But by the end of November, Japan, South Korea and Vietnam accounted for nearly 80% of bitcoin trading activity globally, according to research firm CryptoCompare, while U.S. trading was about one-fifth of the volume. In the past few weeks, the U.S. share of the overall total has increased.

While the numbers can fluctuate significantly daily, South Korea at one point last week accounted for as much as a quarter of bitcoin trading activity, exceeding that of the U.S., according to Coinhills, a data firm that tracks digital currencies. South Korea has a population of about 51 million, compared with 323 million in the U.S.

"Asia in general has a lot of interest in trading cryptocurrencies . . . [They] are the cool new thing that young people are excited about" said Vitalik Buterin, the creator of another type of cryptocurrency called ethereum, in a recent interview in Seoul.

Lee Sang-chul, 32 years old, is one of the millions of South Koreans who have become enamored with bitcoin. Mr. Lee, who runs a car-detailing shop in the southern port city of Busan, invested 100 million South Korean won (about $92,000) into the virtual currency in October, a decision he describes as life-changing thanks to the gains he has made.

"Before bitcoin, I'd be at my shop from morning to evening. Now, I close shop when I have an appointment or leave early," said Mr. Lee. He has hired two people at his shop since he started investing in bitcoin and bought his wife an expensive Chanel handbag for their wedding anniversary.

"My goal is to accumulate as many bitcoin as I can," Mr. Lee said, adding that he expects the virtual currency to replace standard currencies in the future.

In Hong Kong, cryptocurrency fans gathered one recent Friday evening at what was advertised as a "Bitcoin Bubble Bash." The Bitcoin Association of Hong Kong organized the meetup, with BitMEX, a trading platform, helping pay for pizza, wraps, beer and wine to celebrate "the most successful year of bitcoin history yet (again!)," according to the event invite. Nearly 200 people registered, with attendees including teachers, equity traders and insurance brokers.

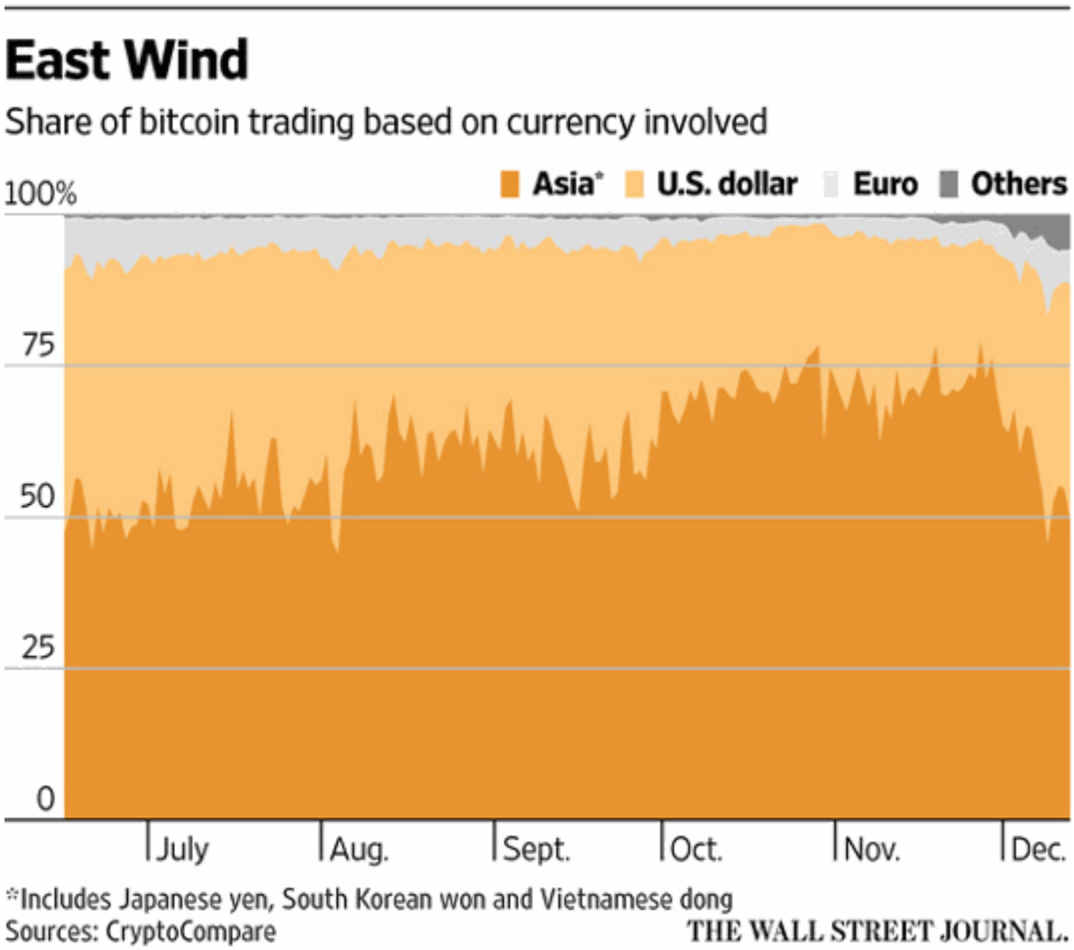
"I've doubled my money. It's only going up. I'm getting rich so quick," said one person who attended the event.

It is people like these across Asia who have propelled bitcoin's prices this year. Analysts reckon traditional Wall Street professionals won't become the market's main driving force for some time.

"It's the first ever bankerless bubble," Joshua Brown, chief executive of New York investment-advisory firm Ritholtz Wealth Management, wrote on his blog this month. "There's never been a phenomenon like this where the general public beats the 'big money' . . . We have a full-blown mania on our hands and Wall Street is still at the drawing board."

Bitcoin's popularity in South Korea has led to the cryptocurrency often trading at a higher price there than elsewhere. When bitcoin surged past $17,000 last week for the first time, according to CoinDesk, a research site that distributes the most widely quoted price across the cryptospace, it hit almost $25,000 on Bithumb, South Korea's biggest cryptocurrency exchange. Two other South Korean exchanges, Coinone and Korbit, also displayed prices well above $20,000. Those spreads have since narrowed. "Every market had its own local rules and that creates all different types of discrepancies," said Cedric Jeanson, founder and chief executive of BitSpread, a bitcoin-focused hedge fund.

Kwanwoo Jun contributed to this article.



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Quicker Fed Pace Could Rattle Markets

By Ben Eisen, Daniel Kruger and Chelsey Dulaney
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13 December 2017
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B20
English

Investors have greeted the Federal Reserve's recent string of interest-rate increases with some of the most docile market conditions in years, a sign that they could be in for a shock if the central bank decides to ramp up the pace of rate rises next year.

The Goldman Sachs Financial Conditions Index, a widely watched measure of how easily money and credit flow through the economy via **financial markets**, was this month at its lowest level since 2014. Financial conditions are now looser than they were before the Fed began lifting rates in 2015.

Typically, the prospect of Fed rate increases tightens financial conditions by pushing up borrowing costs for companies and governments, lifting the value of the dollar against its peers and restraining a rise in the **stock market**.

That hasn't happened this time around. Two years into the Fed's rate-rise cycle, stocks have been on a nearly uninterrupted climb and longer-term Treasury yields have barely budged and lingered near the technically important level of 2.4% for much of the past few months. The WSJ Dollar Index, a measure of the U.S. currency against 16 peers, is down 3% from its December 2015 level.

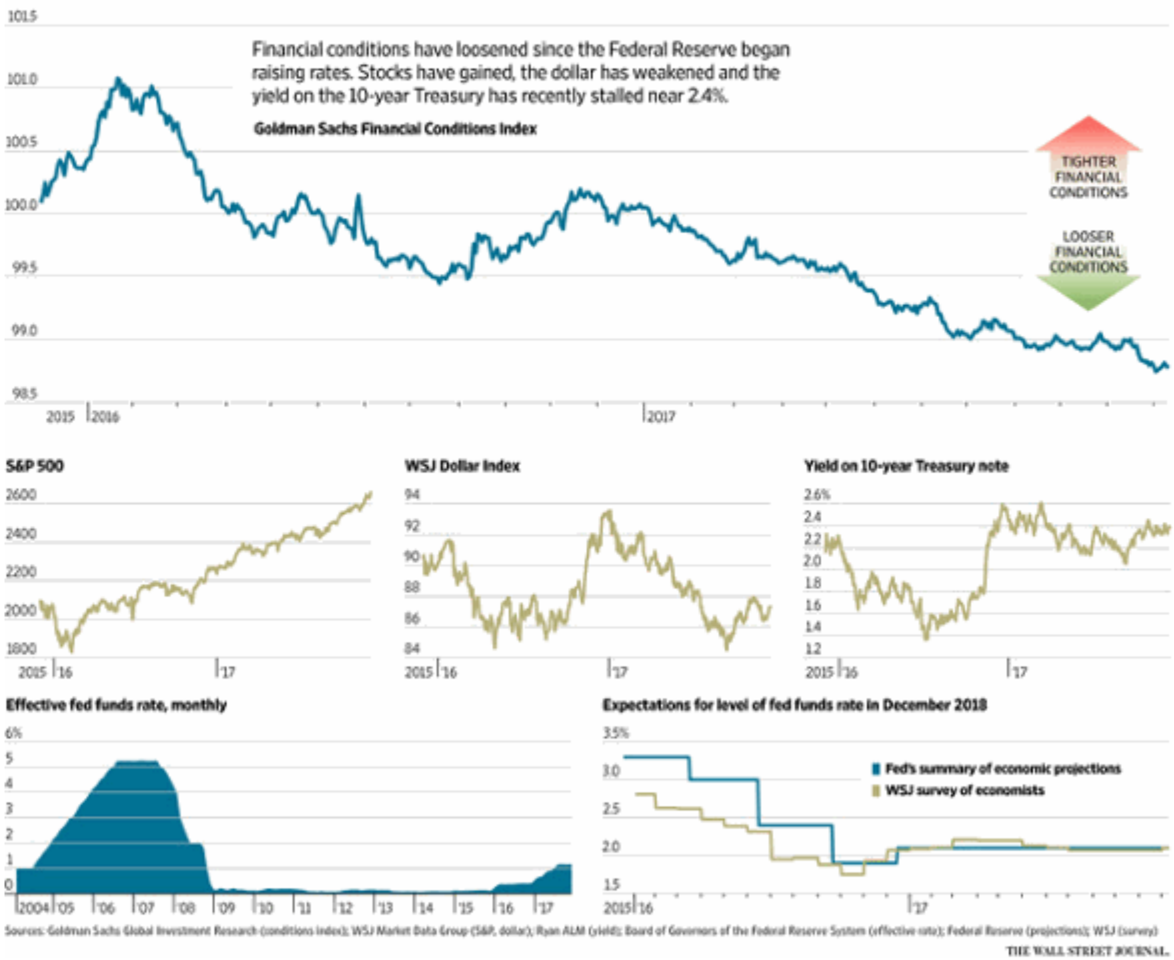
Markets have rewarded investors who continued to take risks in large part because the Fed has lifted rates more slowly than in past cycles. After this week's expected increase, the Fed will have lifted rates just five times in two years. By contrast, the Fed's last tightening cycle stretched over a total of two years and included 17 increases.

The Fed has been slow to move this time because the economy and **financial markets** have shown few signs of overheating. Though there are concerns in some corners that the prices of stocks and other assets have climbed too far, the economy has been muddling along and inflation remains below the Fed's annual target of a 2% rise.

That raises concerns about whether financial conditions will tighten abruptly if the Fed opts to lift rates at a faster pace in the new year. Jerome Powell is expected to take the helm of the central bank in 2018 and could shift course, particularly with a new batch of policy makers expected to favor faster rate increases.

If inflation begins to accelerate next year, the pace of rate increases also could pick up, economists say.

Investors and central bankers had a long face-off with very divergent expectations about how quickly growth and inflation would pick up and how much policy makers would need to do to address improving conditions. After lowering their forecasts throughout 2016, Fed officials stuck to their guns in 2017, and the market has moved toward the Fed's more recent, and less aggressive projections.



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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Banks Help Push Markets Higher Ahead of Fed Meeting

By THE ASSOCIATED PRESS
1,077 words
13 December 2017
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NYTF
Late Edition - Final
2
English

Big-name companies notched gains on Wall Street Tuesday, delivering more records for two of the major stock indexes.

The **Standard & Poor's500 index** and the **Dow Jonesindustrial average** finished at all-time highs for the second day this week, while a slide in technology stocks pulled the **Nasdaq** lower. Small-company stocks also lagged.

Banks and other financial stocks led the gainers as the Federal Reserve met to discuss interest rates. The central bank is expected to raise rates for the third time this year on Wednesday, which allows banks to charge more to lend money.

Technology stocks declined the most. Energy stocks also fell as crude **oil prices** closed lower. Bitcoin futures fell on their second day of trading.

"It's another day, another all-time high," said Brian Nick, chief investment strategist at Nuveen Asset Management.

The **S&P 500 index** rose 4.12 points, or 0.2 percent, to 2,664.11. The Dow gained 118.77 points, or 0.5 percent, to 24,504.80. The **Nasdaq** lost 12.76 points, or 0.2 percent, to 6,862.32. The Russell 2000 index of smaller-company stocks fell 3.72 points, or 0.2 percent, to 1,516.12. More stocks fell than rose on the New York Stock Exchange.

Even though inflation has remained low, the Fed has seen a path to gradually raise rates as the economy and labor market have strengthened. While the central bank is widely expected to announce a 0.25 percent increase in short-term interest rates Wednesday, investors will be listening for any hints that the Fed could pick up its pace on rate hikes next year.

"There's a chance at the meeting tomorrow they're going to be showing four rate hikes next year in their forecast as opposed to three, where it had been in September," Nick said. "So this is seen as a not just sort of a one-off hike like we've had in the past, but a continuation of a quarterly cadence of rate hikes."

Meanwhile, the European Central Bank and the Bank of England will have policy announcements on Thursday. Neither is expected to change rates, leaving the focus on their economic forecasts.

The prospect of another short-term interest rate hike helped lift bank shares. Goldman Sachs Group rose $7.55, or 3 percent, to $257.68.

The latest batch of corporate earnings, outlooks and deal news also helped move markets Tuesday.

Several shopping mall owners closed higher after Australian company Westfield agreed to be bought by France's Unibail-Rodamco for $15.7 billion. Macerich gained $3.18, or 5 percent, to $66.47, while Simon Property Group rose $4.09, or 2.5 percent, to $166.35. GGP picked up 38 cents, or 1.6 percent, to $23.77.

Comcast rose 2.8 percent after the Wall Street Journal reported that the cable TV and entertainment company was no longer in talks to buy parts of 21st Century Fox. Comcast added $1.07 to $39.51. The Journal also reported that Disney is in talks with Fox and that a deal could be announced this week. Fox shares gained 44 cents, or 1.3 percent, to $34.10.

Urban Outfitters rose after the retailer issued a positive update on its fourth-quarter sales. The stock added 11 cents, or 0.3 percent, to $32.38.

The latest quarterly snapshot from Casey's General Stores put traders in a selling mood. The retailer slumped 11.6 percent after its second-quarter profit fell short of analysts' estimates. The stock gave up $14.07 to $107.18.

Edison International fell 6 percent after the utility said it believes authorities are looking into the possibility that wildfires in California started at one of its facilities. Edison shares slid $4.40 to $68.58.

Technology stocks, which have been the best performing sector this year with a gain of 37 percent, made up a big portion of the laggards. Micron Technology slid $1.15, or 2.7 percent, to $41.86.

Energy prices fell. Benchmark U.S. crude slid 85 cents, or 1.5 percent, to settle at $57.14 per barrel on the New York Mercantile Exchange. Brent crude, the international standard for oil, shed $1.35, or 2.1 percent, to close at $63.34 per barrel in London.

The decline in **oil prices** weighed on energy sector stocks. Cabot Oil & Gas shed 73 cents, or 2.6 percent, to $27.60.

In other energy futures trading, wholesale gasoline lost 3 cents to $1.70 a gallon. Heating oil shed 2 cents to $1.93 a gallon. Natural gas fell 15 cents, or 5.3 percent, to $2.68 per 1,000 cubic feet.

Gold fell $5.20, or 0.4 percent, to $1,241.70 an ounce. Silver dropped 12 cents to $15.67 an ounce. Copper added a penny to $3.02 a pound.

The dollar rose to 113.58 Japanese yen from 113.52 yen late Monday. The euro fell to $1.1737 from $1.1786.

Bitcoin futures fell $525, or 2.8 percent, to $18,020 on the Cboe Futures Exchange. The futures allow investors to make bets on the future price of bitcoin. The average price of an actual bitcoin was $17,246 in late-afternoon trading on private exchanges, according to Coindesk. The price of the digital currency has soared this year, having begun 2017 under $1,000.

Bond prices fell. The yield on the **10**-**year Treasury** rose to 2.41 percent from 2.39 percent late Monday.

Major stock indexes in Europe rose. Germany's DAX gained 0.5 percent, while the CAC 40 of France added 0.8 percent. Britain's FTSE 100 rose 0.6 percent.

Earlier in Asia, Japan's Nikkei 225 index lost 0.3 percent, while South Korea's Kospi dropped 0.4 percent. The Hang Seng index in Hong Kong shed 0.6 percent. The S&P ASX 200 added 0.3 percent. India's Sensex dropped 0.7 percent. Other regional markets were mostly lower.

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

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

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Fracking Our Way to Mideast Peace

By Walter Russell Mead
810 words
12 December 2017
The Wall Street Journal
J
A17
English

Whatever you think of President Trump's decision to recognize Jerusalem as Israel's capital, it points to the most important strategic reality in the Middle East: Arab power has collapsed in the face of low **oil prices** and competition from American frackers.

The devastating **oil-price** shocks of the 1970s, orchestrated by the Organization of the Petroleum Exporting Countries, nearly wrecked the world economy. Ever since, the U.S. has looked for ways to break OPEC's parasitic and rent-seeking grip on the oil market -- and thereby to reduce America's geopolitical vulnerability to events in the Middle East.

Victory did not come easily. Intense conservation efforts made the U.S. much more energy-efficient. New oil discoveries in Africa and elsewhere significantly broadened the available supply. Renewable energy sources added to the diversification. But the most decisive development was that decades of public and private research and investment unleashed an American oil-and-gas boom, leading to a revolution in energy markets that has sent geopolitical shocks through world affairs.

The consequences reverberate in the Middle East and beyond. Future oil revenues to countries like Saudi Arabia, Iran, Venezuela, Russia and Iraq will fall trillions of dollars short of what once might have been expected. The shift in energy markets will benefit consumer economies like Japan, China, India and the nations of the European Union. The U.S. and similarly situated nations, like Australia and Canada, can look forward to faster growth and greater foreign investment, since they will capture much of the oil revenue that Russia and OPEC lose.

Low energy prices already have given the EU's struggling southern countries a chance to return to growth. They have limited Russia's prospects and forced Vladimir Putin onto a tight budget. They have largely offset the gains Iran had hoped to make from signing the nuclear deal and escaping Western sanctions.

But the greatest consequences are being felt in the Arab world, where the long-term decline in oil revenues threatens the stability of many states. It is not only the oil producers that will suffer; the prosperous Gulf economies have been a major source of opportunity for Egyptians, Pakistanis, Palestinians and many other Middle Easterners.

The shining cities that rise where the desert meets the Gulf may be in for harder times. The sheikhdoms' glassy skyscrapers, gleaming malls and opulent apartment complexes were conceived for a world in which runaway energy demand and limited sources (remember "peak oil"?) led to inexorably rising prices. These fragile and artificial economies require hothouse conditions that a weakened OPEC can no longer provide. Now the great Gulf Bubble seems set to slowly deflate.

There's more. The staggering affluence of the Gulf countries during the OPEC era concealed the Arab world's failure to develop states and economies capable of competing effectively in the 21st century. As their dream of revival through oil riches fades, they are waking to a new era of weakness and dependency.

The Gulf states increasingly see Israel not as an insect to be crushed by resurgent Arab power, but as a lion that can defend them from Iran. Syria, once a citadel of Arab nationalism, now haplessly hosts Russian, American, Iranian and Turkish forces that the Assad dynasty can neither control nor evict.

Arab diplomats, lobbyists and financiers must brace for more bad news: As the declining long-term prospects of the OPEC states become apparent, their diplomatic and economic influence across the West can be expected to wane even further.

Many analysts look at the frustrations of America's policy in the Middle East and conclude that the U.S. is in retreat and hegemonic decline. That misses the deeper truth. American diplomacy has had its share of failures, but the region is now being fundamentally reshaped by drillers in Texas, Pennsylvania, North Dakota and elsewhere.

Even with OPEC's hold broken, the Middle East will remain a problem for American policy. Moreover, not all the consequences of OPEC's decline are good. In the short term, Russia and Iran are likely to double down on adventurous foreign policies as a way of distracting their populations from the tough challenges ahead. Instability in America's key Gulf allies and in Egypt could create major headaches for the U.S.

Nevertheless, reducing OPEC's ability to capture rents, while forcing more corrupt petrostate oligarchies to contemplate reform, is likely over time to reduce both the costs and the risks of American foreign policy. This is what winning looks like.

Mr. Mead is a fellow at the Hudson Institute and a professor of foreign affairs at Bard College.

(See related letter: "Letters to the Editor: Fracking Puts Pressure on OPEC's Bottom Tier" -- WSJ Dec. 20, 2017)

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Technology

Bitcoin Trading Overwhelms Exchanges --- Disruptions follow a jump in the value of the currency and the launch of futures trading

By Gregor Stuart Hunter
359 words
12 December 2017
The Wall Street Journal
J
B4
English

Some of the world's biggest cryptocurrency exchanges have experienced disruptions in recent days as interest in bitcoin surged in the weeks leading up to Sunday's launch of bitcoin futures.

Bitcoin exchanges and brokerages including bitFlyer, Bitfinex and Coinbase have all reported service outages in the past week. The digital currency has increased in value by more than 16 times since the start of the year and lured more customers into the market.

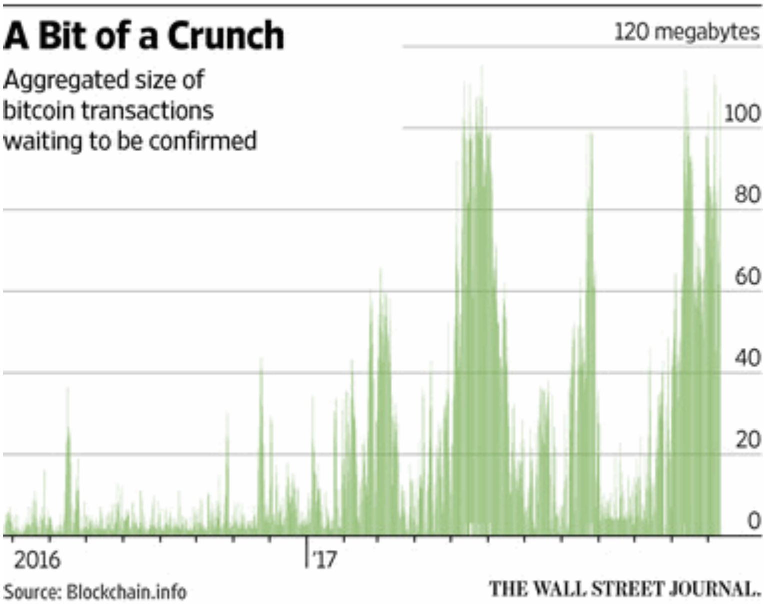
The latest problems at bitcoin exchanges followed similar outages when the digital currency crossed above $10,000 late last month. The impetus for disruptions in recent days has been the rally around the start of futures trading on Cboe Global Markets over the weekend. The availability of futures lets investors take leveraged or short bets on the currency, and marks its entry into the mainstream financial system. The Chicago-based exchange reported outages to its website Sunday due to heavy traffic.

BitFlyer, Japan's biggest cryptocurrency exchange, said Sunday that some of its users were unable to log on as a result of "erroneous deposits made to a portion of users accounts," an issue which it has now resolved. The company didn't respond to requests for comment.

Coinbase, the cryptocurrency brokerage which shot to the second-most-downloaded app in Apple's App Store for the U.S. on Thursday, said it was experiencing "significant backlog" in processing some bitcoin withdrawals.

"Despite the sizable and ongoing increases in our technical infrastructure and engineering staff, we wanted to remind customers that access to Coinbase services may become degraded or unavailable during times of significant **volatility** or volume," its co-founder and chief executive Brian Armstrong wrote in a blog post on Friday.

Bitfinex said twice this month it came under so-called distributed denial-of-service attacks, in which attackers try to overwhelm a website with traffic. The issue has since been resolved. The company didn't respond to requests for comment.



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THE WALL STREET JOURNAL.
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Emerging Markets Ready for Fed Move

By Georgi Kantchev, Steven Russolillo and Ira Iosebashvili
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12 December 2017
The Wall Street Journal
J
B12
English

Emerging markets, long vulnerable to the whims of central banks in the developed world, now seem to be more Fed-proof than ever.

The Federal Reserve is expected to raise interest rates for the third time this year Wednesday, just as other central banks in the developed world have recently started to tighten monetary policy. But investors in developing countries aren't flinching, reflecting confidence in the growing global economy and a changing investment landscape in those countries, fund managers say.

"Everybody used to think if the Fed tightens, all emerging markets die," said Helen Qiao, managing director at Bank of America Merrill Lynch in Hong Kong. "I don't think that is the picture anymore."

The reversal in fortunes comes as emerging markets are enjoying what some analysts call a "Goldilocks" moment -- a combination of strong global growth, stabilizing commodity prices and improving domestic fundamentals. This has fueled a rally dwarfing gains made by U.S. stocks.

The MSCI Emerging Markets Index of stocks has risen around 28% this year, more than the 18% gained by the **S&P 500**, and is on pace for its best year since 2009. Currencies such as the Mexican peso and Russian ruble have risen this year and so have some developing-country government bonds.

More money is also flowing into the developing world. Investors will pour $1.1 trillion into emerging-market assets this year, the biggest flow of funds in three years, according to the Institute of International Finance. Flows are expected to increase further next year to $1.2 trillion.

A rare spurt of synchronized global growth has been underpinning the rally. All 45 countries monitored by the Organization for Economic Cooperation and Development are on track to grow this year. That has only occurred three times in the past 50 years, according to the OECD.

"Emerging markets can grow even if the Fed is hiking, provided that growth is playing ball. And right now, it is" said Stuart Sclater-Booth, emerging markets debt portfolio manager at Stone Harbor Investment Partners.

A rise in the price of raw materials also has boosted many exporters, with copper up 19% this year and Brent oil gaining 10%. The International Monetary Fund expects emerging economies as a whole to grow by 4.9% in 2018, up from 4.6% this year, and more than double the growth rate in advanced economies.

But despite the supportive backdrop, many investors say the bigger change comes from within.

Back in 2013, emerging-markets assets swooned after then-Fed Chairman Ben Bernanke indicated that the central bank's bond-buying program might be wound down in an episode that became known as the "taper tantrum." Higher U.S. rates typically drive investors away from emerging markets by making their bonds, stocks and currencies less attractive.

This time around, in a year when the Fed has already raised interest rates twice and the European Central Bank indicated it will scale down its massive bond-buying program, there are few signs of stress.

"The Fed and other central banks matter less now because fundamentals have flipped," said Kevin Daly, portfolio manager for emerging-market debt at Aberdeen Asset Management.

That includes better governance and a drive by many countries in recent years to build up big foreign-currency reserves and loosen their controls over exchange rates, allowing them to more easily absorb economic shocks, investors say.

"These aren't the same emerging markets we had 10 years ago," said Vasu Menon, senior investment strategist in wealth management at OCBC Bank in Singapore.

For investors like Ashok Bhatia, senior portfolio manager at Neuberger Berman, that means increasing exposure to some emerging-market assets. The firm earlier this year raised allocations in the dollar-denominated bonds of Brazil and Azerbaijan. It also has added to positions in the Peruvian sol.

History may be on emerging-markets investors' side, too. Over the past four decades, the average emerging-market rally has run for 42 months and returned nearly 230%, according to a Bank of America Merrill Lynch analysis.

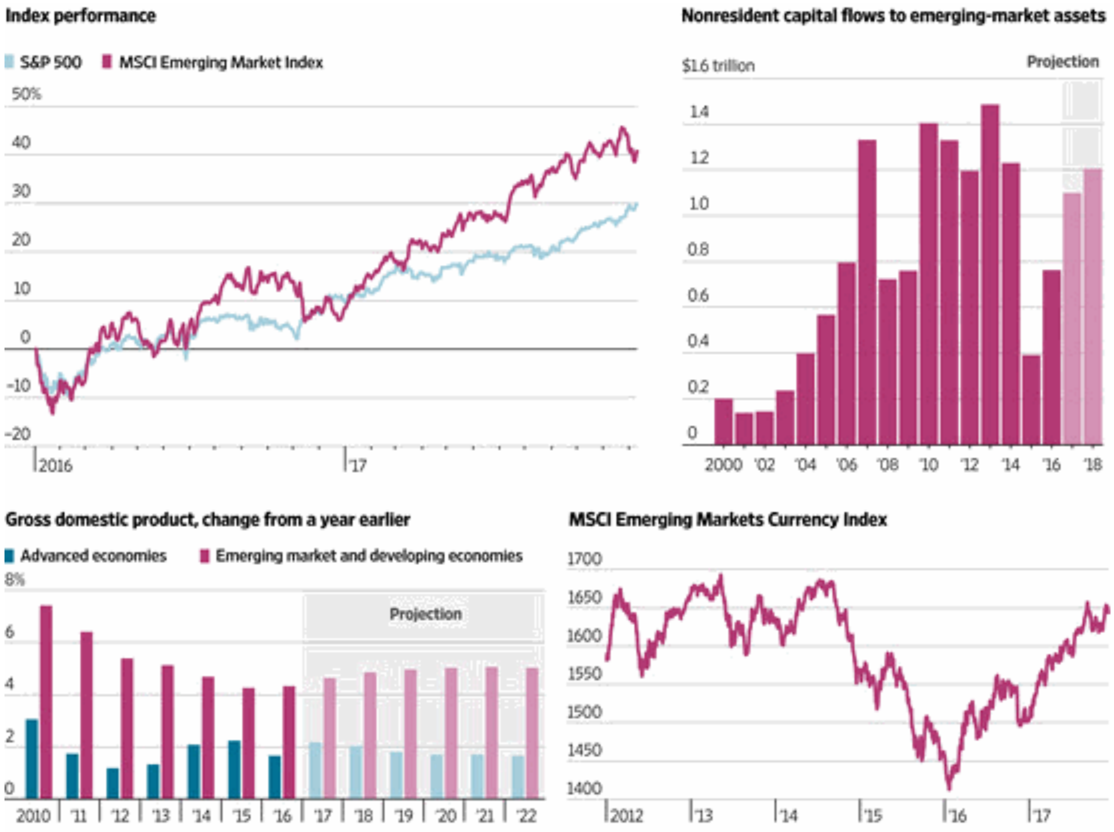
Still, risks remain, particularly if the Fed raises rates more aggressively than anticipated next year, the dollar strengthens or the Chinese economy wobbles. Recently, assets have wavered amid political and economic turmoil in key emerging markets such as Turkey and South Africa, with the MSCI Emerging Markets Index broadly flat in the past three months.

Most investors assume the Fed's tightening path will be a gradual one, predicting two rate increases next year, according to federal-funds futures tracked by CME Group. The central bank, though, sees at least three rate rises. Higher U.S. interest rates tend to strengthen the greenback, which is typically bad news for emerging markets, whose debt and commodity exports are often denominated in dollars.

"Markets believe central banks won't do anything too aggressive," Mr. Menon said. There is a risk "this quiet complacency is going to go out the window and that could reverse in a big way."

For now,the upswing is expected to continue unabated.

"There is an argument to be made that emerging markets have become 'crisis-proof,'" analysts at Citigroup wrote in a recent report. Barring any nasty shocks, developing nations "can stay in a Goldilocks zone."



Sources: WSJ Market Data Group (S&P 500); FactSet (MSCI indexes); Institute of International Finance (flows); International Monetary Fund (GDP)

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.
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Market Shows a Sign of Unease --- An indicator of anxiety over stocks reaches records despite a very low volatility measure

By Ben Eisen
513 words
12 December 2017
The Wall Street Journal
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B6
English

Two academics are rolling out a new measure of market fear that suggests investors aren't nearly as complacent as they seem.

The gauge of so-called ambiguity, meant to chronicle the degree of uncertainty investors have in the probabilities they use to make decisions, has been at all-time highs in recent months, indicating that there is more fear built into the stock market than common measures of volatility suggest. The Cboe Volatility Index, a popular metric for tracking fear in the market, has been idling near record lows this year.

In separating out ambiguity from common measures of risk, Menachem Brenner of New York University and Yehuda Izhakian of Baruch College are picking up on a concept that traces back nearly a century.

Economist Frank Knight in 1921 wrote about the difference between risk and uncertainty.

If volatility measures the uncertainties for which one can determine a probability, or the "known unknowns," ambiguity measures the "unknown unknowns," to use a term popularized by former Defense Secretary Donald Rumsfeld, according to Mr. Brenner.

Mr. Brenner, an early pioneer of volatility research whose work was profiled in The Wall Street Journal in March, and Mr. Izhakian are turning the concept into a gauge of current market conditions that they hope will be useful for market watchers. They came up with the measure by analyzing market returns in five-minute increments. Their research is to be published in the Journal of Financial Economics.

In October, the gauge hit 2.42, its highest reading in monthly data that extends back to 1993.

That is above the gauge's previous peak of 2.41 at the height of the financial crisis in October 2008.

Last month, it retreated a bit to 2.28, the third-highest reading on record, the data show.

That is in sharp contrast to the Cboe Volatility Index, or VIX, an options-based measure of expected stock swings over the next 30 days.

The decline in the VIX this year has befuddled investors and traders of all stripes, given the host of geopolitical uncertainties in locations like North Korea and political skirmishes in Washington.

Not to mention, stocks have been rising relentlessly for years, unnerving some investors who say that stocks are trading too high relative to expected earnings.

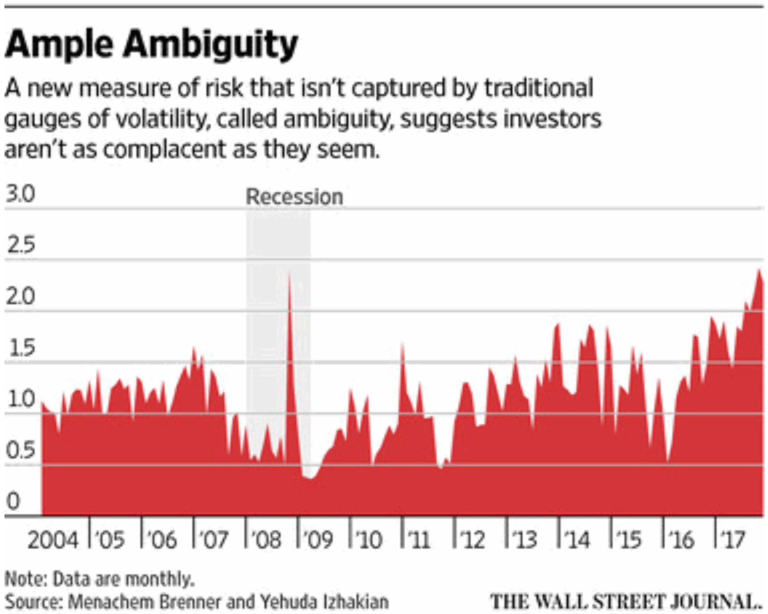
Mr. Brenner, however, notes that is part of the point. Their research found that ambiguity tends to rise alongside the market.

In other words, the higher stock prices climb, the more uncertainty investors feel about where it is going in the future.

In that sense, the high levels of ambiguity don't necessarily suggest an imminent decline in the stock market.

In some ways, Mr. Brenner says, ambiguity looks a lot like it did between 2004 and 2006, when the measure was on the rise alongside stocks, Mr. Brenner says.

The main difference, however, is that ambiguity is a lot higher now.



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THE WALL STREET JOURNAL.
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Stock Investors Face New Tax Hit

By Michael Wursthorn and Veronica Dagher
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The Wall Street Journal
J
A1
English

A little-discussed provision in the Senate tax bill could lead to a higher tax bill for millions of individual investors and cause many to unload stocks before year-end to avoid those costs.

Under the Senate's $1.4 trillion tax overhaul, investors would lose the ability to choose which shares they can sell to reduce a position. Instead, investors selling partial stakes in a company would have to unload their oldest shares first, a process known as selling on a "first-in, first-out" basis.

Selling those shares usually brings a higher tax bill if the stock's price has been rising. Some small investors are fuming that the new rule would cause them to pay much more in taxes.

Troy Jenkins, a 39-year-old engineer in Auburn, Pa., expects to sell his remaining stocks before the end of the year because of the tax proposal.

"It doesn't have the interest of all Americans in it," he said.

The impact could be even greater for his 93-year-old grandmother who has been living off income from her AT&T stock that her late husband accumulated when he worked for its Western Electric unit. Mr. Jenkins said the proposal would force his grandmother to sell twice the amount of stock she normally would have just to maintain her income.

"It's upsetting," he said.

After the money-management industry argued that the change would make markets less efficient, the Senate said the provision wouldn't apply to the firms that manage mutual funds and exchange-traded funds -- only to their individual clients.

The House's tax proposal doesn't include the first-in, first-out provision, and some lawmakers are trying to kill it. In a letter to Senate leaders on Thursday, 41 House Republicans urged their colleagues to drop the provision, saying it would amount to "massive, fundamental change that inhibits investor autonomy."

Proponents point to a Joint Committee on Taxation estimate that the rule would raise as much as $2.4 billion over the next 10 years, starting in 2018. The JCT also said the Senate bill would lead to $1 trillion in additional budget deficits over a decade, even after assuming economic growth.

The Senate recently voted to start formal tax-bill negotiations with the House, hoping to get a final bill to the president by Christmas.

Some money managers and analysts say there has been so little discussion of the Senate provision that investors may be surprised to learn that the new rule could reduce -- or even wipe out -- what they would save from an income-tax reduction.

"If someone thinks their tax bill is going to get cut next year, some investors may wait until 2018 to sell stocks and then have this huge tax bill" since they will be forced to sell their oldest holdings first, said JJ Kinahan, chief market strategist at TD Ameritrade.

His firm last month sent a letter to Congress saying the proposal "inexplicably and unfairly discriminates against the typical Main Street investor using a buy and hold strategy."

Another concern for small investors: The first-in, first-out provision will make it more expensive to perform regular portfolio rebalancing to keep their mix of stocks and bonds constant, since the provision will raise the amount of taxes they pay.

"This discourages investment rather than encourages it," Mr. Kinahen said. "That's dangerous."

Many investors may now sell shares in the next couple of weeks to avoid the risk of paying higher taxes, analysts say, especially those who expect to need cash in the next few years.

Take the case of an investor who owns lots of shares in electric-car maker Tesla Inc. The first lot was purchased in early 2013, when Tesla's stock had traded at $35.36 a share. The more recent lot was purchased in June at $360.75 a share.

This investor wants to sell some of Tesla stake to withdraw cash from the market on Dec. 1, when the car marker's shares traded at $306.53. If the Senate tax provision was already in effect, this person would be required to sell the shares bought first before selling any of the shares in the more recent lot, forcing him or her to incur a taxable gain of $271.17 per share.

But under current rules, the investor would have the option of selling the shares bought last. That would generate a loss of $54.22 a share, which could be used to offset other gains.

The provision would allow investors in funds and dividend-reinvestment plans the choice of selling at the average cost of all the shares they bought. But that average-cost method doesn't apply when selling specific shares of a company's stock.

Some advisers, worried that the new rule will pass, have been urging clients to donate their older shares.

"We have clients in their 80s and they have had stock for a long time," said Allan Flader, a financial adviser with RBC Wealth Management who manages more than $700 million in assets. "There's no reason for them to be paying more in taxes."

GOP Plan

Could Hit

Robo Advisers

The Senate's proposed tax change could also hurt digital wealth advisers who rely on algorithms to make investment decisions for investors.

Betterment LLC, a robo adviser with $10 billion in assets under management, said its tax-loss harvesting service is a significant contributor to investors' gains by prioritizing sales of share lots that have decreased in value to offset taxes. But under the tax proposal, that service would be less effective since the oldest shares in a position would have to be sold.

"Investors would be deprived of choice and opportunity to plan efficiently for retirement and other important financial goals," said Joe Ziemer, a vice president of communications at Betterment.

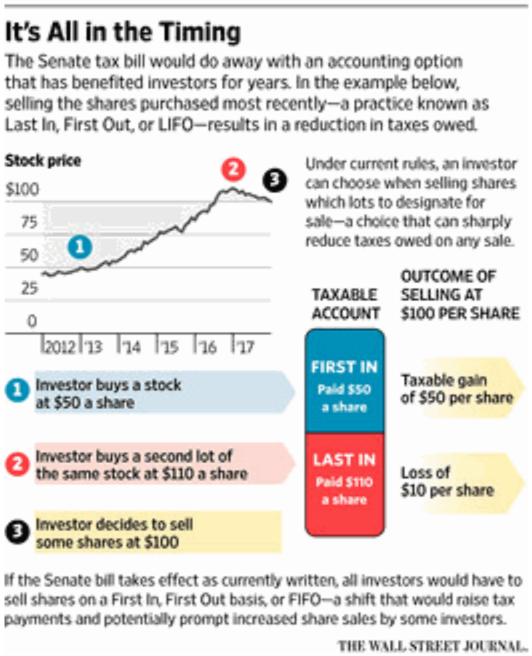
It would also limit taxpayers' ability to maximize the value of charitable donations of appreciated shares by forcing them to give the first stock they acquired. Currently, investors can avoid paying capital-gains taxes on donated shares by getting a deduction for their full-market value.

Financial advisers also rely on managing investment taxes to eke out as much as 1% to 2% annually in additional gains.

While the **S&P 500** is up 16% for the year, those additional returns help wealth managers justify the fee they charge -- usually about 1% of an investor's portfolio.

"We're talking about saving people thousand of dollars," said Paul Pagnato, founder of PagnatoKarp, a $3.8 billion wealth-management firm.

-- Michael Wursthorn



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THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance -- Streetwise: Looking for a Productivity Miracle

By James Mackintosh
866 words
12 December 2017
The Wall Street Journal
J
B10
English

Economists are often baffled by the gyrations of the **stock market**, but at the moment shareholders and the economic profession simply disagree on one of the biggest assumptions forecasters have to make: productivity growth.

Shares of companies with disruptive technologies have soared on the basis that they are shaking up industry after industry, and fat profits lie ahead. The flip side of replacing workers with robots or algorithms should be sharply improved labor productivity, but after a decade of wrongly predicting a pickup in productivity economists have scaled back forecast gains.

Perhaps 2018 will be the year productivity begins to pick up. Technologies such as speech recognition, chatbots and machine learning are being adopted, capital spending is picking up and tight labor markets give companies an incentive to find better ways of working.

But productivity defies forecasters, and the lesson of the past is to be humble. This is a story of how little anyone really understands about what moves productivity, even though it is the key to long-run prosperity -- and to what happens to inflation and share and **bond prices**.

Labor productivity is real economic output divided by the numbers of hours worked, but it is easiest to understand for a business: How many gingerbread lattes can each Starbucks barista churn out per hour? Give them a better machine or better training and the productivity rises.

By extension the same applies to the wider economy. Many economists point to years of weak corporate investment and a dire education system for poor U.S. productivity growth. Making it worse is an aging workforce, "zombie" companies kept alive by low interest rates and a debt overhang from the 2008 financial crisis. A shift from high-productivity manufacturing to low-productivity service sectors hurts the overall numbers, too.

Against this, corporate investment is finally picking up, millennials are in their prime working years and interest rates are rising, with futures traders certain the Federal Reserve will increase rates againon Wednesday. Technologies such as drones and self-driving vehicles are being adopted quickly, while memories of Lehman Brothers' collapse have faded.

Unfortunately, economists have been unsuccessful at finding reliable links between any of these factors and productivity.

"As far as I'm concerned productivity is a miracle," says Neal Soss, vice chairman in research at Credit Suisse and a former assistant to Fed Chairman Paul Volcker. "We just don't really know where it comes from."

This uncertainty may leave the future clouded, but it also leaves open the idea that productivity might pick up -- an idea that many have abandoned after years of disappointment.

For an example, look back to the mid-1990s, the last time overall U.S. productivity was lower than last year's 0.18%, according to the Organization for Economic Cooperation and Development. Business productivity last year equaled the grim year of 1993, according to the Bureau of Labor Statistics, although was a little worse in 2011, the year the U.S. lost its top credit rating.

The first half of the 1990s had a "productivity paradox" of technological change being highly visible but not showing up in the economic data. Just as with the past decade's development of smartphones, apps, financial technology and machine learning, it took time for laptops and personal computers to increase output. It happened suddenly, with productivity leaping 2.5% in 1996 and growing that rapidly on average over the next decade, on OECD numbers. Between 1996 and 2000, U.S. stocks had their best five years since the 1920s.

OECD Senior Economist Yvan Guillemette says a big problem for forecasters is that technological change comes in unpredictable waves. "In the long run productivity's all about innovation. That is especially very difficult to forecast," he says. "The best we can do is go back over a very long history and take an average."

The latest innovation wave might never arrive in the economic data. After all, the technology has brought us Twitter trolls, full-time bitcoin traders and search engine optimization executives, none of which obviously help productivity.

But productivity leapt 3% in the third quarter of this year, and while quarterly data are **volatile**, it is plausible that a productivity pickup is coming soon. It will be critical to how both the market and the Fed should react to signs of wage rises. Without productivity growth, higher wages are bad news for profits. Either companies accept lower margins, immediately bad for the **stock price**, or they pass on higher wage costs into prices, pushing up inflation and prompting the Fed to raise rates more quickly. With productivity improvements that nasty choice can be avoided, as the gains can be passed on to workers while maintaining margins.

Forecasters have spent a decade unsuccessfully predicting that productivity growth is about to return, so it feels rather optimistic to predict it now. A lesson many economists take from the past 10 years is that productivity has permanently slowed. A better lesson is that it is hard to forecast, and investors need to be open-minded about what will happen.

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The New York Times

Business/Financial Desk; SECTB
Indexes Keep Pushing Higher as Bitcoin Futures Surge in Market Debut

By THE ASSOCIATED PRESS
684 words
12 December 2017
The New York Times
NYTF
Late Edition - Final
2
English

Technology companies led stocks modestly higher on Monday, driving the market to another set of milestones.

The **Standard & Poor's 500-stockindex** and the **Dow Jonesindustrial average** finished at new highs. Both market gauges also hit record highs on Friday.

Solid gains by health care companies also helped lift the market, outweighing losses among banks and industrial stocks. Energy shares rose along with the price of crude oil.

Many investors had their eyes on Bitcoin futures, which made their market debut. But traders were mostly looking ahead to the outcome of Wednesday's meeting of Federal Reserve policymakers.

''The market is kind of in a holding pattern, just sort of waiting for the Fed meeting,'' said Randy Frederick, vice president for trading and derivatives at Charles Schwab.

The **S.&P. 500 index** rose 8.49 points, or 0.3 percent, to 2,659.99. The index has risen on a weekly basis for the past three weeks. The Dow gained 56.87 points, or 0.2 percent, to 24,386.03. The **Nasdaq composite** index added 35 points, or 0.5 percent, to 6,875.08. The Russell 2000 index of smaller-company stocks slipped 1.88 points, or 0.1 percent, to 1,519.84.

The Fed is scheduled to issue an interest rate policy update on Wednesday. Economists expect the central bank to lift short-term rates by 0.25 percent. That would be the third interest rate increase by the central bank this year.

While inflation has remained low, the Fed has seen a path to gradually raise rates as the economy and labor market have strengthened.

The Labor Department said on Monday that employers posted slightly fewer job openings in October than in the previous month, but the number of people being hired increased. Last week, another report showed that employers added a net total of 244,000 jobs in October and 228,000 in November. The trend helped keep the unemployment rate at 4.1 percent.

Technology companies accounted for much of the market's gains on Monday.

The software maker Symantec rose $1.24, or 4.4 percent, to $29.22. Apple gained 2 percent after the website Apple Insider said the company was delivering new iPhones to customers at a faster pace. Apple also made news after it agreed to acquire the Shazam music-identification service in a deal worth about $400 million, according to a report by the technology website Recode. Apple stock added $3.30 to $172.67.

Allergan led the gainers in health care. The company climbed $4.96, or 3 percent, to $172.76.

Bitcoin futures rose on their first day of trading on a major United States exchange. Trading on the contract for the virtual currency began on Sunday. The first futures contract closed at $18,545, according to data from Cboe Global Markets, ending its initial day of trading with a 20 percent gain from its opening price.

Oil and gas prices rose, lifting energy stocks. Chesapeake Energy added 15 cents, or 4.1 percent, to $3.83.

Benchmark United States crude gained 63 cents, or 1.1 percent, to settle at $57.99 a barrel on the New York Mercantile Exchange. Brent crude, the international standard, added $1.29, or 2 percent, to close at $64.69 a barrel in London.

Gold slipped $1.50 to settle at $1,243.70 an ounce, while silver fell 4 cents to $15.70 an ounce. Copper added 3 cents to $2.99 a pound.

Bond prices were little changed. The yield on the **10**-**year Treasury** note rose to 2.39 percent.

The dollar edged up to 113.53 yen, and the euro rose to $1.1786. The British pound climbed to $1.3336.

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

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

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THE WALL STREET JOURNAL.
U.S. EDITION

Online Price Wars Vex Fed on Inflation

By Harriet Torry and Laura Stevens
1,264 words
12 December 2017
The Wall Street Journal
J
A1
English

Holiday shoppers with smartphones can retrieve instant price comparisons that make bargain hunting easier -- and the Federal Reserve's job tougher.

Web-driven comparison shopping complicates Fed decisions on how much and how fast to raise interest rates. Consumer knowledge is keeping a lid on prices that retailers can charge on a wealth of goods, a small but growing factor holding down inflation in the U.S., Japan and other advanced economies

The Fed is likely to announce Wednesday the raising of its benchmark short-term rate by a quarter percentage point, to a still-low range of 1.25% to 1.50%. Officials also will release their latest projections for the likely path of rates in the years ahead, which will influence mortgages, credit cards and other consumer loans, business borrowing and global **financial markets**.

Fed officials, along with central bankers in Europe and Japan, want inflation to rise to an annual rate of around 2%, considered a healthy level for spending, business investment and higher wages. With the U.S. economy expanding, and very low unemployment, an interest-rate increase would help forestall asset bubbles or other financial dangers.

Most Fed policy makers agree they should keep gradually raising short-term rates in the months ahead to prevent the buoyant U.S. economy from overheating. But some are hesitant because inflation remains puzzlingly weak, running below 2% for most of this year. Moving too quickly could stall growth.

Persistently weak inflation has stumped Fed Chairwoman Janet Yellen and her colleagues. Some Fed officials have argued for holding rates low a bit longer to give inflation a nudge. Most, though, want to raise them.

Economists attribute feeble inflation across developed economies to several causes, including aging populations, slow productivity growth and globalization, which have reined in the ability of companies to raise prices and wages. With consumer spending accounting for more than two-thirds of the U.S. economy, the explosion in e-commerce has been added the list.

Stacy Peterson, 34 years old, of North Little Rock, Ark. said she started her holiday shopping in October, researching and comparing prices online. On Thanksgiving Day, she sprang for a trampoline she had been eyeing. It was marked down online at Academy Sports + Outdoors to $129.99 from $179.99.

The mother of two plans to check the holiday sales at her local stores, she said, but mostly will look online and buy from "whoever has it cheapest."

In a nod to the growing practice, Ms. Yellen said in September that increased competition created by online retailers "may have reduced price margins and restrained the ability of firms to raise prices in response to rising demand."

Ms. Yellen said in October that online shopping "could be helping to hold down inflation in a persistent way in many countries." The Bank of Japan in has attributed part of the price declines at supermarkets to online shopping.

Kayla Weaver Blake of Lufkin, Texas, frequently researches prices online. On a trip to buy diapers at a Toys "R" Us Inc. store, she pulled out her phone and noticed a carton of 128 Pampers Swaddlers was $34 on Amazon.com Inc., or roughly 20% cheaper than in the store. The mother of three showed the screenshot to the cashier. Paired with a $10-off coupon, Toys R Us sold the diapers to her for a net price of $24.

"I do that with everything," said Ms. Blake, 29, who price checks such items as laundry detergent and toilet paper. "If it's full price, I'm not going to buy it."

The same applies for holiday shopping. Ms. Blake saw a PJ Masks toy set for $89 in Wal-Mart Stores Inc. It was $59 on Amazon. Every retailer, she said, is "competing with every other business out there."

The growth of e-commerce is well understood, tracking the smartphone's ubiquity and a global supply chain that delivers consumer goods quickly and cheaply. Its impact on inflation -- the so-called Amazon effect -- is still being explored by economists.

Research by Goldman Sachs found that online price competition may be subtracting as much as a tenth of a percentage point from core inflation, which strips out **volatile** energy and food prices, and quarter of a percentage point from core-goods inflation, as measured by the personal-consumption expenditures index.

It may not sound like much but with annual core inflation at just 1.4% in October, it is significant.

Alberto Cavallo, an economist at the Massachusetts Institute of Technology's Sloan School of Management, said the expanding ability of consumers to comparison shop has constrained retailers' ability to charge different prices online and in stores, according to data compiled in MIT's Billion Prices Project.

Retail's share of e-commerce is growing, another consideration for Fed policy makers. Online shopping accounted for 9.1% of U.S. retail spending in the third quarter, according to the Census Bureau, up from 3.6% in the same quarter of 2008. It comprises most retail growth: More than half the sales of books, music, videos and DVDs are done online, according to retail data analysis firm Boomerang Commerce Inc. Sales of sporting goods and consumer electronics are getting close to that level.

Consumer prices for many of those goods fell in the year to October: Books were down 2.7%; sporting goods fell 1.9%; televisions dropped 10.3%; toys declined 8%, the Labor Department said.

The consumer-price index for commodities, excluding food and energy, dropped 1% over that time. It has shown deflation, compared with a year earlier, nearly every month since early 2013, though that partly reflects a drop in import prices from the strengthening dollar.

By contrast, the annual rate of inflation for services hasn't dipped below 2% in six years, largely driven by the rising costs of rent, health care and education.

With more sales conducted online, retail pricing now mirrors gas stations, where prices are clearly marked and competitors quickly match their rivals, said Tracy Issel, Microsoft Corp.'s general manager of world-wide retail and consumer goods. "It's a race to the bottom."

The competition helps drive innovation and productivity, according to economists, while giving consumers more for their money. And some believe it will have a growing influence over central bank policy.

"If the Amazon effect is big, or more broadly if structural forces pushing down on inflation are big, then at the margin that means an easier monetary policy" going forward, said Goldman Sachs economist Jan Hatzius.

Central bankers should rethink their inflation targets, given the continued downward pressure on inflation from globalization and technological change, said Claudio Borio, chief economist at the Bank for International Settlements, a Switzerland-based consortium of central banks.

Amazon captures more than 40 cents of every dollar spent online, according to a panel of 5 million U.S. shoppers tracked by Slice Intelligence. The internet giant chooses which categories it leads and matches on pricing by electronically checking thousands of websites a day, according to former employees.

Some economists are skeptical of the Amazon effect. European Central Bank President Mario Draghi said his economists "do not see much evidence to suggest that e-commerce is depressing inflation in the euro area today -- at least to extent that we can measure it."

Accurately measuring the impact of the Amazon effect is indeed a problem. Few statistical agencies collect extensive online price data.

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THE WALL STREET JOURNAL.
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Bitcoin Soars as Futures Start

By Alexander Osipovich and Gunjan Banerji
691 words
12 December 2017
The Wall Street Journal
J
B1
English

Bullish bitcoin traders overpowered bearish ones on Monday, as the much-heralded launch of bitcoin futures further fueled exuberance for the nine-year-old digital currency.

Bitcoin futures expiring in January settled at $18,545 on Monday, up 24% from the first trade value of $15,000, recorded when Chicago-based exchange operator Cboe Global Markets Inc. booted up the new market at 6 p.m. ET on Sunday evening.

In the lead-up to the debut of bitcoin futures, traders said that futures contracts would help reduce the volatility of bitcoin by drawing in both bullish and bearish players. With futures, "long" traders bet on a price increase while "short" traders bet on a fall in the price of bitcoin.

But in fact, the rollout of Cboe's futures actually sparked intense volatility and appeared to pull the price of bitcoin itself higher. The digital currency was trading at $17,135.29 when the first day of futures trading ended at 4:15 p.m. ET on Monday, compared with $14,605.91 just before trading in futures began.

By design, every long bet in futures has an offsetting short bet, meaning the market doesn't function unless there are both. But if long traders have more conviction and bid more confidently than the shorts, that leads the price to rise.

Bitcoin longs were more assertive than shorts on the new contract's first day, said Bill Baruch, president of Blue Line Futures, a Chicago-based futures brokerage.

"I don't think anyone wants to go in and fight the trend," Mr. Baruch said. "We're in the enthusiasm phase now."

It was unclear why the futures were trading at a premium to the price of bitcoin itself -- more than $1,400 higher than the CoinDesk price when the market closed. In mature futures markets, the futures tend to track the underlying "spot" price more closely.

Still, trading was too thin on the first day of trading to draw firm conclusions about how the new futures market will play out, traders said.

On their first day of trading, 3,969 of Cboe's contracts had changed hands, worth about $68 million, according to calculations by the WSJ Market Data Group -- still a tiny market compared with the billions of dollars worth of daily trading volume in bitcoin itself.

"People are cautiously trading in a very small and limited capacity, not really taking huge bets," said Garrett See, chief executive of DV Chain, a proprietary trading firm focused on cryptocurrencies.

The digital currency has posted an extraordinary price surge, running up more than 1,500% since the start of the year. Part of that rally has been fueled by how difficult it has been to short bitcoin, traders have said.

Shorting bitcoin futures can be potentially ruinous for a trader because it can lead to unlimited losses if bitcoin keeps rocketing higher.

That was the reasoning of a major online brokerage, Interactive Brokers Group Inc., when it announced last week that it would provide its customers with access to Cboe's bitcoin futures -- but only if they were going long.

That decision might have contributed to the early price run-up in bitcoin futures, some market participants said.

Interactive Brokers disputed that its decision led to the price surge. Big trading firms have the opportunity to go short if bitcoin futures surge too high, said Steven Sanders, an executive vice president at the firm. "If it was really out of whack, they'd take advantage and dive in until it fell in line," Mr. Sanders said.

Many large futures-clearing firms, including JPMorgan Chase & Co. and Bank of America Merrill Lynch, told their customers they would sit out Sunday's launch of bitcoin futures, The Wall Street Journal reported last week.

The absence of large clearing firms likely damped volumes on the first day of trading, traders said. Such firms can suffer losses if their customers' bets go bad. That made them hesitant about clearing bitcoin futures, given the **volatility** of bitcoin.

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