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New York Fed Chief Adds to Wave of Exits

By Michael S. Derby and Nick Timiraos
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The president of the Federal Reserve Bank of New York is set to announce he will retire next year, about six months earlier than scheduled, adding to an unusual wave of turnover among the central bank's top monetary and regulatory decision makers and ushering in new uncertainty about its policy course.

William Dudley's announcement could come as soon as Monday, according to two people familiar with the matter. The search for his successor will start immediately with the aim of finding a successor in mid-2018.

The decision has been long-planned and is unrelated to President Donald Trump's announcement Thursday that he would nominate central-bank governor Jerome Powell to succeed Janet Yellen when her term as chairwoman expires in February, according to a person familiar with the situation.

Just last month, Fed Vice Chairman Stanley Fischer stepped down and Randal Quarles, Mr. Trump's first nominee to the Fed's Washington-based board of governors, took office. Three other seats on the seven-member board are also open, giving the president an opportunity to remake its policy-making team.

A fourth seat on the board would open if Ms. Yellen decides to leave after ceding the helm as chairwoman. She could stay on as a governor in a term that extends to 2024.

All governors are nominated by the U.S. president and are subject to Senate confirmation. The regional Fed bank presidents are chosen by the members of their boards of directors who don't represent financial institutions regulated by the Fed, subject to approval by the governors.

The New York Fed president is traditionally one of the central bank's most powerful policy makers. This person serves as vice chairman of the rate-setting Federal Open Market Committee and leads the supervision of some of the nation's biggest financial firms.

Mr. Dudley, a former Goldman Sachs chief economist, started at the New York Fed in 2007, running the part of the institution that deals directly with **financial markets** to implement monetary policy. Many of his predecessors had markets experience.

If that tradition continues, contenders for the job include Simon Potter, who now runs the bank's markets desk, as well as D.E. Shaw's Brian Sack, who held that job before Mr. Potter.

Some observers close to the bank see a chance that its next president could be a current Fed official. Dallas Fed leader Robert Kaplan, a former Goldman Sachs top executive, has deep market experience, as does Minneapolis Fed President Neel Kashkari, who also worked at Goldman and led some of the government's financial-crisis rescue efforts.

Ms. Yellen, Mr. Fischer and Mr. Dudley worked closely together in recent years in deciding when and how to begin gradually reversing the Fed's crisis-era stimulus policies as the economy healed.

The trio advocated keeping short-term interest rates historically low to encourage hiring and growth, but also has nudged them gently higher since late 2015 to prevent the economy from overheating. They also crafted and launched the Fed's plan to shrink its large portfolio of bonds purchased since the crisis to provide extra stimulus.

The Fed has penciled in one more interest rate increase this year, and more through 2020 if the economy performs as expected. The coming changes in the top three leadership positions, combined with the recent pickup in economic momentum, raise uncertainty about the coming pace of rate increases.

The three officials also supported postcrisis measures to strengthen financial regulation and will be giving up their top posts just as the Trump administration is pushing for deregulation.

Mr. Dudley's planned departure marks "further change in an institution that was already experiencing considerable change," said Tim Duy, an economics professor at the University of Oregon.

The coming announcement about Mr. Dudley, 64 years old, was earlier reported by CNBC. The New York Fed declined to comment.

Mr. Dudley was long among the Fed "doves" who supported holding interest rates near zero for seven years after the crisis. But he also strongly supported nudging rates higher over the past two years to help keep the expansion on an even keel, even though inflation has run below the Fed's 2% target in recent months.

Mr. Dudley has said the Fed should continue gradually lifting borrowing costs to keep price pressures contained and prevent asset bubbles from forming.

Mr. Dudley also was central in implementing multiple bond-buying campaigns. He has since been a leading advocate for the slow, passive run-off of those holdings, which began last month.

The New York Fed has devised new methods of managing the Fed's benchmark rate in an environment in which it maintains much larger liabilities. Mr. Dudley has been an outspoken advocate for maintaining a larger terminal balance sheet, an issue that hasn't yet been formally settled by the central bank.

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An EU Plan to Invade U.S. Markets

By J. Christopher Giancarlo
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There's been much worry about the impact of Brexit on British and European banking and capital markets. It may seem that U.S. markets are protected from that uncertainty, but they aren't. If the European Union mishandles Britain's exit, the consequences for U.S. businesses and consumers could be serious.

Brexit will put London's **financial markets** outside the European regulatory umbrella. As a result, the European Commission has proposed authorizing regulation of financial entities outside the EU by the European Central Bank and the European Securities and Markets Authority, the EU's markets watchdog. The proposal would reach far beyond London. It would subject key U.S. financial institutions to European law and regulation -- even when they serve U.S. customers.

One proposal would empower ESMA to demand on-site inspections of U.S. businesses such as the Chicago Mercantile Exchange without informing its primary regulator, the U.S. Commodity Futures Trading Commission. Another proposal would enable the ECB to impose additional regulations on those same U.S. businesses -- again without informing or consulting the CFTC.

Such overlapping and uncoordinated regulation by the EU would be disruptive, expensive and detrimental to the U.S. trading markets and economy. Imagine a football game with two quarterbacks on the field vying for control of the ball.

These proposals have the potential to affect the availability of food in American grocery stores, the cost of home heating, and mortgage interest rates. Farmers and ranchers could experience cost increases to manage the risks of their businesses from unpredictable weather to fluctuating prices in livestock feed. Without firm, exact and clear limits on their application to American businesses, these European proposals could dry up the capital necessary for growth and job creation.

The CFTC, of which I am chairman, is focused on ensuring that American **financial markets** thrive and are well-regulated. That cannot be done if the EU second-guesses American markets and how businesses operate -- taking partial control of the American economy, or worse, letting the Europeans call the plays. The solution to sluggish growth and stagnant wages is vibrant global markets for investment, not uncoordinated and overlapping regulation.

If the U.S. accepts European regulation of American financial companies, it would set a dangerous precedent -- potentially opening the door to all manner of other interference. The European Union favors a highly prescriptive and rules-based approach to **financial market** supervision in contrast to the U.S. principles-based approach.

Undoubtedly Brexit raises challenging issues for the EU's regulation of its **financial markets**. Here in America we have seen how burdensome economic regulation has thwarted the revival of broad-based prosperity. The American people have rejected that approach and demanded that **financial markets** contribute to economic recovery. The last thing Americans want is to have overseas regulators impose European costs and regulatory burdens on the American economy.

Mr. Giancarlo is chairman of the Commodity Futures Trading Commission.

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

By Anneken Tappe
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6 November 2017
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J
R18
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Financial analysts have spent much of this year interpreting political events and their effects on economies and markets. But sometimes it's all about the currencies.

Currencies are one of the most sensitive barometers of a country's general political situation. They are quick to reflect how traders feel about an election outcome or how a policy decision could affect an economy.

For example, following the U.S. presidential election a year ago, the U.S. dollar rose, buoyed by hopes of policy changes and business-friendly incentives, while the Mexican peso dropped, reflecting how traders viewed the potential negative impact President Donald Trump would have on Mexican trade.

Currencies are also at the top of the trading hierarchy of the world, dwarfing other asset classes such as stocks and bonds in terms of volume. In 2016, foreign-exchange trades amounted to $5.1 trillion a day.

How much do you know about currencies? Let's find out:

1. How much has the U.S. dollar index fallen so far in 2017?

A. It hasn't. It has gone up.

B. 1%

C. 7%

D. 4%

ANSWER: C. The ICE U.S. Dollar Index, which is a way to measure the dollar's performance against its main rivals, has dropped more than 7% so far this year. The index measures the dollar against the euro, British pound, Canadian dollar, Swiss franc, Japanese yen and Swedish krona. The euro is most important in the index because it carries more weight than the other individual currencies, reflecting that it is the dollar's most important counterpart.

2. Fill in the blank: Since the summer, dollar traders have particularly been watching ___________ to determine the currency's path.

A. The Federal Reserve's monetary

policy

B. Who will be the Fed's next chairman

C. Economic data

D. Policy developments in Washington

E. All of the above

ANSWER: E. Foreign-exchange traders keep an eye on a lot of information daily, as currencies are sensitive to both economic and political news. The dollar started 2017 on a bullish note, as currency traders were excited for new policies being discussed in Washington, such as tax and infrastructure overhaul. But with their hopes initially set so high, many traders wound up disappointed as Washington found itself in a policy gridlock for much of this year. Since the summer, President Trump's tax-overhaul plan has been reinvigorated, however, helping the dollar gain traction. Moreover, the Federal Reserve is expected to raise interest rates again in December; and economic data has shown some resilience following the hurricanes in August and September, which could give the dollar another push.

3. Individual currencies trade in pairs. What is the U.S. dollar/British pound pair commonly referred to?

A. Cable

B. Trans-Atlantic

C. Union Jack

D. Empire

ANSWER: A. Outside of indexes, currencies always trade in pairs. If you sell one, you buy the other and vice versa. The name "cable" for the dollar-pound pair originated in the mid-19th century because the trades would be transmitted via trans-Atlantic cable.

4. Which currency has shown the most sensitivity to the renegotiations of the North American Free Trade Agreement that began this year?

A. U.S. dollar

B. Mexican peso

C. Canadian dollar

D. Brazilian real

ANSWER: B. Analysts agree that out of the three Nafta partners -- Mexico, Canada and the U.S. -- Mexico has the most to lose, as much of its economy is reliant on its northern partners. Trade between Mexico and the U.S. totaled $525 billion in 2016, according to data from the Office of the U.S. Trade Representative. Since the renegotiations began on Aug. 16, the peso has dropped 8% against the dollar.

5. Which currency has performed the worst since 2014 when **oil prices** began to fall?

A. Canadian dollar

B. Australian dollar

C. Russian ruble

D. Brazilian real

E. South African rand

ANSWER: C. Russia has been the worst-performing "commodity currency" during that period. In second place is Brazil, followed by South Africa. Commodity currencies are so called because of their home countries' reliance on commodity exports and thus global price dynamics. In 2014, **oil prices** began to fall, throwing commodity exporters' economies for a loop and pushing Brazil, Canada and Russia, which was also hit by international sanctions over Russia's annexation of Crimea, into recession.

6. True or false: President Trump said earlier this year that he preferred a weak dollar.

ANSWER: True. President Trump said that a strong dollar could lead to "lots of bad things" happening, in an interview with Politico in August. His comment was part of his response to a question about Federal Reserve Chairwoman Janet Yellen's low-interest-rate policy, which he said he favored.

7. Looking at 2017, the euro has risen 10% against its U.S. rival. But it was after one event in particular that the eurozone currency took off. What was that event?

A. President Trump's inauguration

B. French elections

C. Rising tensions with North Korea

D. German elections

ANSWER: B. The euro rally that has persisted for much of this year picked up steam after Emmanuel Macron was elected president, defeating far-right candidate Marine Le Pen in the French election in early May. After markets were surprised by the outcomes of Brexit and the U.S. presidential election, the French vote was seen as somewhat of a barometer for the European political climate and allowed the euro-bullishness to take hold.

8. True or false: Bitcoin is generally considered a part of foreign-exchange trading.

ANSWER: False. Cryptocurrencies aren't considered part of regular foreign-exchange trading. Even though their name suggests they are just another form of tender, currencies such as the dollar, the Chinese yuan or the Indian rupee are backed by their respective central banks, giving them implicit value and support. Cryptocurrencies such as bitcoin or ether are more of a digital asset not linked to any central bank. This has been one of the central points of criticism of bitcoin and the like.

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Investing in Funds & ETFs: A Monthly Analysis --- Need To Know: If You're Trading Options On ETFs, Be Careful --- It can be an enticing prospect, but keep these guidelines in mind before taking the risk

By Simon Constable
1,018 words
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R16
English

More individual investors are trading options on exchange-traded funds. The trend worries some financial experts, who say inexperienced traders may not fully understand the risks.

Interest in ETF options comes amid growth in the number of ETFs and the amount of money invested in them. According to Options Clearing Corp., a clearinghouse that guarantees trades, ETF options accounted for 41% of the total volume of all options traded in 2016, up from 35% in 2014.

"Certainly ETFs have grown in popularity along with trading options on them," says Greg Stevens, vice president of brokerage product development for options at Fidelity Investments, adding that options trading is migrating toward ETFs and away from individual stocks.

Josh Jalinski, chief executive officer of a financial-advisory firm in New Jersey and the host of a syndicated radio program on finance, says he meets with many potential clients who have a desire to invest in ETF options.

"They go to two-day seminars and think they can trade options," says Mr. Jalinski, adding that he has seen people "lose a lot of money buying options."

An option is a contract that gives an investor the right to buy or sell a security such as an ETF at a predetermined price (the strike price) for a set length of time. The seller (or writer) of the option must cover any financial gains due the buyer when the option expires, or deliver the security at the predetermined price.

The owner of a call option (which gives an investor the right to buy an asset) profits if the ETF rises above the strike price. The writer profits if the ETF stays below that price. (It works in reverse for put options, which give the owner the right to sell a security at a predetermined price.)

Here are a few things investors should keep in mind before trading options on ETFs:

1. Not-so-low risk

Even options-trading strategies considered to be low risk can hurt investors new to the world of options trading.

Selling options on ETFs you already own (a covered option), is generally seen as less risky than selling options on ETFs you don't own (a naked option). That's because writers of covered options can deliver the ETF shares they own as payment, rather than having to settle the gains in cash.

"People think the worst that can happen is that I have my shares taken away," says Bob Stammers, director of investor engagement at the CFA Institute, an association of investment professionals, in New York. "But there is an opportunity cost" that needs to be considered, as well.

In other words, holding on to the ETF may have been more profitable than the money earned selling options.

"Talk to people who wrote call options on Netflix in 2009," says Mr. Stammers. In that case, gains from Netflix far outweighed the value of options sold.

2. Naked options

Other strategies can sink your finances even faster.

"There are people out there writing naked options," says Mr. Stammers. "Those are the most risky positions to be in."

The most an investor can earn from writing naked call options is the premium collected from selling them. The potential loss, however, is theoretically unlimited, depending on how high the ETF's price goes. Say an investor sells a call option with a strike price at $15 and the price of the ETF rises to $45. That $30 difference is likely far greater than the premium the option writer received, translating into big losses for investors.

To be sure, there are ways to hedge the risk of writing naked options, but some inexperienced investors may not fully understand them.

3. Buying calls

Sophisticated investors have a warning for individuals who buy call options: The odds are against you.

"With stocks, you buy for the long term and it can be for years," says Joanne Hill, chief adviser for research and strategy at CBOE Vest. "But with options, you have to be correct on your view in both time frame and price direction."

Options contracts last a relatively short time, typically a lot less than a year, sometimes just days in duration. "One of the complexities is that options expire," says Ms. Hill, "and if the **stock price** doesn't move [within that time frame], you lose money."

Doug Kramer, co-head of quantitative and multiasset class investments at asset-management firm Neuberger Berman, says buying a call option is similar to buying a lottery ticket. "The probability that you win is very small," he says. "The traders who sell you options know these probabilities."

4. Avoid niche ETFs

Neuberger Berman runs a fund that is dedicated to an options-trading strategy on the **S&P 500** and the Russell 2000 index of smaller stocks. That fund -- U.S. Equity Index PutWrite Strategy Fund (NUPIX) -- has produced returns over time that are similar to the **S&P 500** but with "materially lower **volatility**," says Mr. Kramer.

But even with a staff of sophisticated market professionals, Neuberger Berman wouldn't consider an options strategy based on niche ETFs, he says.

The problem with investing in a small sector of the market is that there can be much greater price **volatility**. And that greater **volatility** is magnified in the options market because options prices are far more **volatile** than stocks.

"The narrower the ETF -- like a country or sector ETF -- the more idiosyncratic the risks are relative to writing an **S&P 500** option," Mr. Kramer says.

The CFA Institute's Mr. Stammers says many individual investors who want to invest in options might be "better served by the diversification, strategic direction and risk management that professionally managed option-based funds can provide."

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Investing in Funds & ETFs: A Monthly Analysis --- Exchange-Traded Funds: Europe Debates How to Regulate ETFs --- Just as in the U.S., it's a game of catching up to the fast-growing market

By Gerrard Cowan
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6 November 2017
The Wall Street Journal
J
R9
English

Are today's regulations appropriate for tomorrow's exchange-traded funds? The Central Bank of Ireland has launched an effort to find out.

More ETFs are authorized in Ireland than in any other part of the European Union and can be sold to investors in other member states, as long as they comply with EU and local legislation. Like its counterparts in other parts of the world, the Irish bank is analyzing whether regulations will have to change as the ETF market continues its rapid growth.

In recent years, investors have poured money into European-domiciled ETFs, which had $637.9 billion in assets at the end of September, up from $262.7 billion at the end of 2012, according to Morningstar Inc. data. ETFs now account for 7.9% of the total European funds market, Morningstar says.

In the U.S., regulators have been working to catch up and respond to market disruptions involving ETFs, relatively new investments governed by Depression-era laws. Similarly, ETFs in Europe are regulated under two different regimes, neither of which was designed for the ETF structure. They are Undertakings for Collective Investment in Transferable Securities, which regulates most retail funds, and the Markets in Financial Instruments Directive, which governs the trade of a host of financial instruments.

The Central Bank of Ireland has been consulting with ETF providers and other stakeholders for the past year or so, says Martin Moloney, special adviser on policy and risk issues at the central bank. That effort led to the publication of a "discussion paper" in May that asked a range of questions on issues ranging from market liquidity to collateral. The bank published a number of responses to the report on its website in mid-September.

The Ireland-based unit of U.S. fund giant Vanguard Group, in its response to the paper, said that although ETFs had become a sought-after option for investors, "we do not believe there to be any evidence to date that the increased volumes have led to any strain in the ETF architecture. ETFs remain a small percentage of the overall funds market and **stock-market** activity."

Still, the responses did highlight a number of areas where participants think regulatory change may be considered. A big one involves a type of ETF that has also caused debate in the U.S. -- so-called active ETFs, which are a hybrid of passive and active investing. While traditional ETFs passively track certain indexes, active ETFs have fund managers who make decisions about the allocation of the underlying portfolio.

The responses suggest a potential push for change in this area, Mr. Moloney says. Specifically, how transparent should they be? Conventional ETFs must disclose their holdings often, allowing market participants a clear view of the assets in which they are invested. Some active-ETF managers may prefer less-stringent rules, however, because they want to keep their investment strategy under wraps.

"That's one area where I think you might see some increasing push from industry in the future," Mr. Moloney says.

Regulators in other parts of the world also are examining ETFs, and it appears they may increasingly work together on this issue.

In July, for example, the body that sets global standards for regulators -- the International Organization of Securities Commissions -- published a consultation document on liquidity-risk management, with a section on ETFs. The Central Bank of Ireland, meanwhile, is holding an international conference on ETFs in Dublin at the end of November. Paul Andrews, the secretary-general of the International Organization of Security Commissions, will be a keynote speaker, as will a senior official from the U.S. Securities and Exchange Commission.

Mr. Moloney says the Central Bank of Ireland hopes international regulators can develop a "common language of risk," establishing exactly where the risks are in the ETF sector and the impact they could have on the broader market. While regulators in different jurisdictions have a shared language for discussing the risks associated with banking in areas like credit risk, "we're not quite in the same place when it comes to ETFs," he says.

Regulators could then develop high-level principles or perspectives on ETF regulation, Mr. Moloney says; this could potentially inform work at a global level through the International Organization of Securities Commissions, with regional and national regulators interpreting and implementing any principles that emerge in their own jurisdictions.

Even if this doesn't prove necessary, developing a common understanding of risk would be useful in and of itself, he says. "I anticipate that 2018 will be very much focused on that agenda."

Mr. Cowan is a writer in Northern Ireland. He can be reached at reports@wsj.com.

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The New York Times

Business Day

A Bull Market Should Make Investors Happy. This One Isn't.

By LANDON THOMAS Jr.
1,259 words
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English

One day in September, investors with fading summer tans mingled with their brokers over a three-course lunch at Cipriani in Lower Manhattan. Stocks were soaring and they swapped market tips and touted apps that allowed them to buy Bitcoin on the golf course.

But the full stomachs and fat portfolios couldn't mask a sense of unease that pervaded the gathering: that the good times could suddenly end, derailed by nuclear war, political upheaval, a sudden rise in inflation or simply from stratospheric stocks crashing down to earth.

"Investors have never felt less secure, even though we are eight years into a **bull market**," Mark H. Haefele, the chief investment officer in the wealth management division at the investment bank UBS, told the crowd.

Rarely has a **bull market** been so unloved. Since March 2009, the **Standard & Poor**'**s500 stockindex** has nearly quadrupled in value. This year, not only is the index up 15 percent, but it also seems to have stopped going down at all: October was the 12th straight month that the S.&P. has logged a positive return, the first time that has happened since 1935.

Yet in most conversations about the ever-rising **stock market**, brokers and investment advisers say, are dominated by the question of when it will all come to an end.

With the exception of President Trump, of course. On Saturday, in an interview on Air Force One, he once again took credit for the market's most recent record close on Friday.

Generally, this far into a **bull market**, euphoria kicks in. In 1929, shoeshine boys were doling out stock tips. In 1999, people were quitting their jobs to trade technology stocks from their living rooms.

These days, each successive **stock market** record seems to spur more hand-wringing than cheerleading. There is anxiety about overhyped shares, about the possibility of central banks withdrawing their support for global economies, even about markets simply being worryingly quiescent, as evidenced by the historically low readings of the **volatility** index known as the VIX.

"The VIX is too low, valuations are too high, the recovery is too old and the Fed is tightening," said Jim Paulsen, a veteran market strategist for the Leuthold Group in Minnesota. "For an old market dude like me, that is a scary list."

For several years now, Mr. Paulsen has been pleading with his clients to embrace the **bull market**. He has touted the breadth of the surge, in which no single sector has dramatically outrun another on the way up. And he has argued that worldwide growth with little inflation represents an unusual buying opportunity.

When he meets with clients or presents his views at conferences, though, the vast majority of the questions he receives are about what will ultimately bring the market crashing down.

"No one ever asks me when the S.&P. is going to blow past 3,000," he said of the benchmark **stock index** which ended trading on Friday at 2,587.84.

In fact, many analysts say that this so-called wall of worry is a positive sign. Investors may be piling into stocks and bonds, the thinking goes, but they are doing it with a measure of hesitation, which prevents some of the excesses that preceded previous market corrections.

That is not to say the market is without froth.

Since early 2009, the market capitalizations of Amazon and Apple, have soared from $26 billion and $74 billion to $532 billion and $872 billion.

The surge in the price of Bitcoin strikes many observers, including the billionaire investor Warren Buffett, as a classic portent of a bubble ready to pop.

Nor are many skeptics comforted by the fact that a former logistics manager at a Target store has made millions of dollars betting that the VIX index, Wall Street's closely watched fear gauge, will continue to fall.

These are not exactly the hallmarks of a restrained market.

To a large extent, the main drivers of the **bull market** have been sophisticated investors. Cash holdings by institutions and high-net-worth investors are at record low levels, which means they have been plowing money into the markets, according to numerous surveys.

Many retail investors, though, have remained on the sidelines — a sharp contrast to the activity that preceded the bursting of previous bubbles.

According to Charles Schwab, which oversees $3.1 trillion in retail investments, the cash portion of client accounts was 11.1 percent as of September. That is down from 13 percent at the end of last year, but it is still a sizable ratio, which suggests that investors are not dumping their entire savings into the **stock market**, at least for now.

Liz Ann Sonders, the chief investment strategist for Schwab, said that until just recently, investors have been highly skeptical that the market's bull run was justified. However, in the last month or so, she has noticed a change in sentiment at client meetings and investor events.

"Some investors are conceding it's a **bull market**," she said. "They are looking for approval to jump on the bandwagon."

Still, she points out, retail investors have nowhere near the commitment to stocks that characterized past **stock market** booms.

Richard Bernstein, a former equity strategist at Merrill Lynch who now runs his own investment firm, has been **bullish** on stocks since 2009. He said that by this point of a strong equity run, buying stocks traditionally becomes widely accepted by all investor classes — the consequence of one outstanding **stock market** year following another. Nobody wants to hear their neighbors boasting about their sizzling portfolios without having their own good news to share.

That is not the case this time. According to Mr. Bernstein, Wall Street experts on average advise investors to put 55 percent of their portfolios into stocks, as opposed to other assets such as bonds. That is considerably more conservative than the traditional recommendation that investors have up to 65 percent in stocks.

And many pension funds, instead of investing in the **stock market**, are putting money into private-equity investments, even though they incur hefty fees and their money generally gets locked up for 10 years.

"This is crazy," Mr. Bernstein said. "So when people say there is euphoria in the market and people are getting carried away, I say, 'who are we talking about?'"

Late last month, at an investor panel sponsored by the fund company Eaton Vance, Mr. Bernstein cited the rising South Korean **stock market** in arguing that fears of nuclear war were overblown and should not be used as an excuse for investors to avoid putting their money into stocks.

As usual, the pushback was quick in coming.

What happens if war breaks out in the Korean Peninsula, a member of the audience asked him. Wasn't he ignoring that possibility?

Mr. Bernstein argued that investors should care the economic and corporate fundamentals — not the remote chance that a calamity will strike.

"You cannot invest successfully," he said, "when you are crouched under your desk in a fetal position."

* ‘False Peace’ for Markets? A Trader Is Betting Millions on It

* Day Trading in Wall Street’s Complex ‘Fear Gauge’ Proliferates

* Beneath Markets’ Calm Are Signs of Growing Investor Caution

Traders working the floor of the New York Stock Exchange in October, the 12th straight month that the Standard & Poor’s 500 investment index has logged a positive return. | Justin Lane/European Pressphoto Agency

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The New York Times

OPINION
Sunday Review Desk; SECTSR
Everything Is Bad. Blame the Tax Code.

By KATHERINE MANGU-WARD
1,373 words
5 November 2017
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1
English

WASHINGTON -- If there's one thing Americans of all political parties can agree on, it's that taxes stink. But if there's another thing they can agree on, it's that they hate those jerks who don't pay their fair share of taxes.

This paradox is at the heart of the feckless, fruitless debate over tax reform -- and nearly all of the pathologies of politics in 2017. Everyone loves to hate our loophole-riddled tax system. But politicians will never truly give it up: Special tax treatment is a crucial way for them to maintain, and disguise, their power. The result is a tax bill from House Republicans that is months late, has something to infuriate nearly everyone, and barely even pretends to offer the long-promised simplification of the tax code.

In the background of the legislative negotiations is our current tax system, which is powered by guilt, fear and constant low-level lawbreaking. The former Trump campaign manager Paul Manafort has been charged with filing fraudulent tax returns and failing to report offshore accounts in an attempt to illegally reduce his tax bill. Tim Cook of Apple and his fellow chief executives regularly get called up to Capitol Hill for tongue lashings over their (legal) strategies to minimize their companies' tax burden by keeping overseas profits overseas. And don't get too smug: You deducted that ''home office'' on last year's return when we both know it's really your bedroom.

All of this glorious dysfunction is made possible by the complexity of the tax code. The United States has one of the highest corporate tax rates among the world's major economies, and a relatively high effective individual tax rate. But where things get dicey is the enormous number of incentives, credits, thresholds and exceptions. Benefits go to corporations (what exactly is accelerated depreciation?), the rich (enjoying the low tax rate on those long-term capital gains?), the middle class (hello, mortgage interest rate deduction!) and the poor (nice to see you, earned-income tax credit). They favor the fertile (child tax credit) and the dead (trusts and estates). They go to the urban and suburban (state and local income tax deduction) and the rural (farm fuel tax credit).

Every one of those policies could legitimately be called a ''loophole,'' but most people tend to reserve that word for special tax treatment they don't like. Everyone wants a ''fair'' tax system. But like children in the schoolyard, we have definitions of what's fair that vary widely and are typically transparently self-serving. Mitt Romney arguably lost the presidency by disparaging the 47 percent of Americans who pay no federal income tax at a fancy dinner, while Bernie Sanders couldn't stop hollering about the obligation of American corporations to repatriate their overseas profits. They both wanted a fair tax system that furthered their policy goals. It's not at all clear either of them actually wanted a simpler tax system.

Taxes are the viscera of American politics, the bleeding guts of nearly every policy proposal. ''Simplifying the tax code'' has served as State of the Union boilerplate for presidents of both parties, yet somehow it doesn't get done even in times of unified government. That's because loopholes are the most underrated locus of political power. Politicians use the tax code to reward their friends, punish their enemies and cut deals with their colleagues. The complexity of the tax code gives them cover to do that without most Americans noticing what's going on. This creates a silent, extremely potent constituency for opacity, complexity and an ever-growing body of highly specific rules.

When Congress opens loopholes, it's typically with the intention of shoving Americans right through them. The generous mortgage deduction is intended to increase homeownership. Bumping up the child tax credit is supposed to make more American babies. Cutting the capital gains tax shoves money into the **stock market**. Anytime you do something to minimize your tax bill, you're doing what a politician wanted.

Even political fights that don't look like tax battles on the surface often quickly become the business of the Internal Revenue Service. During Prohibition the ban on the production of alcohol was initially enforced by agents of the Treasury Department -- ''revenuers,'' they were called. The bill of impeachment against Richard Nixon cited his alleged efforts to cause ''income tax audits or other income tax investigations to be initiated or conducted in a discriminatory manner.'' And in 2012, the Supreme Court saved the Affordable Care Act by ruling that the penalty for not carrying insurance was actually a tax.

All of that means that when it comes time for Republicans to make good on their years of promises about tax reform, they freeze up. Because they like being able to manipulate people, institutions and industries via the tax code.

This is not entirely Donald Trump's fault (for once). The Republican Party's allergy to closing loopholes predates his presidency. Since 1986 -- the last serious, successful effort to simplify the tax code -- being a signatory to Grover Norquist's Taxpayer Protection Pledge has been the cost of admission into civilized Republican society. The pledge binds signatories to oppose all increases in marginal income tax rates for individuals and businesses. It also requires that they oppose the elimination of deductions and other loopholes unless increased revenue is offset by reductions elsewhere. What the pledge very carefully does not ask signatories to do is to cut spending.

In other words, nearly all Republican members of Congress have signed a deal that makes it politically unappealing (though not impossible) to eliminate loopholes. It allows them to wear the badge of fiscal conservatism without cutting spending. At the end of all those decades of distortion: the new Republican tax plan, with its cuts in the corporate tax rate, an increase of the standard deduction, some fiddling with income tax rates in different brackets and absolutely nothing in the way of simplification, rationalization or believable revenue neutrality.

Rumor has it that Mr. Trump felt pretty strongly about naming the bill the Cut Cut Cut Act. This is consistent with the fiscal plank of nearly every Republican primary contender, best summed up as ''cut taxes first, ask questions later.'' In fact, the bill is called the Tax Cuts and Jobs Act, but the sentiment is there.

There are quite a few Republicans who have made no secret of the fact that they're holding their noses and working with Mr. Trump in order to get tax reform. The House speaker, Paul Ryan, as sincere a fiscal reformer as one can hope to see in leadership, was described as saying last week that he and the House Ways and Means Committee were ''turning the dials'' on the plan. By strategically phasing out certain provisions and plugging in optimistic growth estimates, the Republicans might get the math to work on paper. But in reality, no one seemed to know where the offsetting hundreds of billions in revenue will come from, and for every door the plan closes, it opens a window.

Everyone lies to the tax man, knowingly or unknowingly. That's why howling for the president's tax returns is an ever-present background noise in the nation's capital: Reporters know there are likely to be exaggerations, bold deductions and envelope-pushing maneuvers aplenty in there, because they've done the same on their own returns.

People hate taxes because they hate to be pushed around. But politicians love taxes because it's their job to push people around, and taxes are a powerful tool to do just that. A ''tax return you can fill out on the back of a postcard'' -- long promised by the Republican Party -- would essentially be a decision by the political class to unilaterally disarm itself. And that's not going to happen.

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Katherine Mangu-Ward is the editor in chief of Reason magazine.

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The New York Times

National Desk; SECTA
Trump Entreats Saudi Arabia To Pick U.S. for Aramco I.P.O.

By MICHAEL J. de la MERCED; Julie Hirschfeld Davis contributed reporting from Tokyo.
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LONDON -- Stock markets around the world have been fighting hard for the chance to handle the **stock market** listing of Aramco, the giant oil company owned by the Saudi Arabian government.

But the New York Stock Exchange gained an unusual public backer: President Trump.

In a speech on Sunday, Mr. Trump urged Saudi Arabia to pick the Big Board as the international venue for the initial public offering of Aramco.

''I want them to strongly consider the New York Stock Exchange or **Nasdaq**,'' he said at Yokota Air Base after arriving in Japan for a 12-day tour through Asia.

''I just spoke to the king a little while ago, and they will consider it,'' he said, referring to King Salman of Saudi Arabia.

The president also mentioned the I.P.O. in a tweet on Saturday. ''Important to the United States!'' he wrote.

Other politicians have argued in favor of their homegrown stock exchanges, including Prime Minister Theresa May of Britain and Prime Minister Shinzo Abe of Japan, though they have done so privately.

Aramco, whose listing would easily be the biggest-ever I.P.O. and which is expected to be valued at several hundred billion dollars, is weighing which international **stock market** will list its shares.

The N.Y.S.E. has competed fiercely against foreign rivals, particularly the London Stock Exchange, for the privilege. Though Saudi officials have expressed support for choosing the New York market, which is considered to have the deepest pool of investor capital in the world, analysts say that an American listing could expose the Saudi government to lawsuits as well as stricter corporate regulations.

But the Trump administration has expressed interest in forging a tighter bond with the Saudi government, in part as a linchpin for efforts to forge a peace agreement for the Israeli-Palestinian conflict. Mr. Trump's first overseas trip as president was to Riyadh, breaking with presidential precedent.

At a conference hosted by the Saudi government last month, Aramco officials said that they were still on track to take their company public in the second half of 2018. But while they are expected to list their company's shares on the kingdom's Tadawul stock exchange, they are still deciding which foreign market to choose for an international listing -- if they do so at all.

Representatives for Aramco and the N.Y.S.E. declined to comment. But the N.Y.S.E.'s Twitter account retweeted Mr. Trump's post and added, ''We agree, the US capital markets are the best in the world.''

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THE WALL STREET JOURNAL.
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Stock Derivatives Trading Struggles at Banks

By Gunjan Banerji
916 words
4 November 2017
The Wall Street Journal
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B9
English

Waning stock **volatility** is pressuring the equity derivatives business, suppressing revenue and driving traders out of what was once a key Wall Street moneymaker.

Revenue in an equity derivatives business that focuses on listed options shrank by 41% in the U.S. and by 28% globally during the first half of 2017 from the year-earlier period, according to data firm Coalition, which tracked 12 of the biggest banks in the world. The number of employees in equity derivatives at banks has contracted by about 10% since 2012, Coalition data also show.

An extraordinary calm in markets has choked the trades that typically funnel through banks' derivatives desks. Banks such as Deutsche Bank AG, Barclays PLC and J.P. Morgan Chase & Co. blamed lower revenues on depressed **volatility** when recently reporting earnings.

Goldman Sachs Group Inc. pulled back from U.S. options market-making on exchanges, a spokeswoman for the firm said Thursday. It is the latest to withdraw from the business of continuously buying and selling contracts on venues using automated programs.

The business isn't a large part of Goldman's overall equity derivatives revenue and the decision to retreat was driven by the high costs related to connecting to the many options exchanges, and how retail orders are handled, among other market structure issues, a person familiar with the matter said. The firm will still provide options services for clients, the spokeswoman said.

"While Goldman Sachs will no longer hold the on-exchange options market-maker designation, we remain committed to the options business and will continue to offer clients the full range of relevant products, such as access to listed options across all US exchanges and access to our principal liquidity," the spokeswoman said.

The number of equity derivatives contracts that have traded world-wide has dwindled since 2011, data from the World Federation of Exchanges show, as central banks world-wide propped up markets, damping investors' desire to use derivatives like options to hedge or protect holdings. Derivatives also face competition from quantitative trading, in which computers help develop strategies.

"With lower **volatility** this year, we're seeing less of those trades come through," Coalition's research director Amrit Shahani said. "It's a vicious cycle."

OptionMetrics LLC founder David Hait said investors tend to think of options as insurance for stock bets. With U.S. equities in an eight-year **bull market**, people are asking, "What do I need an option for?" he said.

The so-called flow equity derivatives business at banks can also include over-the-counter derivatives and swaps. Traders help research and execute trades using derivatives, while sales employees contact clients, such as hedge funds and pension funds, to suggest moves, collecting commissions when the trades are done.

The situation looks more dire for some banks. In the first half of 2017, revenue from Barclays's U.S. equity derivatives flow trading slumped to less than half of the $200 million it brought in the first half of 2016, according to a person with knowledge of the matter. Banks rarely break out this business from their equities broadly. Barclays declined to comment on the drop in revenue.

Analysts pressed Barclays in an October earnings call on why the firm underperformed peers in stocks. Chief Executive Jes Staley acknowledged that the bank was "surprised" by the decline in their flow equity derivatives business. A main area of underperformance in equities was in derivatives, Barclays Group Finance Director Tushar Morzaria said.

The decline was largely driven by its exposure to individual stocks, the person familiar with the matter said. Options bets on specific companies have been one of the hardest hit areas, as investors gravitate toward passive investments and algorithmic strategies. Trading individual U.S. stock options has fallen steadily since 2006 and is near its record low of 49% of total U.S. options volume, according to Tabb Group research through the third quarter.

Bright spots include trading on ETFs and indexes, which dominated U.S. options activity last quarter, Tabb data show. Structured products -- investment packages put together by banks that often include derivatives -- were also lucrative for some firms.

Equity derivatives account for a tiny slice of the derivatives held by U.S. banks, which held $2.9 trillion in notional amount as of the second quarter, compared with over $185 trillion across derivatives on assets including interest-rate products, data from the Office of the Comptroller of the Currency show.

After 16 years of trading options during which he ascended to managing director at Bank of America Corp. and Deutsche Bank, Zahid Biviji left Wall Street this year.

He cited fewer opportunities in the space, partly caused by regulations imposed after the financial crisis. He founded Wapanda, a phone app that will connect riders with taxis and ride-sharing services like Lyft. "I had a good run making money," Mr. Biviji said, noting that "a lot of the derivatives business is in survival mode right now."

Some traders have pivoted to a less-regulated asset: cryptocurrencies.

"For the most part, you're not going to get wealthy like you could in the late '90s or early 2000s" in equity derivatives, said Arthur Hayes, the Hong Kong-based co-founder and chief of Bitcoin Mercantile Exchange, who traded derivatives at Citigroup Inc. and Deutsche Bank. "In cryptos, you actually get to do what you like to do: trade."

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THE WALL STREET JOURNAL.
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Jobs Rebound, Wages Stand Still --- Economy bounces back from hurricanes; businesses can't find enough people to hire

By Harriet Torry and David Harrison
988 words
4 November 2017
The Wall Street Journal
J
A1
English

The U.S. economy rebounded from recent hurricanes, sending the jobless rate down to a 17-year low in October and driving up the pace of hiring.

While that is good news, it could pose a challenge for policy makers: the risk of the economy or **financial markets** overheating as labor becomes more scarce, stocks march to routine record highs and stimulative tax cuts potentially kick in during the coming months.

The Federal Reserve is widely expected to raise short-term interest rates at its final meeting of the year in December. Its prospective leader, Fed governor Jerome Powell, who was nominated Thursday by President Donald Trump to become central bank chairman, might need to consider picking up the pace of rate increases next year to tamp down the risk of financial excesses or the threat of future inflation.

The Labor Department reported that the unemployment rate fell 0.1 percentage point to 4.1% in October, its lowest level since December 2000, the height of a technology bubble. The unemployment rate, which changed little over the course of 2016, has barreled down from 4.8% at the start of this year.

A broader measure of unemployment that includes Americans stuck in part-time jobs or too discouraged to look for work fell to 7.9% in October. The last time it was lower was in 2001.

It is all a sign that new hires are rapidly become harder to find, a challenge aggravated by the aging workforce and retirement of many workers.

Nonfarm payrolls rose a seasonally adjusted 261,000 in October. September's payroll data, initially reported as the first drop in seven years, were revised to show employers actually created 18,000 new jobs that month, extending the economy's streak of job gains to a record 85 straight months. Hurricane Harvey battered Texas in late August and Irma hit Florida in early September, denting economic activity but not discernibly altering the underlying pace.

The **Dow Jones Industrial Average** finished up 22.93 points, or 0.1%, at 23539.19. It is up 19% so far this year.

"It is pretty cut and dry, labor demand is robust, it's just a matter of finding people at this point," Stephen Stanley, chief economist of Amherst Pierpont Securities said in an interview.

For two months straight, the jobless rate has been below 4.3%, the level Fed officials in September estimated it would average in the fourth quarter. That means the job market is tightening more rapidly than officials expected. It is also well under the 4.6% jobless rate that officials see as the marker for a labor market running at full steam, a level known as "full employment."

Labor-market churn shows signs of picking up as people scuffle for better jobs. Brian Faistenhammer, general manager at Lone Star Ford in Houston, Texas, said he lost a handful of the more than 100 employees at his car dealership to the real-estate industry in the aftermath of Hurricane Harvey. People went to high-paying construction jobs in the aftermath of the storm.

Kristin Ruff, vice president of human resources at iFLY, an Austin, Texas-based company that runs indoor skydiving centers, said "it's definitely been challenging" to find certain types of skilled workers.

"We pull people from outside of Austin to relocate," she said, adding that for engineering, technology and construction workers, "we had to increase wages to get the cream of the crop."

For now, the Fed is likely to welcome signs that the tight labor market is drawing people back to work. The prime-age labor-force participation rate -- which measures the share of adults ages 25 to 54 who are working or looking for a job -- bottomed out in September 2015 at 80.6% after a seven-year decline and has since rebounded to 81.6%.

So far this year, an average 4.5 million people have gone from the sidelines of the labor market to a job, up from 4.3 million in the same period of 2016. Still, the wage backdrop is a puzzle. In theory, a tightening labor market should lead to wage increases and potentially even inflation. That isn't happening now.

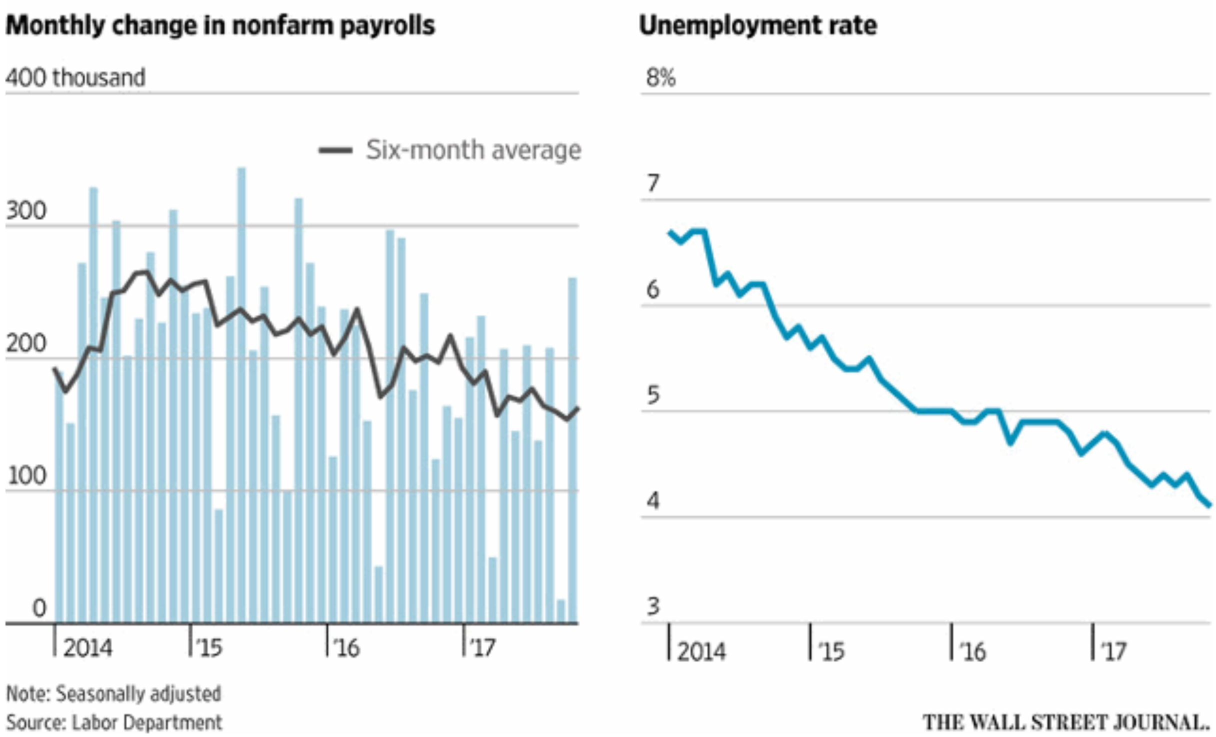
Worker wages actually declined 1 cent to $26.53 an hour in October after increasing by 12 cents the prior month. Those figures may have been affected by the hurricanes, as restaurants and bars added many low-wage workers back to their payrolls, dragging down average earnings overall. But the longer-run trend is anemic. From a year earlier, wages increased 2.4% in October, the weakest pace of growth since February last year. Broader inflation is anemic too, running below the Fed's 2% target.

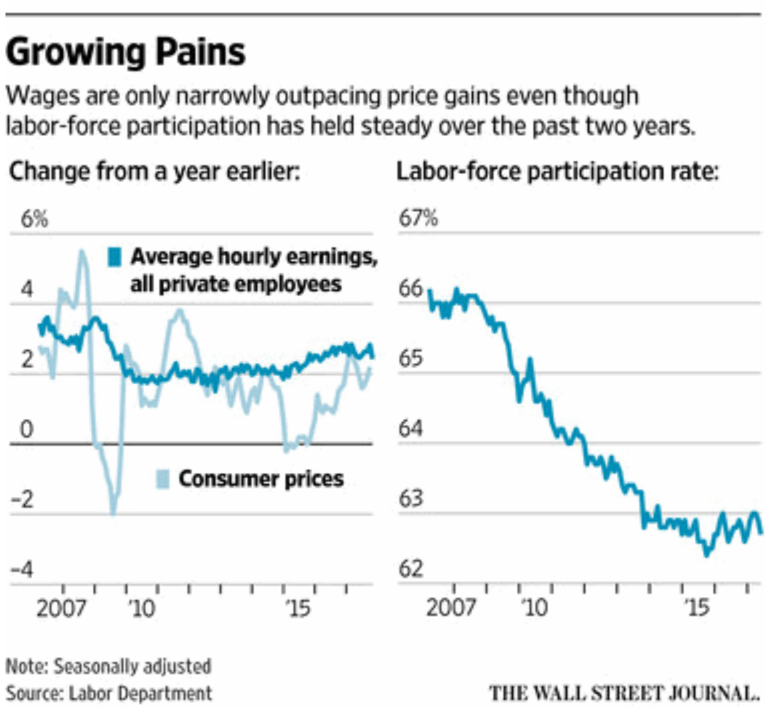
Fed Chairwoman Janet Yellen, whose term expires in February, described the inflation undershoot in recent months as a "mystery" given low unemployment, though her "best guess is that these soft readings will not persist." Mr. Powell has expressed similar puzzlement.

Tax cuts being considered by Congress could rev up growth. House Republicans this week proposed $1.4 trillion in net cuts over a decade. That's modest when stretched out over 10 years in an economy that annually churns out $19 trillion worth of goods and services. Still, it has added fuel to a synchronized global economic upturn and **financial markets** that are already shooting higher.

"In this environment we believe the Fed will see even more need for a steady, regular removal of accommodation," J.P. Morgan economists concluded in a note to clients after Friday's jobs report. They projected four Fed quarter-percentage-point interest-rate increases in 2018. If that is right, it would be the most in more than a decade.

Hiring bounced back in October after earlier hurricanes, and the jobless rate has resumed a rapid descent.





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The New York Times

Business/Financial Desk; SECTB
Apple's Robust Report Paces Technology Gains

By THE ASSOCIATED PRESS
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English

Another spurt higher for Apple and other technology stocks helped the Standard & Poor's 500 set another record on Friday, and the index closed out an eighth straight week of gains.

It was another mostly calm day for markets after a report showed that the United States job market strengthened last month, though not by as much as expected. Bond yields held relatively steady, stock markets around the world rose modestly, and the price of oil climbed to its highest level in more than two years.

The **S**.**&P**. **500** rose 7.99 points, or 0.3 percent, to 2,587.84 after flipping between modest gains and losses earlier in the day. The push higher helped it clinch its longest weekly winning streak in nearly four years.

The **Dow Jonesindustrial average** rose 22.93 points, or 0.1 percent, to 23,539.19, and the **Nasdaq composite** climbed 49.49 points, or 0.7 percent, to 6,764.44.

Technology stocks led the way, as they have for most of this year. Apple was at the forefront after it reported stronger revenue and earnings for the latest quarter than analysts forecast. A new $1,000 iPhone model made its debut on Friday, and Apple said it expects the phone to make this holiday season its best quarter ever. Apple shares rose $4.39, or 2.6 percent, to $172.50.

On the losing side was the insurer American International Group, which fell to one of the sharpest losses in the **S**.**&P**. **500** after it reported weaker results for the latest quarter than analysts expected. Its shares dropped $2.98, or 4.6 percent, to $62.

A.I.G. was an outlier in what has been a better-than-expected earnings season. Most companies have delivered higher profits for the July-September quarter than Wall Street had forecast, with growth particularly strong for the technology sector.

Early in the day, gains for the market were more tentative after the government released the most eagerly awaited economic dispatch of each month: the jobs report.

Employers added 261,000 jobs in October, and the unemployment rate dipped to 4.1 percent, its lowest level in nearly 17 years. But job and wage growth were weaker than economists forecast. Average hourly earnings were up 2.4 percent from a year earlier, a slowdown from September's 2.8 percent rate.

While the jobs report offered a mixed bag, other economic reports were more encouraging, including those that showed better-than-expected growth in the nation's service sector and factories, said Phil Orlando, chief **equity market** strategist at Federated Investors. That has Mr. Orlando and other investors confident that the economy is continuing to strengthen, which should translate into higher corporate profits.

''I think these numbers will clean themselves up in the next month or two,'' Mr. Orlando said.

The mostly encouraging reports on the economy bolstered expectations that the Federal Reserve will raise interest rates at its meeting in December. It would be the third increase this year.

Interest rates held relatively steady. The yield on the **10**-**year Treasury** note dipped to 2.33 percent from 2.35 percent late Thursday. The two-year yield was unchanged at 1.61 percent, and the 30-year yield slipped to 2.81 percent from 2.83 percent.

In commodities, benchmark United States crude jumped $1.10 to $55.64 per barrel, its highest settlement price since July 2015. Brent crude, the international standard, rose $1.45 to $62.07.

Natural gas rose 5 cents to $2.98 per 1,000 cubic feet, heating oil gained 3 cents to $1.89 per gallon, and wholesale gasoline climbed 2 cents to $1.79 per gallon.

Gold fell $8.90 to $1,269.20 per ounce. Silver lost 30 cents to $16.83 per ounce.

In overseas stock markets, the French CAC 40 rose 0.1 percent, Germany's DAX gained 0.3 percent and the FTSE 100 in London added 0.1 percent.

The dollar rose to 114.16 Japanese yen from 114.00 yen late Thursday. The euro dipped to $1.1608 from $1.1659, and the British pound rose to $1.3069 from $1.3060.

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

Foreign Desk; SECTA
Venezuela Summons Bondholders, but Default Appears Closer

By KIRK SEMPLE and CLIFFORD KRAUSS; Kirk Semple reported from Caracas, Venezuela, and Clifford Krauss from Houston.
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CARACAS, Venezuela -- The Venezuelan government invited bondholders on Friday to begin negotiations later this month to restructure the country's $120 billion foreign debt, which has put the country near bankruptcy.

But bondholders and analysts said the offer was unlikely to draw much interest, moving the country closer to default.

Vice President Tareck El Aissamí, who is a target of United States sanctions over allegations of drug trafficking, appeared on television to propose beginning talks on a restructuring in Caracas on Nov. 13. He made the invitation the morning after President Nicolás Maduro, announcing the debt strategy, appointed him to head a government team in such negotiations.

In a defiant message, Mr. El Aissamí demanded that creditors agree to a restructuring of debt terms. He also said United States sanctions barring American banks from buying new bonds or negotiating loan deals with Venezuela amounted to "financial persecution" and an "insolent imperial policy of domination and economic asphyxia."

Venezuela promised on Thursday to make a $1.2 billion payment on a state oil company bond, but by initiating a call to restructure and refinance the country's debts, President Maduro put future payments in doubt. Venezuelan **bond prices** sank in global market trading on Friday as investors spoke of an inevitable default.

"The way in which this has been handled does not give confidence that refinancing or restructuring talks will start smoothly nor that there will be a quick solution," said Stuart Culverhouse, head of sovereign and fixed-income research at Exotix Capital, an emerging-markets investment bank and broker that trades Venezuelan bonds. "It is not really clear what the government intends, nor whether it can do anything at all with U.S. sanctions in place."

Mr. Culverhouse said some investors might be willing to go to Caracas for negotiations, but he added, "I cannot see how American investors would, given the sanctions on Venezuela and on the vice president personally."

The United States has imposed a range of sanctions against Venezuela over its repressive policies, including a move in August that restricts trading of Venezuelan bonds sold by the government in the American **financial markets**. The sanctions against Mr. El Aissamí came in February, when the Treasury Department said he was involved in narcotics rackets from Colombia to Mexico.

Financial experts say there is little or no benefit for Venezuela to go into default. While the country could save as much as $7 billion from not making debt payments over the next year, the savings could be offset by lost oil exports. Oil-service companies that go unpaid will curtail their work for the national oil company, Petróleos de Venezuela, or Pdvsa, and bondholders could demand confiscation of Venezuelan oil payments in the United States.

The only reason to default, many say, is that the nation's $10 billion in reserves is not enough to cover debt obligations but could be used to import badly needed food and medicine.

Experts say the Venezuelan government may try to get around the American sanctions. It could try to issue and market a new bond outside of the United States, but such bonds would probably be unattractive if they cannot be traded on American markets. It could also issue new bonds to pay for food and medicine imports, but such humanitarian bonds require monitoring to guarantee that the money is actually going where it is supposed to -- and Venezuelan officials are unlikely to accept such strings.

Alternatively, the government could pay the Pdvsa bonds on schedule but not other government bonds.

''The key question then becomes whether authorities are willing to continue making debt payments in the absence of an agreement with bondholders,'' Torino Capital, the New York-based investment bank, wrote in a report to investors. The bank noted that if Venezuela continued to make payments, ''bondholders will have little incentive to participate in a deal,'' but that if it stopped making payments, it would leave itself open to confiscations including money earned from oil shipments to the United States.

The biggest immediate stumbling block to a renegotiation is Vice President El Aissamí himself, whose appointment puzzled many experts and makes negotiations with American investors impossible unless the Trump administration suddenly changes its policies toward Venezuela.

''There are compliance restrictions for negotiations, because the head of negotiations on the presidential committee is a designated narco-trafficker,'' said Siobhan Morden, a Nomura managing director who is head of the bank's Latin America fixed-income strategy. ''That's a constraint, a nonstarter for any negotiations at this stage.''

If negotiations break down, or never get off the ground, years of legal wrangling over Venezuelan assets, including oil tankers and even refineries in the United States owned by Citgo, a subsidiary of Pdvsa, could follow.

''Pdvsa is really in a doom loop,'' said Steve Hanke, a Johns Hopkins University economist who closely watches Venezuela. ''At some point the bondholders will have to say, 'Wait, what are you doing to us?' and someone will exercise their legal rights. Pdvsa can't just unilaterally dictate what is going to happen without some bondholder pushing back.''

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Sales and Spending Surge at U.S. Firms

By Theo Francis
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4 November 2017
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English

Sales at large U.S. companies are growing at a clip rarely seen over the past five years, driven by an improving global economy, U.S. consumer spending and increased capital investment.

Profits, too, are healthy at **S&P 500** firms, though they aren't rising as quickly as they did earlier in the year. Earnings growth was pinched in the third quarter by higher materials and labor costs, as well as the impact of three major hurricanes on insurers.

Strong profits, labor markets and U.S. economic output, along with expectations for lower corporate tax rates, have helped power gains in the equities markets, leading the **S&P 500 index** to a roughly 15% surge so far this year.

But some investors say the improved global growth could have an unintended side effect: rising costs that keep profit increases in check.

"Profit margins may be in the process of topping out," said Jim Russell, a portfolio manager at Bahl & Gaynor in Cincinnati. "In fact, there's pretty good evidence that they probably are."

Per-share earnings for companies in the **S&P 500** are on track to rise 8% over the third quarter last year, according to data from Thomson Reuters, led by outsize gains in the energy patch and at technology giants like Apple Inc. and Alphabet Inc. But that is a step down from the 15% and 12% growth rates posted in the first two quarters of the year.

Excluding the energy sector, which is still rebounding from a painful contraction, **S&P 500** earnings are expected to rise 5.6% -- well below a median of about 8% since 2011, Thomson Reuters data show. Estimates reflect actual results for the 80% or so of companies that have reported earnings and analyst estimates for the rest.

The insurance industry dragged on results in the third quarter as significant claims from three major hurricanes pushed profits down 61%. Excluding insurers, **S&P 500** earnings are expected to rise 10.8%.

Revenues are expected to rise 5.2%, the second-best showing in six years and handily outpacing a median increase of 3.6% since the height of the financial crisis, Thomson Reuters data show. "The revenue numbers we are seeing now are stronger than we have seen going back to 2011 or 2012," said John Butters, senior earnings analyst at FactSet.

A key driver: global growth, including improvements in Europe, which had struggled to recover from sovereign-debt and banking crises.

In the third quarter, **S&P 500** companies generating at least half their revenue outside the U.S. posted earnings growth nearly six times that of companies with mostly U.S. sales, according to an analysis by Mr. Butters. Similarly, revenue grew more than twice as fast at companies generating mostly non-U.S. sales.

Several companies reported a general improvement in European demand. Snack-food giant Mondelez International Inc. cited stronger European sales, including of chocolate in Europe and Oreos and other cookies in the U.K. and Germany, as a significant driver of overall sales growth.

"Europe feels pretty good. It's about 40% of our revenue, and it's solid and stable and growing," Brian Gladden, Mondelez's finance chief, told investors on Oct. 30.

U.S. consumer spending remains healthy too, as does sentiment. A widely tracked measure of current consumer sentiment rose in October to its highest level in nearly 17 years, pushed by Americans' favorable view of the job market.

"The U.S. consumer continues to feel positive about future prospects for their personal finances and employment," David Nelms, chief executive of Discover Financial Services, told investors in late October.

But the stronger global economy also is pushing up costs for many companies -- from fuel and commodities to labor -- restraining the degree to which companies can generate higher profits on improved sales.

Both Southwest Airlines Co. and American Airlines Group Inc. said rising fuel and labor costs partly offset stable pricing and solid demand for leisure and business travel. American Airlines executives said they expect fuel prices to continue to rise in the fourth quarter, but expressed optimism that the airline could raise prices. "We're big consumers of fuel, so fuel spikes could have an impact," American CEO Doug Parker told investors on Oct. 26.

Companies reported other commodity price increases as well. Packaging Corp. of America, which makes a variety of cardboard for boxes, said it expects energy, wood and some key chemical costs to rise, along with freight shipping and energy costs. Packaging Corp. also cited higher labor costs in the latest quarter. Martin Marietta Materials Inc., a gravel and sand supplier, said tight labor markets have led to project delays and are limiting significant increases in construction activity.

But overall, economists say rising labor costs alone aren't cause for worry, thanks to an uptick in productivity in the U.S. The cost of labor relative to goods and services produced is edging up, but slowly.

"What you really care about is cost per widget," said Kathy Bostjancic, chief financial economist for Oxford Economics. "Even if your cost is going up, if you're producing more widgets, that's fine."

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THE WALL STREET JOURNAL.
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Weekend Profile: CME Makes Bitcoin Gambit --- Chief Duffy Could Become Hero or Villain

By Alexander Osipovich
593 words
4 November 2017
The Wall Street Journal
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B2
English

In early October, CME Group Inc. Chief Executive and Chairman Terrence Duffy set in motion a risky plan that the exchange operator had been secretly developing for two years: launching a futures contract based on bitcoin.

That plan was unveiled this past week, and represented a big step toward bringing the highly **volatile** digital currency into the financial mainstream. Bitcoin, which started trading only in 2009, has long been a niche market and continues to be tarnished by its association with illicit activity.

Thanks to Mr. Duffy, it now has the blessing of the $47.6 billion global exchange giant. If the Chicago-based firm can establish a viable bitcoin-futures market, both Wall Street banks and retail investors would be more likely to trade the digital currency, many market participants say. CME plans to list the futures by year-end, subject to regulatory approval.

If digital-currency futures take off, Mr. Duffy would add another major accomplishment to his tenure at CME, though he risks harming the company's reputation should the contract flop or generate controversy.

A former hog-futures trader who got his start in the frenzy of the Chicago Mercantile Exchange's trading pits, he now oversees a sprawling exchange empire that runs a dizzying array of markets, from crude oil to gold to **stock-market** futures.

As CME's chairman since 2002, Mr. Duffy helped turn the firm into the world's largest exchange operator, spearheading tie-ups with the Chicago Board of Trade in 2007 and the New York Mercantile Exchange in 2008. He also handled the delicate task of persuading CME's once-powerful floor traders to allow more electronic trading, drawing on his history in the pits to win support for the change.

Mr. Duffy took the CEO job a year ago, after his predecessor unexpectedly retired. Since then, CME's share price is up nearly 20%. The move into bitcoin is by far the boldest step he has made as CEO.

"By nature I think he's a pretty conservative guy, but he will move swiftly when he needs to," said Rich Repetto, an analyst at Sandler O'Neill + Partners.

CME was tight-lipped about its bitcoin plans before Tuesday's announcement, but behind the scenes, it had long been laying the groundwork for the launch.

In November 2016, after close to a year of work, CME started publishing a daily bitcoin price index that will be the basis of its new futures contract. More recently, CME has consulted with outside advisers, including major bitcoin investors, about how its contract would work, people familiar with the situation said. At a New York meeting in May, the group discussed how CME should handle a "fork" -- a situation where a breakaway faction of programmers sets up an alternative version of bitcoin.

Mr. Duffy said he greenlighted the launch in October after repeatedly hearing from CME customers that they wanted bitcoin futures.

The 59-year-old CEO said he grew more comfortable with bitcoin after watching it survive repeated blows, such as a recent crackdown in China, a major hub for the digital currency. "It's a story that just doesn't want to go away," he said.

Mr. Duffy concedes that his big gambit may fail. "I'm not saying this is going to work," he said. "But I do know there is pent-up demand for people to participate in it."

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Bitcoin Price Exceeds $7,000 for First Time

By Paul Vigna
353 words
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The Wall Street Journal
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B11
English

The price of the digital currency bitcoin smashed through the $7,000 mark for the first time on Thursday, a new milestone for the surging asset.

Bitcoin quickly slipped back below that mark before resuming its ascent.

Late Thursday, the digital currency was trading at $7,051, according to CoinDesk. It had traded as high as $7,355 earlier in the day.

The advance was just the latest plateau for the currency, which has surged this year despite several setbacks. Those have included a near-total ban in China and a bitter fight within the bitcoin industry over how best to expand the network.

Bitcoin's ability to shrug off those developments shows that its trading community, which is still relatively small and insular, remains **bullish**.

Based on the morning high, bitcoin was up as much as 658% on the year. Thursday's jump also came amid selling in most of the other big cryptocurrencies. Ether was down 2.9% at $289 on Thursday, ripple was down 0.7% at 20 cents, and litecoin was down 0.7% at $54. On the other hand, Bitcoin Cash, itself a near-identical copy of bitcoin, was up 16% at $588.

Bitcoin's latest surge occurred just days after CME Group Inc. announced plans to begin offering a bitcoin futures contract, a potentially significant development that would for the first time give Wall Street traders an avenue to bet on bitcoin prices and hedge against **volatility**. That kind of market, which exists for more-mature assets, is believed to be a crucial ingredient in bitcoin's move into institutional and retail markets.

First unveiled in 2008, bitcoin is a digital asset that exists across a network of linked computers that all run an identical version of the same program. The heart of that program is an open ledger of transactions.

Every bitcoin trade goes into the ledger, and each computer on the network maintains an identical, constantly updated copy of the ledger, which makes counterfeiting bitcoins impossible.

Uploading

How many dollars one bitcoin buys

*Price through 6 p.m. EDT
Source: CoinDesk
THE WALL STREET JOURNAL.

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The New York Times

World; Americas
As a Debt Deadline Looms for Venezuela, Maduro Is Defiant

By KIRK SEMPLE and CLIFFORD KRAUSS
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English

CARACAS, Venezuela — With the threat of default looming over Venezuela, President Nicolás Maduro said late Thursday that his government would initiate a restructuring and refinancing of the country's foreign debt.

The announcement came at the deadline for a $1.2 billion payment by the state oil company on a maturing bond, which Mr. Maduro said his government would instead deliver on Friday.

Speaking on national television, Mr. Maduro said that his government was fighting "a battle for the financial stability and tranquillity of Venezuela."

"We're going to win this battle," he vowed.

The move is an acknowledgment of how serious the government's financial problems have become, and throws further into doubt the future of the country, which has been grappling with an economic crisis that has caused dire shortages of food and medicine.

Mr. Maduro has blamed the crisis in part on the Trump administration, which he has accused of leading an "economic war" against his country through economic sanctions intended to prevent Venezuela's government from contracting new debt.

Given the sanctions, however, it remained unclear how Mr. Maduro intended to restructure the government's debt.

"There's no way to restructure under existing U.S. sanctions, but the government may be hoping that bond holders now pressure the Trump administration to create an exemption to the sanctions," said Risa Grais-Targow, director for Latin America at Eurasia Group, a political risk analysis firm.

In a challenge to the Trump administration, Mr. Maduro also named Vice President Tareck El Aissamí to lead the efforts. Mr. El Aissamí has been sanctioned by the United States over allegations that he is a narcotics trafficker, which blocks Americans from doing business with him.

There was no grace period for the loan payment due on Thursday, and it remained unclear how investors would react to the failure of the state oil company, Petróleos de Venezuela, or Pdvsa, to make the payment on time.

But Diego Ferro, co-chief investment officer at Greylock Capital Management, a New York hedge fund that invests in distressed high-yield bonds, said the restructuring announcement could buy Mr. Maduro some time with bondholders and the Venezuelan people.

"People were expecting the payment late anyway," he said. "As of now they have at least a few months to come up with an offer to put off litigation in the United States. It will depend on what they offer" in terms of payments of principal and interest.

Mr. Maduro has sought to avoid a default, which could trigger years of international legal battles among creditors for control of Pdvsa assets outside Venezuela, including its American refinery subsidiary Citgo and tankers that deliver oil around the world.

"Venezuela will not default strategically," said Miguel Angel Santos, a senior research fellow at the Center for International Development at Harvard. "If it defaults, it's because they have really run out of dimes and nickels."

In a default, Venezuelan petroleum exports would be interrupted, forcing the government to cultivate new ways of getting the nation's oil into the international marketplace, perhaps including an increasing dependence on the Russian oil company Rosneft, according to analysts.

During a similar debt crunch in April, Rosneft provided a $1 billion advance payment for oil, which was crucial for Pdvsa to make nearly $3 billion in bond payments. Last week, senior Russian officials said they were ready to restructure some debts to suspend hundreds of millions in payments until 2020 or later.

Rosneft has a 49.9 percent stake in Citgo, Pdvsa's refining and gasoline station subsidiary in the United States, as collateral for a $1.5 billion loan to the Venezuelan oil company. Rosneft and Pdvsa are in negotiations to swap Rosneft's Citgo holdings for oil fields in Venezuela out of concern that the United States government could eventually place sanctions on Citgo.

International bond experts and the markets had been optimistic that the Venezuelan state oil company would make the $1.2 billion payment on time on Thursday.

But in recent years, Pdvsa has increasingly left investors and the market guessing up to the last minute on whether it would make its debt payments.

With the company facing a deadline last week on a separate bond payment, the markets were particularly jittery amid conflicting signals from the government about its preparedness to pay. On Friday, the company announced it had started to make the payment before the deadline, though bondholders did not start seeing the payments until a few days later.

The Venezuelan government and Pdvsa have been skipping interest payments over the last four weeks, taking advantage of grace periods to delay more than $700 million in payouts.

"They're living day by day essentially," said Daniel Lansberg-Rodriguez, an adjunct lecturer of finance at the Kellogg School of Management. "There's a sense that at the liquidity level, there's a scramble, there's always a scramble."

Venezuela has a $140 billion external debt, most of which was borrowed in recent years when **oil prices** were more than $100 a barrel. The collapse of **oil prices** three years ago forced Venezuela into a crisis, and experts have been predicting that a default is nearly certain unless **oil prices** recover quickly to over $75 a barrel — well above current levels.

With more debt payments due in the coming months, the government and Pdvsa are offering leasing deals to Russian and Chinese companies to transfer operational control of one or two major refineries, according to Argus, an energy and commodity news service.

But energy experts say that Venezuela's refineries would be risky investments for any foreign oil company given that they are in poor working condition and that the domestic gasoline and diesel market is highly subsidized so returns are low.

Kirk Semple reported from Caracas, Venezuela, and Clifford Krauss from Houston. Ana Vanessa Herrero contributed reporting from Caracas.

* Venezuelan Opposition Receives E.U.'s Sakharov Freedom Prize

* Deep Cracks Appear in Venezuela's Weakened Opposition

* Russia Uses Its Oil Giant, Rosneft, as a Foreign Policy Tool

President Nicolás Maduro said his vice president, Tareck El Aissami, left, will lead the restructuring effort. | Miraflores Palace, via Reuters | Venezuela's state oil company, Petróleos de Venezuela, or Pdvsa, has offered leasing deals to Russian and Chinese companies. | Ricardo Moraes/Reuters

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Heard on the Street
Tax Plan's Happy Surprises for Investors

By Spencer Jakab and Ken Brown
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3 November 2017
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J
B12
English

[Financial Analysis and Commentary]

Buy the rumor, but don't sell the "cut, cut, cut."

The Republican tax plan had few surprises for the market, which has been rising in anticipation of a big reduction in corporate taxes. The increases that legislators proposed to fill the revenue gap were a mixed bag for companies, but none serious enough to rattle investors.

The headline figure in the Tax Cuts and Jobs Act is a permanent cut in the corporate tax rate to 20% -- higher than the 15% that President Donald Trump had pined for, but the number that most were expecting.

But this bag of goodies for corporate America has a few sour bits too. One is the slightly higher-than-expected proposed tax rate of 12% for a one-time repatriation of cash held by foreign subsidiaries of U.S. companies. This mostly affects large multinationals such as Apple, Microsoft and Coca-Cola.

Those cash-rich companies wouldn't, on the other hand, be affected by a wrinkle that would limit the deductibility of interest to 30% of a modified measure of cash flow called earnings before interest, taxes, depreciation and amortization. It is noteworthy that the market prices of high-yield bonds barely moved Thursday. That seems odd since they tend to be issued by companies that could get pinched, but it actually makes sense since the future supply of high-yield bonds would be reduced, making the existing crop scarcer. Looking at the **S&P 500** as a whole, interest expense was less than one-tenth of Ebitda, so the overall impact of limiting the tax-deductibility of interest would be small.

The corporate tax change that may have the biggest short-term impact on the economy is the immediate deductibility of capital investments such as factories and machinery. Currently companies depreciate these expenses.

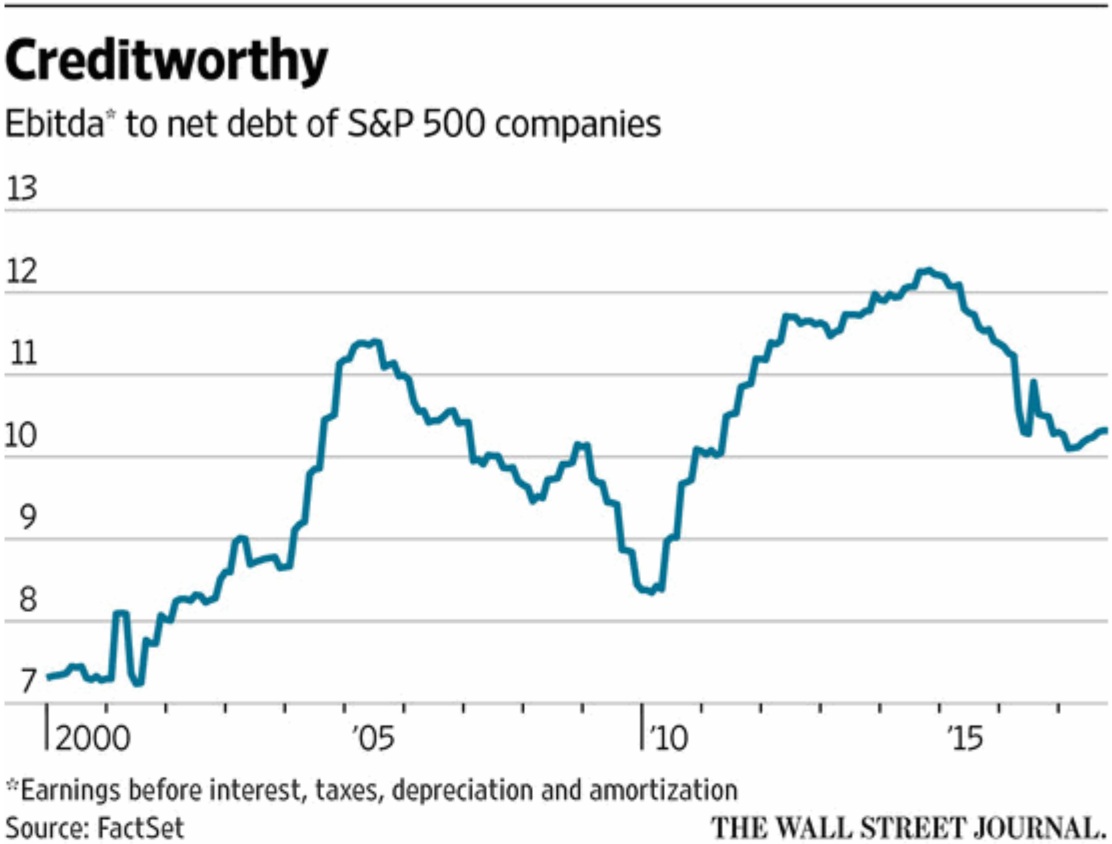
While shares of large-capitalization stocks have done well recently -- particularly technology giants -- they would benefit less from the overall cut in the tax rate. Many already are paying effective tax rates not far above 20%. Smaller, domestically focused companies tend to have fewer methods to shield themselves from high taxes and benefit more. That likely explains why, despite the rally in big tech companies, the **S&P 500** has lagged behind the small-capitalization-focused Russell 2000 index by about 4 percentage points since the election.

Of course, the entire **stock-market** rally can't be boiled down to a calculation about lower taxes and the resulting higher net profit. The whole package -- including the substantial changes to individual taxes and deductions -- is meant to unlock higher economic growth.

On the corporate side of the ledger that appears to be the case as net profits would rise and more of those profits are likely to be invested domestically. But the milder measures on individual taxes appear to be a missed opportunity to remove distortions that affect how the American public saves and invests.

Aside from some tweaks to tax credits for health expenses, education and mortgage interest, the largest impact would be felt by residents of high-tax coastal states.

However the wrangling over legislation plays out, the gains from tax reform already are priced into the market.



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The New York Times

Business/Financial Desk; SECTB
Yellen's Legacy: Progress But a Sense of a Job Unfinished

By BEN CASSELMAN and KEVIN GRANVILLE
1,405 words
3 November 2017
The New York Times
NYTF
Late Edition - Final
3
English

By most conventional measures, Janet L. Yellen's four years as the nation's top economic policymaker have been a success. Unemployment fell steadily during her term, inflation stayed in check and the Fed began backing gradually away from the extraordinary steps it took in the wake of the financial crisis. That wasn't enough to save her job, however. President Trump has nominated Jerome H. Powell to be chairman of the Federal Reserve, which means that Ms. Yellen will be the first person in nearly 40 years to serve no more than a single four-year term as head of the central bank. Ms. Yellen, who was serving as the Fed's vice chairwoman at the time of her appointment, was not the only person considered for the top job. President Barack Obama considered naming former Treasury Secretary Lawrence H. Summers to the post. Once Mr. Obama did nominate her, Ms. Yellen was confirmed on an unusually partisan 56-26 vote in the Senate. And once in office, Ms. Yellen continued to stir strong feelings.

Republicans in Congress and on the campaign trail accused the Fed under her leadership of imposing burdensome regulations on the financial industry -- a complaint that may have contributed directly to Mr. Trump's decision not to reappoint her. Here is a closer look at Ms. Yellen's complex legacy. Unemployment and inflation are low, but to many the recovery is incomplete. Since the late 1970s, the Fed has had a ''dual mandate'' of promoting maximum employment and stable prices. By one set of measures, Ms. Yellen's tenure was a clear success on both counts: unemployment is at its lowest level since 2001. And the Fed's preferred measure of inflation has generally stayed well below its 2 percent target. Other measures paint a more ambiguous picture, however. The share of working-age Americans who have jobs -- a more comprehensive measure than the unemployment rate -- remains below its prerecession level, and wage growth has been slow for much of Ms. Yellen's term. Both trends suggest that the Fed is still falling short of its ''maximum employment'' mandate. The low rate of inflation has also led many liberal economists to suggest that the Fed could have done more to bolster the economy without running the risk of runaway price increases. Ms. Yellen described persistently low inflation as ''a concern'' in a news conference in September. Rosy growth forecasts were not matched by reality. Under Ms. Yellen, as under her predecessor, Ben S. Bernanke, a stronger economic recovery was always just around the corner. In March 2014, shortly after Ms. Yellen took over, Fed policymakers said they expected gross domestic product to grow at about a 3 percent rate each year through 2016. That proved overly optimistic: In 2016, economic growth by the Fed's measure didn't even reach 2 percent. It isn't clear what's behind those repeated disappointments, or how much Ms. Yellen or the Fed are to blame. Slow growth has been a problem across the developed world in recent years, and the United States has in fact outperformed many of its international peers. Some economists have pointed at demographics, globalization or other forces outside policymakers' control. But to the extent Ms. Yellen's policies were driven by her assessment of the strength of the economy, those assessments proved consistently too rosy. Too fast or too slow? Yellen's rate increases attracted criticism on both sides. When Ms. Yellen became chairwoman in February 2014, the Fed had held interest rates near zero for more than five years in an effort to revive the economy. With unemployment falling and inflation edging upward, she came under almost immediate pressure to raise rates. Instead, she waited nearly two years -- until December 2015 -- to do so, then another full year before doing so again. (The Fed has now approved four quarter-point rate increases under Ms. Yellen, and is widely expected to raise rates again in December.) Ms. Yellen's caution drew fire from inflation hawks, and she faced dissent within the Fed as well. Three members of the Fed's policymaking Open Market Committee voted against the decision to leave rates steady at the committee's September 2016 meeting. But Ms. Yellen also faced criticism from the left -- in 2015, Ms. Yellen's former rival for the Fed's top job, Mr. Summers, argued in a commentary in The Financial Times that the Fed was making a ''serious error'' by raising rates too soon.

The Fed is figuring out how to unwind a $4 trillion balance sheet. The Fed did much more than just cut interest rates in response to the 2008 financial crisis. It also embarked on a series of unusual or unprecedented steps: bailing out banks, buying up troubled mortgages and, later, injecting trillions of dollars directly into the economy through successive rounds of bond-buying known as ''quantitative easing.'' Those efforts -- which Ms. Yellen helped guide as a member and later vice chairwoman of the Open Market Committee -- were winding down by the time she took over as Fed chief, leaving her with a different challenge: what to do about the Fed's more than $4 trillion balance sheet. For most of Ms. Yellen's tenure, her answer was ''nothing'' -- the Fed bought new bonds to replace ones that were maturing, keeping its total holdings essentially flat. But in September, the bank said it would begin gradually paring its holdings by allowing some bonds to roll off its balance sheet. The unanimous decision was widely seen as a vote of confidence in the health of the United States economy. It will be months before it is clear whether that confidence was well placed. Markets have soared, but some see a bubble ready to burst. A Federal Reserve chief's every utterance can move global **financial markets**. Ms. Yellen's utterances, more often than not, moved them up. The **Standard & Poor**'**s 500**-**stockindex**, the broadest measure of American **stock market** performance, is up by nearly half since Ms. Yellen took office, and the more technology-centric **Nasdaq composite** is up by two-thirds. Riskier assets have seen even bigger gains. Those big gains have been good news for investors, including workers trying to rebuild their retirement savings after the 2008 financial crisis. But they have led to fears among some market analysts that the Fed could be artificially propping up the market by encouraging investors to take bigger risks in search of higher returns -- perhaps inflating a bubble that will pop as the Fed begins raising rates and reducing its bond holdings. Ms. Yellen herself has hinted that asset prices may be too high, although she has also expressed confidence that the financial system is strong enough to withstand a drop in prices. (President Trump during last year's campaign called the market gains ''a big, fat, ugly bubble,'' but more recently praised them as evidence that his economic policies are working.) Yellen's view of financial regulation may be falling out of favor. As the first post-financial crisis head of the Fed, Ms. Yellen had the task of putting in place new rules that greatly expanded the central bank's role in regulating the financial industry. Ms. Yellen left much of that work to another Fed board member, Daniel K. Tarullo, who resigned earlier this year, and to Stanley Fischer, the Fed's vice chairman, who stepped down in October. In recent months, however, Ms. Yellen has become more vocal about the need for financial regulation. In a speech in Wyoming in August, she warned against forgetting the lessons of the financial crisis, and said the Fed's policies -- which have included subjecting big banks to strict ''stress tests'' that evaluate how well they could weather another crisis -- had made the financial system safer. Those views aren't popular among Republicans in Congress or in the White House. Mr. Trump has criticized financial regulation as stifling lending and economic growth, and he nominated Randal K. Quarles, an outspoken critic of post-crisis regulations, to lead the Fed's regulatory efforts.

CHARTS (Source: Bureau of Labor Statistics and Bureau of Economic Analysis via FRED; Source: Bureau of Economic Analysis, the Federal Reserve.; Source: Federal Reserve Bank of St. Louis; Source: Federal Reserve)

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The New York Times

Business/Financial Desk; SECTB
Markets End Mixed on G.O.P. Tax Plans and Shaky Forecasts

By THE ASSOCIATED PRESS
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4
English

Stocks finished mixed on Thursday in the United States as investors pored over House Republicans' tax proposals and President Donald Trump picked Fed Governor Jerome ''Jay'' Powell to lead the Federal Reserve. Weak results from consumer and health care companies pulled those parts of the market lower.

The House tax plan would temporarily cut the top corporate tax rate to 20 percent from 35 percent. That helped smaller, more America-focused companies, because they generally pay higher tax rates than larger firms that do a lot of business in other countries. Home improvement retailers and homebuilders slumped because the bill would reduce the amount of interest Americans can deduct on new mortgages. That could hurt home sales, particularly in high-cost areas.

The Republican tax plan was mostly what investors expected, said Mona Mahajan, United States investment strategist for Allianz Global Investors. She noted that the bill would immediately lower the corporate tax rate instead of reducing it over time, an idea some Republicans had proposed earlier.

''That alone is a win for corporations becoming more competitive with global peers, especially the small cap and domestic companies,'' she said.

The **Standard & Poor's 500-stockindex** rose 0.49 points to 2,579.85. The **Dow Jonesindustrial average** added 81.25 points, or 0.3 percent, to a record 23,516.26. The **Nasdaq composite** sank 1.59 points to 6,714.94. Slightly more stocks on the New York Stock Exchange fell than rose.

Ms. Mahajan said a cut in personal taxes could boost consumer spending and economic growth, but she thinks companies would spend most of the savings from a corporate tax cut on dividends and stock buybacks instead of investment that would speed up economic growth.

Another part of the bill would reduce the widely used deduction for mortgage interest for new home loans. It would cap the deduction for mortgage interest at the first $500,000 of the loan, half the current limit of $1 million.

Luxury homebuilder Toll Brothers sank $2.84, or 6.1 percent, to $43.79. Retailer Home Depot fell $2.67, or 1.6 percent, to $162.71.

While Mr. Powell, the proposed Federal Reserve chair, is seen as similar to Ms. Yellen in important ways and is expected to continue gradually raising rates, he shares Trump's interest in reducing some of the banking regulations that were imposed after the 2008-09 financial crisis.

In electronic trading, Apple climbed 3.5 percent after its fiscal fourth-quarter results and its forecasts were better than expected.

Bond prices rose. The yield on the **10-year Treasury** note declined to 2.35 percent from 2.37 percent.

United States crude oil rose 24 cents to $54.54 a barrel in New York.

Gold rose 80 cents to $1,274.90 an ounce.

The dollar slipped to 114.05 yen from 114.11 yen. The euro rose to $1.166 from $1.1619.

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Thursday. (Source: Reuters); Jobless Claims: Weekly number of people who have filed for unemployment benefits for the first time. (Source: Labor Department, via Reuters)

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THE WALL STREET JOURNAL.
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Change at the Fed -- Capital Account: Choice for Fed Chairman Is a Safe Gamble

By Greg Ip
761 words
3 November 2017
The Wall Street Journal
J
A7
English

President Donald Trump's selection of Federal Reserve governor Jerome Powell to succeed Janet Yellen as chairman of the central bank is something of a gamble. Unemployment is at a 16-year low, economic growth is picking up, the **stock market** is setting records, and yet he's changing leaders at the institution most responsible for all of that.

As gambles go, it looks like a safe one. Of all the candidates Mr. Trump considered after deciding not to keep on Ms. Yellen, Mr. Powell's temperament and views come closest to hers. He believes the Fed should use all available tools to get unemployment down and keep inflation at its target of 2%. He backs the regulatory framework put in place under President Barack Obama, albeit with less strict implementation.

Mr. Powell's job will be turning those beliefs into effective policy. Heading the Fed's policy committee is harder than being a member: It means not just voting but deciding what will be voted on.

If confirmed by the Senate, as is likely, he will at some point face second guessing from colleagues, Congress and perhaps the mercurial man who picked him.

Mr. Powell, a lawyer and banker, would be the first Fed chair in three decades without a Ph.D. in economics. He served at the Treasury under George H.W. Bush, pursued a career in investment banking and private equity, then landed at the Bipartisan Policy Center, a think tank.

Mr. Obama, whose staff appreciated Mr. Powell's work explaining to Republicans in Congress the dangers of not raising the debt ceiling, made him a Fed governor in 2012.

Having served with two accomplished professors of macroeconomics -- Ms. Yellen and her predecessor, Ben Bernanke -- he has ended up seeing the world as they do.

In a 2015 interview, he was asked if the Fed's unconventional monetary stimulus was actually holding back growth. He answered, "I don't understand what model of the economy would require substantially higher interest rates right now, which would mean a vastly higher dollar, higher mortgage costs and higher costs for consumers, and probably lower asset prices."

Asked if the Fed's low interest rates had encouraged Congress to run up more debt, he noted its mandate is full employment and price stability. "We're not supposed to sacrifice those two goals [to] punish Congress for not doing the right fiscal policy," he said.

To a modern central banker those views are unremarkable, yet they aren't shared by two competing candidates to succeed Ms. Yellen, former Fed governor Kevin Warsh and Stanford University economist John Taylor.

Nonetheless, Mr. Powell will face challenges that vex even trained economists. The first is the same one Ms. Yellen is now struggling with: deciding how far to raise interest rates when the economy has no slack but inflation is falling further below the central bank's 2% target.

Another front is the upward march of stock and property prices. More than Ms. Yellen, Mr. Powell worries that a monetary policy that succeeds at getting inflation back up may also stoke an asset bubble whose ultimate demise brings on a recession.

Another challenge is to establish his own leadership. From 1979 to 2006 Paul Volcker and Alan Greenspan enjoyed the reflexive deference of most of their colleagues. That deference ended with the financial crisis.

Finally, he faces a treacherous political landscape. Monetary policy is no longer nonpartisan. Republicans regularly disparaged Mr. Bernanke and Ms. Yellen and many think Mr. Powell isn't much better.

Central banks embody the technocratic expertise that many of Mr. Trump's populist supporters despise. Having discarded the tradition that presidents reappoint the incumbent Fed chairman regardless of party, Mr. Trump may also discard the practice of keeping criticism of the Fed to himself.

Past Fed chiefs have needed political skills to head off threats to their leadership and the central bank. On that, Mr. Powell is untested. Mr. Trump faces pressure to nominate conservative skeptics of the Fed's easy-money policies to fill its board vacancies, which would narrow Mr. Powell's room to maneuver from the start.

Ms. Yellen could be an ally of Mr. Powell's on that front. Though her term as chairwoman ends in February, she could stay on as a governor until that term ends in 2024. In December, she said that would be a "a decision for another day."

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Change at the Fed: Yellen's Exit as Fed Chief to Break With Recent Precedent

By Josh Zumbrun
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3 November 2017
The Wall Street Journal
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A7
English

Janet Yellen's leadership at the Federal Reserve is ending after just one four-year term, the shortest tenure at the helm of the central bank in nearly four decades, and a break from recent precedent: The previous three Fed chairmen all were reappointed by presidents from the opposite party that put them in office.

On Thursday, President Donald Trump nominated Jerome Powell to succeed Ms. Yellen when her term as central bank chief ends in February.

Given her predisposition to plot moves well in advance, she likely will make no more major decisions at the central bank beyond the next quarter-point interest-rate increase, which many market participants expect to come in December.

Ms. Yellen, the Fed's first female chief, led her colleagues to slowly and cautiously reverse the central bank's extraordinary stimulus programs adopted during the financial crisis, the subsequent recession and the sluggish recovery.

She built consensus within the central bank to move in well-telegraphed, measured steps to avoid roiling markets and disrupting the economy's slow progress.

Mr. Trump's decision comes as the economy is growing steadily and the labor market is at or near full strength. The Fed, however, failed on her watch to achieve its goal of 2% inflation.

During the first 16 months of her leadership, the Fed held its benchmark short-term interest rate near zero as the unemployment rate fell and economic growth strengthened.

In December 2015, she guided the central bank to its first rate increase in seven years. The Fed has raised rates three times since then and in October began shrinking the $4.2 trillion portfolio of bonds it purchased during and after the financial crisis to stabilize markets and boost the economy.

"She had to walk, and is still walking, a very fine line between a still fragile economy and risks of leaving too much accommodation in place for too long," said Roberto Perli, a partner at Cornerstone Macro and a former Fed economist. "I think she managed to strike the right balance."

It wasn't a foregone conclusion that the first postcrisis tightening of monetary policy would go so smoothly. In 2011, for example, the European Central Bank raised rates, but set its economy reeling, exacerbated the continent's debt crisis and swiftly reversed course. In 2013, Fed Chairman Ben Bernanke sent the Treasury market into a tailspin with remarks -- catching many investors off guard -- that the Fed would soon wind down its bond buying.

But under Ms. Yellen, U.S. **financial markets** have taken the Fed's moves in stride.

"Janet Yellen hasn't gotten enough credit for being right about the economy," said Russell Price, senior economist for Ameriprise Financial, adding that despite public debates around her moves, there have been no large and obvious policy screw-ups during her tenure.

Document J000000020171103edb30001p

THE WALL STREET JOURNAL.
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The House GOP Tax Bill: Banks Sidestep Tax-Plan Pitfall

By Rachel Louise Ensign and Telis Demos
369 words
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J
A4
English

Banks do pretty well under the tax bill unveiled Thursday: It puts them on track for big tax cuts yet lets the firms avoid some of the biggest potential downsides of the overhaul.

At a 20% corporate tax rate, banks stand to be among the biggest winners from tax reform, according to S&P Global Market Intelligence. The five biggest diversified U.S. banks alone might have had tax savings of $11.5 billion in 2016 at that rate, the biggest sum for any sub-industry group tracked by S&P.

That is because those big banks, such as Wells Fargo & Co., typically pay higher effective tax rates than companies that are much more profitable, such as Apple Inc. Banks in the **S&P 500** pay an effective 25% rate, versus an 18% rate for information technology firms, the data provider said.

Aside from the overall corporate tax rate, bank investors were also concerned with how legislators would limit the deductibility of interest costs. On the face of it, that could upend the banking model since financial firms are highly leveraged, deploying huge amounts of debt themselves to make loans or buy instruments like bonds. Given that, interest expense for banks is akin to nonfinancial companies' cost of goods sold.

The legislation proposed by the House Ways and Means Committee appears to let banks sidestep that issue, though. It does so by limiting the deductibility for companies that spend more money on interest than they take in, said Mark Roe, a professor at Harvard Law School. Banks by and large bring in far more in interest than they pay out.

The upshot is that the change shouldn't affect banks or result in them paying more for debt that ranges from deposits to long-term bonds.

The bill's clampdown on interest expense deductibility also spares some of banks' important borrowers -- commercial real-estate firms. They were excluded from the provision, a relief for banks and the companies themselves since they are already under pressure as their retail tenants get squeezed by online competitors.

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THE WALL STREET JOURNAL.
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U.S. Banks Seek Nafta Data Rule

By Vipal Monga and Telis Demos
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B2
English

As talks on a new North American Free Trade Agreement heat up over auto parts and agriculture, U.S. financial firms are quietly pushing for another, less tangible change: the free movement of data across borders.

A proposal, presented by the U.S. at Nafta renegotiations in September, would keep any government in the new trade pact from demanding banks or insurers store customer data on local servers, say people familiar with the text.

It is a long-coveted goal for financial firms, who say this could potentially save them millions of dollars in technology-storage costs.

Firms such as Citigroup Inc., J.P. Morgan Chase & Co. and MetLife Inc. are among those behind the push. They say it is pricey to comply with data rules in countries where they operate because of requirements to maintain servers within each country's borders for privacy and other reasons. They also worry about potential risks in countries where protection against hacking might be less robust, firms say.

"For the financial services industries, data flow commitments really are a must-have in Nafta," said Steve Simchak, director of international affairs for the American Insurance Association, a trade group that represents 320 U.S. insurers.

Getting free flow of data enshrined in the pact would not only affect data between the U.S., Canada and Mexico, it would create a template for future trade deals that could include more jurisdictions. The Trump administration has backed bilateral trade agreements with Asia-Pacific countries and with the U.K. when the country completes a planned separation from the European Union.

Banks and insurers today operate data centers in dozens of countries, and often must call on local offices even when deals are being negotiated in hubs such as New York, London and Singapore, slowing down transactions.

"These are global companies," said Peter Matheson, managing director at the U.S. Securities Industry and **Financial Markets** Association trade group. He said negotiators today need to consider technological advances that didn't exist when Nafta went into effect: "There were no such things as clouds in 1994."

For Citigroup, which already operates 20 regional data centers, guaranteeing free flow of cross-border data means the bank could avoid building more. Indonesia, for example, has sought to require banks to onshore both their data centers and backups, Citigroup said in a letter to the U.S. Trade Representative on a separate matter.

Citigroup Chief Executive Michael Corbat has been outspoken on data issues, and has in the past discussed localization requirements with Indonesian officials, people familiar with those talks said.

"The movement of data is no less important to the global economy than the movement of money," Mr. Corbat said in 2014 speech in Barcelona.

Banks say local data storage can cost them millions of dollars in hardware and software costs and the labor required for local offices, say people familiar with the industry.

William Mauldin contributed to this article.

Privacy Differences

Cause Confusion

Currently, the rules that govern privacy in the Nafta countries diverge widely, causing confusion among some financial services firms.

Some parts of Canada's Bank Act, which regulates the industry, and guidelines issued by the Office of the Superintendent of Financial Institutions could be interpreted to require firms to keep their books and records in the country.

Laws in some Mexican states say customers have the right to block access to data by third parties, which banks say can inhibit movement of information within organizations.

The push for free data flows goes back to the Trans-Pacific Partnership trade deal, negotiated by the Obama administration, which excluded financial services from a provision allowing U.S. companies to store their data anywhere they pleased.

Following an intense push by banking groups, Obama administration trade officials agreed to try to include banks in future agreements. After President Donald Trump abandoned the TPP, administration officials have told industry groups that they would continue the push for unrestricted data movement in its new trade negotiations.

-- Vipal Monga and Telis Demos

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THE WALL STREET JOURNAL.
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Oil Climbs to Highest in Two Years

By Alison Sider and Sarah McFarlane
278 words
3 November 2017
The Wall Street Journal
J
B11
English

Oil prices hit a two-year high amid growing optimism that the crude glut is shrinking.

U.S. crude futures rose 24 cents, or 0.4%, to $54.54 a barrel, the highest since July 2, 2015. The U.S. benchmark has gained in 15 of the past 19 sessions. Brent, the global benchmark, rose 13 cents, or 0.2%, to $60.62 a barrel.

Brent prices broke above $60 a barrel last week for the first time since July 2015, supported by expectations that an agreement to cut output between the Organization of the Petroleum Exporting Countries and other major producers including Russia would be extended beyond its current time frame of March 2018.

Analysts said oil remains underpinned by falling U.S. inventories, which is helping to drain the buildup of global stocks, accumulated over several years of surplus supply. The U.S. Energy Information Administration published data Wednesday showing crude stockpiles fell by 2.4 million barrels in the week ended Oct. 27.

Stronger-than-expected demand plus reduced supplies have converged to lift prices in recent weeks, analysts said.

"On a global basis, better-than-expected oil demand is likely developing off of strong world economies," Jim Ritterbusch, president of Ritterbusch & Associates, wrote in a research note. "This demand strength is crisscrossing against continued downsized OPEC production where compliance to this year's agreement remains much stronger than generally expected."

Still, the rally may be slowing as market participants wait to see whether OPEC will extend its cuts when it meets Nov. 30.

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REVIEW & OUTLOOK (Editorial)
Mnuchin Gets His Man

671 words
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A14
English

President Trump on Thursday chose Jerome Powell to run the Federal Reserve, but the other big winner is Steven Mnuchin. The Treasury Secretary lobbied hard for Mr. Powell on grounds that he was more open to Administration influence than the other leading candidates. This may be unfair to Mr. Powell, but it does raise questions about Mr. Powell's independence and capacity for the job.

Mr. Powell has spent more than five years on the Fed's Board of Governors, so he knows how the place works. He has few enemies, but he has left barely a policy footprint. His speeches are notable for endorsing whatever official Fed policy was at the time. He's never dissented at the Open Market Committee (FOMC), which can be seen as loyalty to the chairman or a lack of personal conviction. This is especially notable in a period when other governors and regional bank presidents opine on everything.

This suggests that Mr. Powell's views reflect those of the monetary status quo under current Chair Janet Yellen, and perhaps this is what Messrs. Mnuchin and Trump want. But in that case Mr. Trump should have continued with Ms. Yellen, who at least has been in charge. Mr. Powell will have to establish his authority with the other FOMC Members and the Fed staff, which is dominated by economists with a monetary policy model that requires a firm hand to supersede.

This means Mr. Trump is buying monetary policy rooted in the Phillips Curve trade-off between inflation and unemployment. Once the economy hits full employment, in this view, the threat of inflation invariably looms and interest rates must rise.

The Fed's median view in September projected growth of merely 2.1%% in 2018, 2% in 2019 and 1.8% beyond. The Fed models give little growth credit to tax-cutting and deregulation. If growth surprises on the upside, the Fed staff will want to raise rates faster than now anticipated.

Yet Mr. Trump has been telling everyone that he chose Mr. Powell over Kevin Warsh and John Taylor because he likes lower interest rates. This won't help Mr. Powell's task at the Fed, especially if markets test his fortitude. The paradox of a hawkish monetary reputation is that it can buy market credibility that sometimes allows a chairman to influence policy with "open mouth" operations rather than raising rates. Mr. Powell will start out with a credibility deficit.

Mr. Powell might have a more deregulatory bent toward **financial markets** than Ms. Yellen has, but how much more isn't clear. On Capitol Hill he recently called Treasury's white paper on financial regulation "a mixed bag." He wants to ease the Volcker rule, which bars certain trading at banks and needs a rewrite. It isn't clear where Mr. Powell stands on bank capital or regulating nonbanks.

Our bigger concern is Mr. Powell's capacity to manage in the next financial crisis. Mr. Powell's years on the board have been relatively calm as markets repaired themselves after the panic and recession. He missed the 2008 panic and the quantitative-easing debates, and his views by all accounts mattered little to the Fed's major decision-makers.

One certainty is that the next four years will be more **volatile**, especially if growth accelerates, interest rates rise and as the Fed shrinks its balance sheet. Mr. Powell has some experience in domestic **financial markets** but not in international currency and emerging markets. The combination of Mr. Powell at the Fed and Mr. Mnuchin at Treasury isn't exactly the financial equivalent of SEAL Team 6.

Sometimes people rise above their resumes, but Mr. Powell's blank intellectual slate warrants thorough Senate vetting. While a President deserves significant deference on his Cabinet choices, the Fed chairman's growing power over finance and even fiscal policy requires more scrutiny. The markets need to see if Mr. Powell is up to the job.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB

Energy Shares Help S.&P. Rebound, but Other Indexes Finish Mixed

By THE ASSOCIATED PRESS
907 words
2 November 2017
The New York Times
NYTF
Late Edition - Final
4
English

NEW YORK -- Rising energy stocks helped nudge the Standard & Poor's 500 close to its record high, but drops for smaller stocks left U.S. indexes mixed on Wednesday.

Markets around the world were broadly higher as investors got more evidence that the global economy is strengthening and corporate profits are climbing. The Federal Reserve said the U.S. economy is rising "at a solid rate," even with damage from recent hurricanes, as it announced a decision to hold interest rates steady at their low levels.

The **S&P 500** rose 4.10 points, or 0.2 percent, to 2,579.36. Earlier in the day, it had climbed above its record closing high of 2,581.07 set last week.

The **Dow Jonesindustrial average** gained 57.77 points, or 0.3 percent, to 23,435.01. Other U.S. indexes weakened. The **Nasdaq composite** fell 11.14 points, or 0.2 percent, to 6,716.53. The small-cap Russell 2000 index lost 10.00 points, or 0.7 percent, to 1,492.78.

Energy stocks led the market, and those in the **S&P 500** rose 1.1 percent for the biggest gain among the sectors that make up the index. They climbed after the price of oil topped $55 per barrel to touch its highest level since Jan. 3, though it backtracked as the day went on.

Estee Lauder jumped to the biggest gain in the **S&P 500** after strong sales growth in China and Hong Kong helped it to report a bigger profit than analysts expected. It rose $10.31, or 9.2 percent, to $122.12.

The cosmetics giant joined the growing list of companies that beat analysts' expectations for earnings in the most recent quarter. Nearly two thirds of companies in the **S&P 500** have said how they performed from July through September, and the majority have topped Wall Street's forecasts.

They have been reaping better revenue and profits as the economy strengthens, and a report on Thursday showed that private employers added more jobs last month than economists expected. It raises expectations that Friday's more comprehensive jobs report from the government will be strong too.

"What we've been waiting for the last five-plus years is stronger economic growth leading to better employment numbers, or one feeding into the other, and leading to stronger wage growth," said Jon Mackay, investment strategist at Schroders. "We just haven't seen the wage growth part of it, but now we're seeing the wage growth start to tick through."

Other economies around the world are also improving in sync, which further raises optimism. "Globally, it tends to have a self-reinforcing effect," Mackay said. "People buy more goods from the U.S., emerging-market economies do better, banks have the capacity to lend more, and that leads to more capital spending and more consumer spending. At some point, it becomes overdone, but we're not anywhere close to that yet."

With the economy improving, the Federal Reserve has been slowly increasing interest rates from their record low. On Thursday, it decided to hold rates steady, but most economists expect it to raise them at its next meeting in December.

The weakest part of the **stock market** on Thursday was smaller stocks. They have generally been rising and falling in recent weeks with expectations that Congress will be able to overhaul the tax system and cut rates. Smaller companies often pay higher tax rates than their bigger rivals.

But House Republicans missed a self-imposed Wednesday deadline for a public release of their tax plan, as members debate whether to change the tax benefits of 401(k) contributions and other details. The rollout appears set for Thursday.

In overseas stock markets, the French CAC 40 rose 0.2 percent, the FTSE 100 in London dipped 0.1 percent and Germany's DAX rose 1.8 percent. The Japanese Nikkei 225 index jumped 1.9 percent, South Korea's Kospi gained 1.3 percent and the Hang Seng in Hong Kong climbed 1.2 percent.

In the commodities market, benchmark U.S. crude dipped 8 cents to settle at $54.30 per barrel. Brent crude, the international standard, fell 45 cents to $60.49. Natural gas was virtually flat at $2.89 per 1,000 cubic feet, heating oil fell 2 cents to $1.86 per gallon and wholesale gasoline rose 1 cent to $1.74 per gallon.

Gold rose $6.80 to settle at $1,277.30 per ounce, silver gained 48 cents to $17.18 per ounce and copper climbed 4 cents to $3.14 per pound.

The **10**-**year Treasury** yield dipped to 2.37 percent from 2.38 percent late Tuesday. The two-year yield held steady at 1.60 percent, and the 30-year yield dipped to 2.85 percent from 2.88 percent.

The dollar rose to 114.22 Japanese yen from 113.71 yen late Tuesday. The euro dipped to $1.1620 from $1.1651, and the British pound fell to $1.3249 from $1.3282.

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

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

Document NYTF000020171102edb200054

The New York Times

Business/Financial Desk; SECTB
Fed Lets Interest Rate Stand Ahead of Nomination of New Chairman

By ANA SWANSON and BEN CASSELMAN; Ana Swanson reported from Washington, and Ben Casselman from New York.
1,254 words
2 November 2017
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NYTF
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1
English

WASHINGTON -- The Federal Reserve left its benchmark interest rate unchanged on Wednesday and signaled another rate increase is very likely to come in mid-December. But hanging over the meeting was the anticipation of a much bigger change: The nomination of Jerome H. Powell as the next Fed chairman.

The Fed's current chairwoman, Janet L. Yellen, is expected to remain in that post until her term expires in February. On Wednesday, President Trump called Ms. Yellen ''excellent.'' Nevertheless, he is expected to nominate Mr. Powell, a current board member, for the Fed chairmanship at a Rose Garden event on Thursday, according to people familiar with the decision.

Mr. Powell, a Republican who joined the Fed in 2012, has steadily supported Ms. Yellen's approach to monetary policy and is expected to follow a similar trajectory if confirmed to lead the central bank. Mr. Powell has voted for every Fed policy decision since 2012, including its four interest rate increases and the gradual unwinding of the Fed's stimulus campaign.

The meeting Wednesday was the first since the Fed began reducing its vast portfolio of Treasury bonds and mortgage-backed securities, which it acquired in an effort to stimulate the economy during and after the 2008 financial crisis.

The Fed is approaching the process cautiously, and so far investors appear unfazed. The central bank is paring its $4.2 trillion in bond holdings by just $10 billion per month through the end of this year, then gradually increasing the pace until it reaches a monthly rate of $50 billion.

At the conclusion of its two-day gathering in Washington, the Fed announced that it would leave its benchmark interest rate unchanged in a range between 1 and 1.25 percent, after lifting it twice so far this year. The vote was unanimous, and the central bank did not alter any of the careful wording in its statement about its expected rate of future increases -- a sign that it is not trying to quell widely held expectations of a rate increase of a quarter point in December.

''They're on track to raise rates in December,'' said Lewis Alexander, chief United States economist at Nomura Securities.

In its statement, the Fed said economic activity had been rising ''at a solid rate despite hurricane-related disruptions.'' It said that the hurricanes had caused a drop in payrolls in September and a pickup in inflation because of higher gasoline prices, but that it expected both effects to be temporary, and that the storms would be ''unlikely to materially alter the course of the national economy over the medium term.''

The last time the Fed met, in September, large parts of the United States were still reeling from hurricanes that threatened to disrupt economic activity in several major cities. Two weeks later, the government reported that the economy had lost jobs in September for the first time in seven years, a decline most experts attributed to the storms' impact.

Since then, however, economic data has indicated that the economy weathered the storms without lasting damage. Gross domestic product, the broadest measure of goods and services, rose at a 3 percent annual rate in the third quarter of the year, the second straight quarter of solid growth. Measures of retail sales and consumer confidence have likewise been strong, and most economists expect the next round of employment figures, due Friday, to show a solid rebound from September's dip.

"Much of the uncertainty that had existed at the September meetings because of the hurricanes has subsided and signs are that growth has been stronger," said Greg McBride, chief financial analyst for Bankrate.com.

The one sticking point remains inflation. The Fed's preferred measure of inflation is well below the central bank's 2 percent target; what's more, inflation has slowed this year even as the unemployment rate has fallen, a trend that would ordinarily be expected to put upward pressure on prices. That disconnect has complicated the Fed's plans to raise interest rates at the steady clip it has signaled, including three more times next year.

Ms. Yellen and most of her colleagues have expressed confidence that the slowdown in inflation is temporary and therefore should not force a change in plans. In a September speech, Ms. Yellen said that low unemployment is leading to pay increases, which will ultimately lead to higher prices as well; other Fed officials have made similar comments in recent weeks.

Still, at some point "temporary" effects stop looking so temporary. The Fed will get several more reports on inflation before its December meeting, and it remains possible that weak data could give policymakers pause.

Financial markets appear all but certain that the Fed plans to raise rates in December. Futures contracts on Wednesday morning suggested investors saw a 96.7 percent probability of a rate increase at the Fed's next meeting, according to CME Group. Matthew Hornbach, global head of interest-rate strategy for Morgan Stanley, said the Fed had sent a clear signal that it was prepared to raise rates even if inflation stays low in the coming months.

But Ken Matheny, executive director of Macroeconomic Advisers by IHS Markit, was less certain that a December rise was inevitable. He said that the Fed was struggling to reconcile strong growth with weak inflation, and that policymakers would be watching coming inflation data closely in making their interest-rate decisions.

"A December rate hike is not a foregone conclusion," Mr. Matheny said, adding that the market's overwhelming confidence in an increase was "a puzzle."

Policymakers and investors have also been watching closely for any signs that the Fed's long-awaited process of drawing down on its $4.2 trillion balance sheet is disrupting **financial markets**. In 2013, interest rates spiked unexpectedly in response to the Fed's announcement that it would begin slowing its bond purchases, a reaction that came to be known as the "taper tantrum."

So far, there is little sign of trouble. Interest rates have edged up since the Fed announced its plans in September, but the **stock market** has continued to rise and there has been no hint of another tantrum. In a speech last month, Ms. Yellen said the asset-reduction process seemed to be going smoothly so far.

"I'm sure they're very relieved at the reaction they got," said Joseph Gagnon, a senior fellow at the Peterson Institute for International Economics in Washington.

Investors said the nomination of Mr. Powell would mean that the Fed was likely to continue on its current course.

A former Treasury Department official under President George H.W. Bush and a partner at the Carlyle Group, a private equity firm, Mr. Powell emerged as the front-runner for the position in recent weeks from a diverse group of finalists. That group included Gary Cohn, a close economic adviser to the president; John B. Taylor, an economist who is a vocal critic of the Fed; and Ms. Yellen herself.

Mr. Trump has the opportunity to significantly reshape the Federal Reserve through appointments. Mr. Trump has appointed just one board member so far, the former Treasury official Randal K. Quarles, as the vice chairman for supervision, who voted for the first time on Wednesday.

Jerome H. Powell (PHOTOGRAPH BY JOHN LOCHER/ASSOCIATED PRESS) (B2)

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THE WALL STREET JOURNAL.
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Trump to Tap Powell as Fed Chief --- Successor to Yellen is likely to continue rate policy but may seek looser regulations

By Kate Davidson, Peter Nicholas and David Harrison
1,651 words
2 November 2017
The Wall Street Journal
J
A1
English

WASHINGTON -- The White House has told Federal Reserve governor Jerome Powell that President Donald Trump intends to nominate him as the next chairman of the central bank, according to a person familiar with the matter, a move likely to combine continuity on interest-rate policy with perhaps a lighter touch on financial regulation.

If confirmed by the Senate, Mr. Powell would succeed Fed Chairwoman Janet Yellen, the central bank's first female leader, whose four-year term as Fed chief expires in early February.

The president spoke with Mr. Powell on Tuesday, according to people familiar with the matter who couldn't describe what they discussed.

Mr. Powell's nomination would mark the first time in nearly four decades that a new president hasn't asked the serving Fed leader to stay on for another term, even though that person was nominated by a president of a different party. The last time a first-term president didn't do that was in 1978, when President Jimmy Carter chose G. William Miller to succeed Arthur Burns.

In his five years at the Fed, Mr. Powell has been a reliable ally of Ms. Yellen and would likely continue the Fed's current cautious approach to reversing the central bank's crisis-era stimulus policies as the economy expands.

That would mean gradually raising short-term interest rates in quarter-percentage-point steps through 2020 while slowly shrinking the Fed's $4.2 trillion portfolio of Treasury and mortgage-backed securities it purchased to lower long-term rates.

Mr. Trump had settled on Mr. Powell by Saturday, but people familiar with the process had cautioned that he could change his mind. The president plans to formally announce the decision Thursday before he leaves for a trip to Asia on Friday.

Reached by phone Wednesday, both Mr. Powell and Ms. Yellen declined to comment. A Fed spokeswoman also declined to comment.

Ms. Yellen was among the five finalists for the position, along with Stanford University economics professor John Taylor, former Fed governor Kevin Warsh and National Economic Council Director Gary Cohn.

Mr. Taylor and Mr. Warsh didn't respond to requests seeking comment Wednesday. Mr. Cohn's spokeswoman didn't immediately respond to a request for comment.

Mr. Trump said in a video last week that he had "somebody very specific in mind" for the job. "It will be a person who hopefully will do a fantastic job," Mr. Trump said in a video posted to Instagram, adding, "I think everybody will be very impressed."

Fed officials began raising their benchmark federal-funds rate in December 2015 after holding it near zero for seven years following the financial crisis. They voted in June to lift rates to a range between 1% and 1.25% and in October started the process of shrinking the Fed's bond portfolio.

"The economy is as close to our assigned goals as it has been for many years," Mr. Powell said in June. If it continues growing as expected, "I would view it as appropriate to continue to gradually raise rates."

Officials have penciled in one more rate increase this year. But they indicated in September such increases are likely to end at a lower point than they had previously projected -- at around 2.75% -- considerably lower than where officials have stopped raising rates in the past.

Mr. Trump told The Wall Street Journal in July, "I'd like to see rates stay low."

The Fed on Wednesday left short-term interest rates unchanged, but signaled it would consider lifting them before year's end amid signs the economy is gaining momentum.

Mr. Powell has never dissented on a Fed monetary or regulatory policy vote and in speeches hasn't deviated far from the board's consensus.

Where he could lead a shift is on regulatory policy. He has advocated loosening some of the financial rules adopted by the Fed and other agencies since the crisis, a position that meshes with Mr. Trump's deregulatory agenda. Mr. Powell has suggested softening the Volcker rule barring banks from using their own money to make risky bets and easing some bank stress tests.

He also has endorsed reviewing some of the supervisory duties imposed on banks' boards of directors to prevent them from being burdened with "an ever-increasing checklist."

"More regulation is not the best answer to every problem," Mr. Powell said in a speech in early October.

"To some extent he offers Trump the best of both worlds. You get broadly speaking continuity of Yellen's careful and relatively dovish approach to monetary policy but with somebody who is a card-carrying Republican and who is significantly more inclined to revisit some of the postcrisis regulations," said Krishna Guha, vice chairman at Evercore ISI and a former New York Fed official.

Mr. Powell, a lawyer, would be the first Fed leader in three decades without a Ph.D. in economics. Before joining the Fed board, Mr. Powell worked as an investment banker in New York City, as Treasury undersecretary for financial institutions in the George H.W. Bush administration, as a partner at the Carlyle Group and as a scholar at the Bipartisan Policy Center.

That background could serve him well, said Aaron Klein, an economic studies fellow at the Brookings Institution and director of the Center on Regulation and Markets.

"He would represent continuity of the Fed system and culture but a break from the predominance of monetary policy as the core background of the chair," Mr. Klein said.

The decision marks the culmination of an unusually public and drawn-out search for one of the top economic policy-making jobs in the world.

Mr. Trump upended the usually staid selection process by openly weighing the pros and cons of various candidates and asking lawmakers, businesspeople and media personalities for their input.

Mr. Trump has other opportunities to reshape the central bank. Randal Quarles, his first nominee to the Fed's powerful seven-member board of governors, took office in October. Three other seats remain open.

Ms. Yellen's term as a Fed governor doesn't expire until 2024, and she hasn't ruled out staying on in that position after her term as chairwoman ends. The decision would be unusual, but not unprecedented. Fed Chairman Marriner Eccles remained a governor for three years after not being reappointed to the top job by President Harry Truman.

Nominations for all board positions, including chairman and vice chairman, are subject to Senate confirmation.

Mr. Powell should have little trouble winning Senate approval, but his views could clash with those of some Republican senators who have criticized him for supporting the Fed's easy-money and postcrisis regulatory policies.

Some Republicans have suggested he could face difficult questions. "I think we should move in a different direction," from current Fed policies, Sen. Pat Toomey (R., Pa.) said last month about the possibility of a Powell nomination.

In His Own Words

Jerome Powell has served as Federal Reserve governor since May 2012. Here are samples of what he has said on important policy issues along the way.

June 2013

On **Volatility**

"Some **volatility** is unavoidable, and indeed is a necessary part of the process by which markets and the economy adjust to incoming information . . . I want to emphasize the importance of data over date . . . The path of [bond] purchases is in no way predetermined; we will monitor economic data and adjust our purchases as appropriate."

June 2014

On Fed Guidance

"My view is that forward guidance has generally been effective in providing support for the economy at a time when the federal-funds rate has been pinned at its effective lower bound . . . To be sure, there have also been times when forward guidance and market expectations have diverged, with resulting spikes in **volatility**. Such situations may be difficult to avoid, given the use of new, unconventional policy tools, although we always try to communicate policy as clearly as possible."

February 2015

On Fed Emergency Programs

"The evidence as of today is very strong that the Fed's actions generally succeeded and are a major reason why the U.S. economy is now outperforming those of other advanced nations . . . Given the scale of the Fed's actions during the crisis, it has been not only appropriate but essential that these actions be transparent to the public and subject to close and careful scrutiny by the Congress. And that is exactly what happened. So it is jarring to hear it asserted that the Fed carries out its duties in secret and is unaccountable to the public and its elected representatives. The Federal Reserve is highly transparent and accountable to the public and to the Congress."

June 2016

On Low Rates

"I am often asked why rates remain so low now that we are near full employment. A big part of the answer is that, at least for the time being, the appropriate level of rates is simply lower than it was before the crisis. As a result, policy is not as stimulative as it might appear to be . . . I expect our economy to continue to make progress. Monetary policy will need to remain supportive of growth, as we work through the challenging global environment."

April 2017

On Wall Street Regulation

"Some aspects of the new regulation are proving unnecessarily burdensome and should be better tailored to meet our objectives. Some provisions may not need -- may not be needed at all, given the broad scope of what we've put in place. I will support and I do support adjustments designed to enhance the efficiency and effectiveness of regulation without sacrificing safety and soundness or undermining macro-prudential goals."

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The New York Times

Paul Krugman
Opinion
The Gravelle Geardown (Wonkish)

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A lot, indeed most, of the action in the current tax fight will involve corporate taxes. And these are, unfortunately, a nasty, tricksy subject. In particular, right-wingers can appeal to a simple story that sounds right until you pay closer attention.

The story goes like this: we're an open economy, and part of a global capital market. So if you cut corporate taxes, capital will flow in, the marginal productivity of labor will rise, and so will wages. And if you really believe the simple model, the wage gains could be pretty big.

But there's tons wrong with that model. Some of it involves dynamics: how, exactly, does all this capital inflow take place, and how long does it take? But even the long-run analysis, done right, tells you that the real impact on wages is far smaller than the usual suspects would have you believe.

The best analyses of the complications, as many have pointed out, come from Jennifer Gravelle . But many people may find it hard to extract the key intuition from Gravelle's work; actually, I have found that intuition a bit hard to grasp, and while I'm not a real public finance economist, I'm a lot closer to this stuff than 99% of readers.

So I thought I would try my own hand at offering some intuition here: why does Gravelle-type analysis "gear down" the wage effects of lower corporate taxes so much? There are, as I see it, four reasons, three of which are conceptually easy, one a bit harder.

First, a lot of the profits we tax are rents on monopoly, brand identity, etc., and won't be competed away by capital inflows.

Second, corporate capital is only part of the U.S. capital stock; half of fixed assets are residential, and a lot of the rest isn't corporate. So we're not cutting taxes on "capital", just on one particular type/use of capital.

Third, America isn't small. Among market economies open to capital movement – i.e., excluding China – we're still around 40% of world GDP at market values. So what we do will influence global rates of return, a lot; we would face an upward-sloping supply curve for capital even if capital mobility were perfect.

Finally, and this is the one that I find takes some work, we're very far from having perfectly integrated markets for goods and services. In fact, around 75% of US employment and value added is in nontradeables. I always knew that this places limits on capital flows; it takes a bit of thinking to see why it affects tax incidence.

In such matters, it's often helpful to start with extreme cases. What if nothing were tradable? Suppose, for example, that we were to discover a capitalist society on Mars, with a **stock market**, a corporate profits tax, and everything. We could easily send data back and forth, with only a few minutes' delay imposed by the speed of light. We could conceivably trade assets, since ownership is really nothing but data. But until Elon Musk finds a way to reduce transport costs by several orders of magnitude, we can't really ship useful stuff to or from our new Martian friends.

So, suppose Mars cuts its corporate tax rate. How much is the incidence of that cut affected by the existence of an interplanetary capital market? Not at all: we can't send physical capital to Mars, we can't convert any earnings on Martian assets into something with any Earthly use, so nothing happens. The total lack of real integration makes financial integration irrelevant.

Now suppose that somehow a teensy bit of Martian output becomes tradable – say, certain services that can be provided over the Solar Wide Web, amounting to 1 or 2 percent of Martian GDP. Surely this can't drastically change the story.

In the models, as I understand it, the way limited tradability works is that an inflow of capital into the nontradable sector reduces the relative price of that sector's output, and that deters further capital inflow.

So, put those four gear-downs together: only part of a corporate tax cut is about capital, it's only about part of capital, part of the cut goes to raise returns abroad, and inflows are limited because only part of output can be traded. The implication is that far from being a decisive thing, even a huge corporate tax cut will probably have only a minor effect on U.S. GDP – even in the long run. Furthermore, foreigners will get more investment income, both from the new capital they bring and on their existing equity investments, so domestic income – GNP, not GDP — may well go down.

And meanwhile, the lost revenue will force other tax hikes and/or benefit cuts, which are likely to hurt many workers.

So how great an idea is cutting corporate taxes? About as great as Dow 36,000.

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Dow Surpasses S&P, Nasdaq

By Akane Otani
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The **Dow Jones Industrial Average** raced past its peers in October, as a pickup in economic growth around the world boosted shares of blue-chip companies that sell everything from bulldozers to airplanes.

The Dow industrials rose 4.3% in October, while the **S&P 500** gained 2.2% and the **Nasdaq Composite** added 3.6%. The Dow outperformed the **S&P 500** by the largest margin in any month since November 2008.

The reason for the divergence, analysts and investors say, is that the 121-year-old Dow industrials are packed with large multinational companies reaping benefits as the world's major economies grow in sync for the first time in a decade. The economic upswing, combined with a weaker U.S. dollar and rebounding commodities prices, have helped Dow components post quarterly profits that have so far outshone results in the broader **S&P 500 index** of large U.S. companies.

As of Tuesday's close, with more than two-thirds of the Dow industrials' components having reported results for the latest quarter, the index was on track to post earnings growth of 6.3% from the year-earlier period, according to FactSet, which combines actual earnings with analysts' estimates for those yet to report.

The **S&P 500**'s expected earnings-growth rate is 4.7%, according to FactSet. If the Dow holds its lead, it would mark the third straight quarter that it reported higher earnings growth than the **S&P 500**.

"With the upturn in the global economy, the upturn in growth -- that's all been helping fuel a stealth rally in industrials that people may not have appreciated," said Matt Watson, portfolio manager at James Investment Research, which has $6 billion in assets under management.

Because the Dow industrials are price-weighted and count just 30 components -- compared with the **S&P 500**, which has 500 companies that are weighted by market capitalization -- individual stocks can exert outsize influence on the Dow industrials' overall performance. For instance, Boeing Co., which is the priciest stock in the blue-chip index at $258 a share, accounts for most of the index's gain this year. The **S&P 500** is dominated by tech companies such as Apple, which has a market value of more than $800 billion.

Indeed, this year's **stock-market** gains have been broad. A streak of strong earnings reports from technology companies has boosted shares of newer internet companies such as Amazon.com Inc. and stalwarts such as Microsoft Corp. and Intel Corp. in recent sessions. The **Nasdaq Composite**, which has a heavy weighting of tech stocks, posted its 62nd record close of the year Tuesday -- tying 1980 for the most closing highs in a calendar year.

Still, if the forces that have disproportionately benefited large U.S. exporters throughout the year reverse course, similar to what happened in the fall of 2015 and in early 2016, stocks could come under pressure. Back then, investors grew increasingly concerned that China's economy was slowing drastically, sending the Dow industrials tumbling nearly 600 points in a day and **oil prices** to multiyear lows.

But this year's pickup in global economic growth has been notable, investors and analysts say, because of its breadth and synchronization across regions. All 45 countries tracked by the Organization for Economic Cooperation and Development are on track to post economic growth this year -- a feat last accomplished in 2007.

The gains, spreading from the U.S. to Germany to areas that had been laggards in recent years, such as Greece and Brazil, have been a boon to multinational firms, which have noted increased demand for their products this earnings season.

Shares of Dow component 3M Co., the maker of products including Post-it Notes, Scotch tape and ACE bandages, have risen 29% this year as the firm's sales have grown across the Americas, Europe and Asia, among other regions. Industrial giant Caterpillar Inc., another member of the Dow, has jumped 46%, buoyed by rising demand globally for bulldozers, excavators and other heavy machinery.

"We're seeing broad-based sales increases across a number of industries in all regions," said Jim Umpleby, chief executive of Caterpillar, on the company's third-quarter earnings call Oct. 24.

As of Tuesday, **S&P 500** companies that receive more than half of their revenue from overseas were posting earnings growth of 12.9% for the third quarter from the year-earlier period, according to FactSet, outpacing the 4.2% earnings-growth rate for domestic companies.

A weaker dollar also has helped. While the U.S. currency has pared some of its losses in recent weeks, as the passing of budget plans in Congress renewed some investors' hopes that lawmakers would push through corporate-tax cuts, company officials have said the currency's weakness relative to its peers could boost profits by making their products cheaper for buyers outside the U.S.

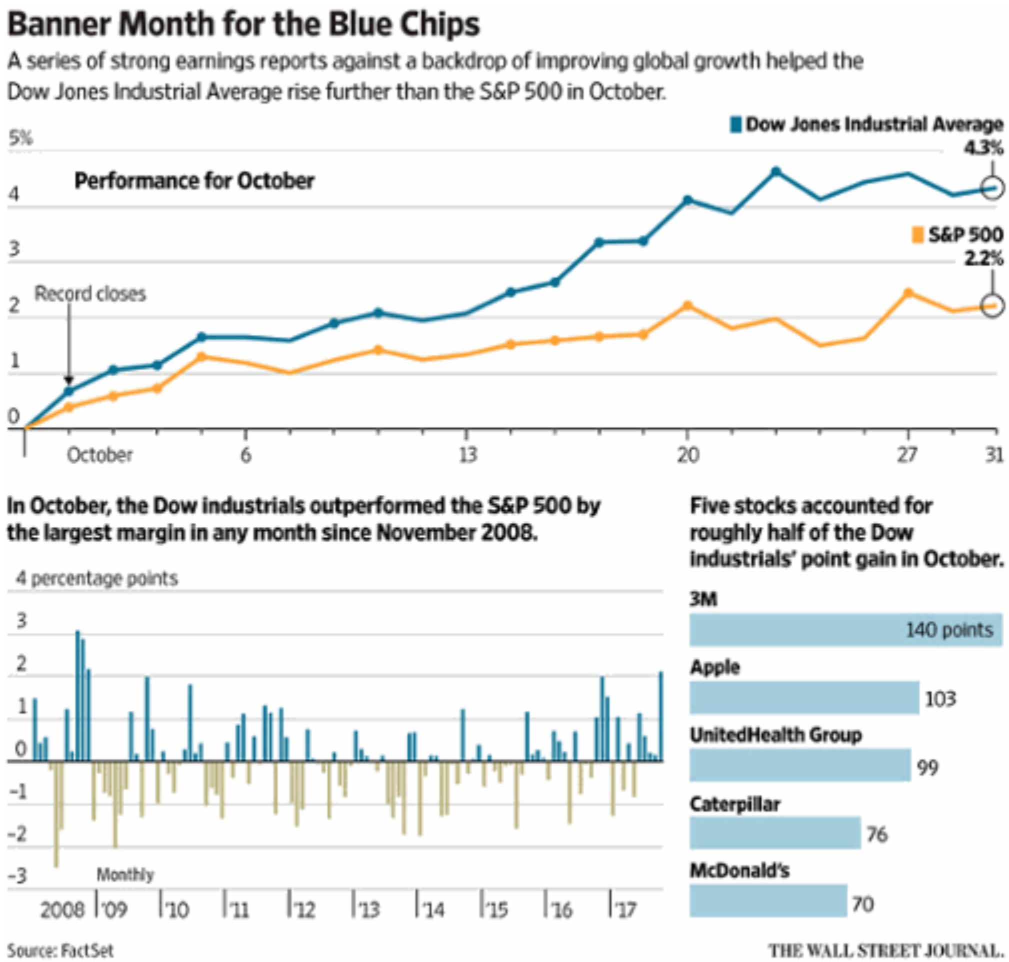
The WSJ Dollar Index, a measure of the dollar against a basket of 16 other currencies, has fallen 5.7% in 2017.

"We are seeing a bit of favorable impact on our real dollar growth from the recent dollar weakening," said Andrew Campion, chief financial officer at Nike Inc., on an earnings call in September.

Some still question how much longer the dollar's weakness can last.

The currency has crept higher in recent sessions, which analysts and investors attribute in part to a recent run of upbeat U.S. data that could bolster the case for the Federal Reserve to tighten monetary policy, signs of progress on Republicans' tax overhaul and weakness in the euro.

"I'm still astounded as to how the dollar has behaved this year," said James Athey, senior investment manager at Aberdeen Standard Investments, which has around $758 billion in assets under management. With the Fed signaling it remains on track to keep raising interest rates, and U.S. economic data largely solid lately, the currency looks "very cheap" relative to its peers, Mr. Athey said.



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The New York Times

Business/Financial Desk; SECTB
Food Makers Help Lift S.&P. to 7th Straight Monthly Gain

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NEW YORK -- U.S. stocks inched ahead on Tuesday after the makers of Kellogg's cereal and Oreo cookies joined the parade of companies reporting stronger-than-expected profits.

The **Standard & Poor's500 index** gained 2.43 points, or 0.1 percent, to 2,575.26, the latest tick higher in what's been a remarkably smooth ride this year. The index closed out October with its seventh straight month of gains, the longest such streak in more than four years.

The **Dow Jonesindustrial average** rose 28.50, or 0.1 percent, to 23,377.24, and the **Nasdaq composite** gained 28.71, or 0.4 percent, to 6,727.67, a new record. Smaller stocks did better than the rest of the market, and the Russell 2000 index of small-cap stocks gained 11.64, or 0.8 percent, to 1,502.53.

Food companies helped lead the market higher after Kellogg and Mondelez International both reported stronger results for the latest quarter than analysts expected. Kellogg jumped $3.66, or 6.2 percent, to $62.53, and Mondelez rose $2.13, or 5.4 percent, to $41.43.

"It's been a fantastic earnings season," said JJ Kinahan, chief market strategist at TD Ameritrade. "People talk about taxes, low interest rates and all these other things, but what really drives the market is earnings."

More than half the companies in the **S&P 500** have reported their results for the July-through-September quarter, and most have topped Wall Street's forecasts. Several big names are still on the docket for this week, with Facebook set to report on Wednesday and Apple on Thursday.

Rockwell Automation surged to the biggest gain in the **S&P 500** after it received a buyout bid worth $215 per share in cash and stock. The company said it rejected the unsolicited bid from Emerson Electric on Oct. 10. Rockwell Automation jumped $13.82, or 7.4 percent, to $200.82.

On the losing end was Under Armour, which recorded the largest loss in the **S&P 500** after it said demand for its sporting gear in North America weakened last quarter and cut its forecast for earnings this year. Its Class A shares fell $3.89, or 23.7 percent, to $12.52.

Besides earnings, investors are also facing a deluge of other events that could be headliners on their own.

Several of the world's largest central banks are meeting this week, and the Bank of Japan decided on Tuesday to keep its interest rates at ultra-low levels. The Bank of England is expected to raise interest rates on Thursday, which would be the first increase in in a decade. And the Federal Reserve will wrap up a two-day meeting on Wednesday, though most economists expect it to wait until its December gathering to raise rates for the third time this year.

More attention is on President Donald Trump's choice for the next Fed chair. He's expected to make the announcement on Thursday, and the leading candidate appears to be Jerome "Jay" Powell, who is already a member of the Fed's board.

The Fed has been slowly raising interest rates, and encouraging economic reports on Thursday further strengthened expectations that it will continue. Confidence among U.S. consumers hit its highest level last month in nearly 17 years, for example.

Investors are also waiting to hear details about Washington's attempts to cut income-tax rates. A cut would help boost profits for companies, and stocks of smaller companies in particular have been rising and falling in sync with expectations for an overhaul of the tax system.

At the end of the week, the government will unveil the month's most anticipated economic data, its jobs report. Economists expect to see continued strength in hiring.

Bond yields held steady Tuesday as prices for Treasurys were close to flat. The yield on the **10**-**year Treasury** note was flat at 2.37 percent, and the two-year yield rose to 1.60 percent from 1.58 percent late Monday. The **30**-**year Treasury** slipped to 2.87 percent from 2.88 percent.

In overseas stock markets, the French CAC 40 rose 0.2 percent, and the FTSE 100 in London rose 0.1 percent. Japan's Nikkei 225 index was virtually flat, while the Hang Seng in Hong Kong lost 0.3 percent and South Korea's Kospi advanced 0.9 percent.

The dollar inched up to 113.71 Japanese yen from 113.18 yen late Monday. The euro ticked up to $1.1651 from $1.1637, and the British pound rose to $1.3282 from $1.3199.

Benchmark U.S. crude oil rose 23 cents to settle at $54.38 per barrel. Brent crude, the international standard, rose 47 cents to $61.37 per barrel.

Natural gas fell 7 cents to $2.90 per 1,000 cubic feet, heating oil was close to flat at $1.88 per gallon and wholesale gasoline rose 2 cents to $1.78 per gallon.

Gold slipped $7.20 to $1,270.50 per ounce, silver lost 15 cents to $16.69 per ounce and copper dipped a penny to $3.10 per pound.

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

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

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Politics & Ideas: A Bipartisan Plan to Cut Corporate Taxes

By William A. Galston
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I wonder if Republicans on the House Ways and Means Committee are interested in a bipartisan plan that reduces the corporate tax rate to 15%, makes the code more progressive, doesn't deepen the deficit, and is carefully scored?

Last year, Eric Toder from the Tax Policy Center, an outfit many Republicans don't like, and Alan Viard from the American Enterprise Institute, an outfit many Republicans do like, presented such a proposal. The current code, say Messrs. Toder and Viard, is outdated because it has failed to adjust to four major changes in the economic and policy environment: "(1) the increased globalization of economic activity, (2) corporate tax rate reductions in other countries and their shifts to territorial tax systems, (3) the increased share of business assets in the form of intangible property, and (4) the increased share of economic activity in the United States not subject to the corporate income tax."

In agreement with most tax experts, Messrs. Toder and Viard believe that the current corporate code has given U.S. multinational corporations strong incentives to accumulate as much as $2.4 trillion in profits overseas. In addition, U.S.-based multinationals find it easy and profitable to transfer ownership of their intangible assets to their overseas affiliates while crediting the earnings on these assets to jurisdictions with tax rates lower than ours.

Even if the U.S. economy were closed to international trade and investment, Messrs. Toder and Viard add, the current corporate tax code still would be structurally flawed. For example, it penalizes equity-funded corporate investment relative to debt-financed investment. Debt-financed investments are taxed only at the individual level (as are investments by pass-through entities), while equity-financed investment is taxed at the corporate level as well. Moreover, dividends are taxed when they are received, while capital gains are taxed only when realized, and in some circumstances not at all.

To alleviate these problems Messrs. Toder and Viard propose some fundamental reforms. They would eliminate the current tiered corporate tax system, with its top rate of 35%, replacing it with a flat tax of 15%. They would also scratch the corporate alternative minimum tax. These changes, they demonstrate, would dramatically improve the incentives for both Americans and foreigners to invest in the United States.

To avoid massive revenue losses to the Treasury, they would shift most of the tax burden to shareholders. Their proposal would tax dividends and capital gains at ordinary income rates. And to eliminate the imbalance between dividends, taxed when received, and capital gains, taxed only when realized, they would move to a mark-to-market system, with prices averaged ("smoothed") over a number of years to reduce high **volatility**. To reduce administrative costs and disproportionate compliance burdens, they would exempt small-asset holders from mark-to-market taxation.

To avoid double taxation, shareholders would receive a tax credit reflecting their share of taxes paid at the corporate level. This would prevent the windfall gains that tax-exempt organizations and retirement funds would otherwise enjoy under this approach. In addition, the authors work through the complex transition issues that real-world tax-writing committees must address. It would be easy to turn their proposal into legislation.

Americans would benefit in several ways. A substantial portion of multinationals' profits stashed overseas would be available for domestic purposes. Foreign holders of capital would be more likely to invest in the United States. Many distortions in the current code would be reduced or eliminated, allowing economic fundamentals rather than tax advantages to shape individual decisions. A portion of the gains from the rate cut (Messrs. Toder and Viard do not specify the share) would go to income from labor. Taxpayers in the top 1% would see a modest increase in their tax burden while everyone else would enjoy a modest decrease.

Evaluated on a static basis, the proposal would slightly reduce corporate tax receipts. But because corporations would almost certainly shift a portion of their profits from formerly lower-tax jurisdiction back to the United States, broadening the tax base, receipts would increase from an estimated $28 billion in 2018 to $51 billion in 2025, reducing the deficit relative to current law.

In their proposal, Messrs. Toder and Viard leave most corporate tax preferences as they are. This has a political advantage they do not mention: They can slash the corporate tax rate without attacking the most fiercely protected provisions of the current code or widening the budget deficit, which is projected under current law to add $10 trillion to the debt over the next decade.

Congressional Republicans, the ball is in your court.

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