WSJ PRO CENTRAL BANKING

Economy
Will Argentina's Nightmare Spread?

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"Emerging markets are under pressure because the dollar is strong and U.S. rates are rising, while growth in China, the key spoke in international commerce, is slowing. Moreover, **oil prices** are high, pressuring current account balances. What's unusual is that this is all happening at once," Nathaniel Taplin writes for The Wall Street Journal. "In 2013, during the original ‘taper tantrum,' oil was expensive but the dollar never strengthened dramatically, in part because emerging-market growth still looked relatively strong. In fact, the last time the world had a strong dollar, high **oil prices**, and a rosy U.S. economy was the late 1990s—not the best time for emerging markets. The good news is that this situation may not persist. **Oil prices** have been boosted by geopolitical uncertainty together with supply restraint from U.S.

shale producers, which is already showing signs of crumbling. U.S. oil rigs in operation hit their highest since March 2015 last week."

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Bond Investors Favor Short-Term Funds --- Money pours in as low-risk debt yields 2%, concerns rise about a pickup in inflation

By Asjylyn Loder and Daniel Kruger
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Investors are flocking to short-term bond funds at a record pace as yields have risen to their highest levels in a decade.

For the first time since the financial crisis, investors this year can earn 2% or more on low-risk debt that matures in a year or less. While it is a paltry payout compared with precrisis levels, it is a welcome reprieve after years of near-zero interest rates, which dragged down payments on money-market accounts or certificates of deposit and pushed savers to buy riskier bonds, or those with longer maturities, in pursuit of investment income.

Assets in mutual and exchange-traded funds that buy ultrashort-term debt rose to a record $174 billion in April, and inflows are near all-time highs, according to Morningstar. Yields on the shortest-term Treasury securities have been climbing steadily since December 2016, when the Federal Reserve began to raise interest rates in an attempt to bring monetary policy more in line with precrisis norms. The Fed is expected to lift rates at least twice more this year, starting perhaps as early as next month.

That puts short-term debt in a sweet spot for investors, some analysts said. This year's surge in **stock-market volatility** has increased the appeal of bonds' relative safety. At the same time, rising interest rates threaten to undermine the value of outstanding debt. Short-term bonds are less sensitive to changes in interest rates, making them particularly attractive as rates rise.

Concerns about an uptick in inflation have also boosted the appeal of shorter-term debt, some analysts said. Inflation poses a threat to longer-term government bonds by chipping away at the purchasing power of their fixed coupon payments.

David Templeton, portfolio manager at Horan Capital Advisors, a Cincinnati firm managing about $350 million, is among those buying shares of JPMorgan's Ultra-Short Income exchange-traded fund. The ETF invests in a mix of government and corporate debt with an average credit rating firmly in investment-grade territory, and it yields 2.37% with a six-month duration, a measure of sensitivity to interest-rate changes, according to the fund's website.

That is far more than the 0.59% paid on the average one-year CD, according to BankRate.com. Stashing cash in government-insured money-market accounts pays less than 1%, according to the Federal Deposit Insurance Corp.

"The Federal Reserve zero-percent policy has hurt retirees because they can't earn anything on their bonds or cash, so they've been forced to take risk they wouldn't otherwise take on stocks or high-yield debt," Mr. Templeton said. "Now, bonds are offering some competition."

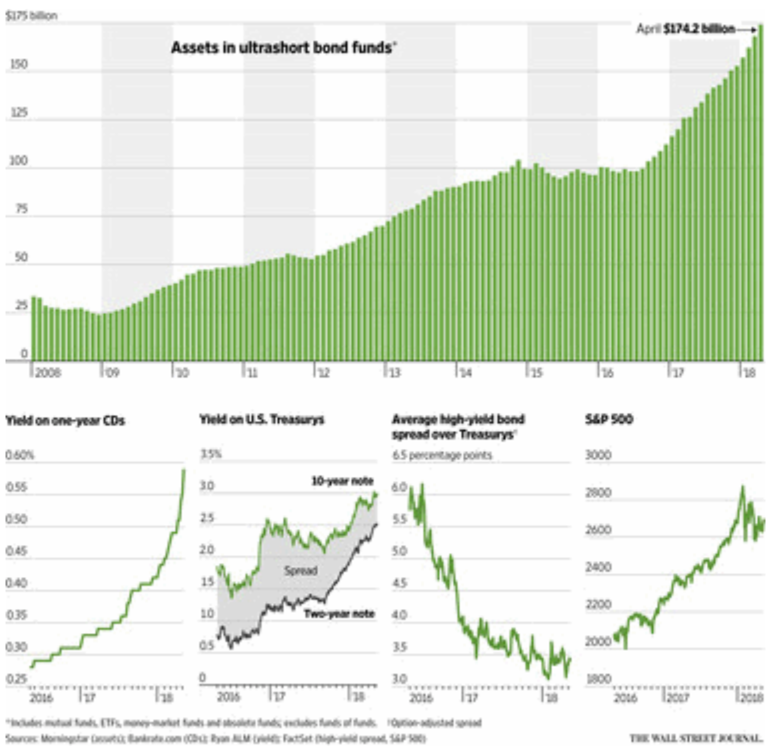
The one-year-old JPMorgan ETF has taken in almost $476 million since the start of 2018, more than quintupling its assets to $570 million, according to FactSet. Most of the money was added in April, when the yield on the benchmark **10**-**year Treasury** note rose above 3% for the first time since January 2014, and the yield on the three-month Treasury bill climbed as high as 1.854%.

The most popular ETF in April was the iShares Short Treasury Bond ETF, which took in $2.5 billion, according to FactSet. The ETF, which holds Treasurys that mature in 12 months or less, has taken in almost $5.7 billion this year. A further $2 billion has gone into two similar ETFs from Goldman Sachs Group Inc. and State Street Corp.

Bonds issued by junk-rated companies also tend to offer some protection from rising interest rates because they have relatively high coupons. But yields on junk bonds haven't risen as quickly, shrinking the premium that buyers get paid to take on the risk of default. Investors since the start of the year have pulled $5 billion from the two largest ETFs that buy bonds issued by junk-rated companies, FactSet data show.

Bradley Williams, chief investment officer of Lowe Wealth Advisors, a Maryland firm that manages about $300 million, said he has been selling high-yield debt and buying shares of the JPMorgan ETF. He also uses Pimco's Enhanced Short Maturity Active ETF, which yields 2.17% with an average duration of a bit more than six months, according to the fund's website. The fund has taken in $1.1 billion since the start of the year, according to FactSet.

"We looked at how much more we're getting paid to take on higher risk, or how much we're being paid to take on longer duration," Mr. Williams said. "The answer is: not much."



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WSJ PRO CENTRAL BANKING

Economy

Bostic Sees Inflation Above Target | Rising Dollar Spells Pain | Kuroda: BOJ to Watch for Financial Risks | RBNZ Stands Pat | Philippine Central Bank Raises Rates | Torry's Take: Cloudy With a Chance of Moderation; The Wall Street Journal's central banking newsletter for Thursday, May 10, 2018

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Torry's Take: Cloudy With a Chance of Moderation

Fed's Bostic Sees Inflation Running Above Target

In a Dollarized World, a Rising Dollar Spells Pain

Kuroda Says BOJ Will Monitor Financial System for Risks From Easing Program

New Zealand's Central Bank Leaves Interest Rates on Hold

Cloudy With a Chance of Moderation

Much ink has been spilled about the impact of bad weather in slowing global growth in the first quarter.

A particularly dark cloud is hanging over the U.K. economy, which grew by just 0.1% in the first quarter—its slowest pace in more than five years.

Economic luminaries such as European Central Bank President Mario Draghi blamed temporary factors like the harsh winter for the eurozone's first-quarter moderation, although seasonal adjustment is supposed to smooth out fluctuations caused by the weather.

The slowdown might blow over. In the U.K., eurozone and Japan, the economies "where the downshift in momentum was most pronounced, weather distortions were especially severe, though early second quarter data are more consistent with a growth stabilization than a meaningful rebound," Aberdeen Standard Investments said in a recent note to clients.

The question now is whether the first-quarter gusts will turn into a gale. By several measures, consumers and businesses are feeling stressed about trade policies.

U.K. consumer confidence dropped in April for the 28th month in a row, according to research group GfK's Consumer Confidence Index. Sentix, a behavioral finance research firm, reported that its eurozone investor confidence index declined to 19.2 in May from 19.6 in April, a 15-month low. Trade tensions between Washington and much of the rest of the world are a big worry for export-driven economies like Germany and Japan.

Yet as Lombard Street Research economist Dario Perkins pointed out in a recent note (titled "Global Slowdown Nobody Expected"), "at the global level, a period of softer growth isn't necessarily a problem, particularly if it keeps inflation in check."

Key Developments Around the World

Fed's Bostic Sees Inflation Running Above Target

Atlanta Fed President Raphael Bostic said Wednesday that a modest overshooting of the central bank's 2% inflation target shouldn't change the outlook for monetary policy. "Even with further gradual removal of monetary policy accommodation, inflation is likely to run a bit above 2% for a while," Mr. Bostic said in a speech in

Jacksonville, Fla. "Such an outcome is not a problem that would, in and of itself, necessitate a more aggressive policy response" in the form of faster rate rises, he said.

In a Dollarized World, a Rising Dollar Spells Pain

Economic ties between the U.S. and Argentina are modest, yet Federal Reserve policy is wreaking havoc on Argentina. It also threatens Turkey, Indonesia and others, for the same reason: Their imports, exports and a lot of their debt is denominated in dollars. The latest emerging-market tumult exposes a critical though dimly understood fault line in the global economy. Though the U.S. share of global output and trade has declined over the decades, the dollar has become even more dominant in global trade and finance. Dollarization means an appreciating dollar may hurt rather than help other economies by raising their import and debt costs.

Kuroda Says BOJ Will Monitor Financial System for Risks From Easing Program

Bank of Japan Gov. Haruhiko Kuroda said Thursday the central bank would carefully monitor the financial system for signs of negative effects from its prolonged easing program, which he said could expand over time. "Attention needs to be paid to the possibility that, if the low interest-rate environment continues and downward pressure on financial institutions' profits becomes prolonged, this may have a cumulative effect on their financial strength," Mr. Kuroda said in a speech. "As a result, the functioning of financial intermediation may be undermined." Mr. Kuroda said, however, he hasn't seen any critical problems in the banking system at this point, given banks' proactive lending attitude.

BOJ April Summary Shows Mixed Opinions on Policy

The Bank of Japan's policy board has mixed views on the course of monetary policy as some members suggest the possibility of a policy shift, according to a summary of opinions of the bank's policy makers released Thursday. The BOJ should get "understanding among the public that the bank can respond flexibly depending on developments in economic activity and prices as well as financial conditions," the summary quoted one of the nine members of the policy board as saying at the April meeting.

New Zealand's Central Bank Leaves Interest Rates on Hold

New Zealand's central bank left its official cash rate unchanged at 1.75% as expected Thursday, signaling policy likely will remain unchanged for some time to come, but adding the outlook is evenly balanced. "The direction of our next move is equally balanced, up or down. Only time and events will tell," said newly installed Gov. Adrian Orr in a statement.

Laughing All the Way to New Zealand's Central Bank

There's surrealist art, impressionist art, and now? Monetary-policy art. In a break with tradition, the Reserve Bank of New Zealand's new governor decided to take his message to the masses—using pictures. Adrian Orr, who succeeded Graeme Wheeler as governor in March, justified the use of the folksy cartoon-style explainer on the grounds that it could better connect people with policy. Derived from what looks like a 1990s clip-art software pack, the cartoons include a balloon drifting upward and labeled inflation, fanned from below by a (you guessed it) desk fan marked low interest rates.

Malaysian Central Bank Holds Rates Steady

Malaysia's central bankkept interest rates unchanged Thursday, a day after an opposition coalition led by 92-year old Mahathir Mohamad won the national election—the first change in power since Malaysia gained independence from Great Britain in 1957. The central bank's decision was expected by economists amid uncertainties surrounding the outcome of the country's national election earlier. Moreover, inflation moderated during the first quarter of this year.

Philippine Central Bank Raises Rates as Expected

The Philippine central bank Thursday raised its benchmark interest rates as expected, despite reiterating that inflation will return to within its target range next year. Bangko Sentral ng Pilipinas raised its overnight borrowing rate to 3.25% from 3% and its overnight lending rate to 3.75% from 3.5%, citing higher inflationary pressures.--Dow Jones Newswires

Bank of Canada Official Warns of Third-Party FinTech Risks

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The Bank of Canada says it is concerned about what it calls a "growing operational risk," from third parties that provide new technologies to the financial sector. BOC Chief Operating Officer Filipe Dinis said in a speech that some of those firms provide critical data services and cloud computing but fall outside the purview of system regulators. "Reliance on these same third parties and the interconnections between institutions could pose a systemic risk to the financial system," Mr. Dinis said.--Dow Jones Newswires

Thursday

7 a.m. EDT

Bank of England releases policy statement, minutes and inflation report

8:30 a.m. EDT

U.S. Labor Department releases April CPI

Friday

9 a.m. EDT

Bank of Canada's Wilkins speaks

9:15 a.m. EDT

ECB's Draghi speaks

Well-Designed European Deposit Insurance Scheme Wouldn't Result in Unwarranted Cross-Subsidization

A new European Central Bankresearch paper examined the validity of concerns that a proposed European Deposit Insurance Scheme (EDIS) would lead to unwarranted cross-subsidization, "i.e. banking sectors in one Member State would have to pay for bank failures in other Member States." The authors—Jacopo Carmassi, Sonja Dobkowitz, Johanne Evrard, Laura Parisi, André Silva and Michael Wedow—conclude an EDIS can be designed in ways that prevent such cross-subsidization. Moreover, they find the EDIS "would offer major benefits in terms of depositor protection while posing limited risks in terms of EDIS exposure. The EDIS would also play a key role in terms of confidence building, by avoiding risks of self-fulfilling prophecies on bank runs and ensuring that one euro saved in one country is worth the same as a euro saved in another."

Tucker Offers Advice to Congress, the Fed

Paul Tucker, former deputy governor of the Bank of England, says Congress should be more specific about the goals it sets for the Federal Reserve and the Fed should try harder to explain what it's doing. Mr. Tucker recently sat down for an interview with David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy and a contributor to The Wall Street Journal. Click here for a summary and video.

Will Argentina's Nightmare Spread?

"Emerging markets are under pressure because the dollar is strong and U.S. rates are rising, while growth in China, the key spoke in international commerce, is slowing. Moreover, **oil prices** are high, pressuring current account balances. What's unusual is that this is all happening at once," Nathaniel Taplin writes for The Wall Street Journal. "In 2013, during the original 'taper tantrum,' oil was expensive but the dollar never strengthened dramatically, in part because emerging-market growth still looked relatively strong. In fact, the last time the world had a strong dollar, high **oil prices**, and a rosy U.S. economy was the late 1990s—not the best time for emerging markets. The good news is that this situation may not persist. **Oil prices** have been boosted by geopolitical uncertainty together with supply restraint from U.S. shale producers, which is already showing signs of crumbling. U.S. oil rigs in operation hit their highest since March 2015 last week."

U.S. producer prices edged only slightly higher last month, a possible sign inflation pressures in the economy remain relatively modest. The producer-price index, a measure of the prices businesses charge for their goods and services, rose a seasonally adjusted 0.1% in April from a month earlier, the Labor Department said Wednesday.

Higher input costs are pressuring U.S. companies to raise prices—a potential precursor to more consumer inflation—but shoppers are resisting their efforts to do so.

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China's consumer inflation moderated for a second straight month, as cheaper pork prices dragged food inflation, official data showed Thursday. China's consumer-price index increased 1.8% in April from a year earlier, compared with a 2.1% gain in March, the National Bureau of Statistics said.

Inflation in Mexico eased in April to its slowest pace in more than a year as energy and food prices fell from the previous month, driving down expectations for further interest-rate increases by the central bank. The consumer-price index fell 0.34% in April, bringing the annual inflation rate down to 4.55% from 5.04% at the end of March, the National Statistics Institute said Wednesday.

The economies of Central and Eastern Europe will grow more rapidly than previously expected this year, although rising levels of company debt could weaken their expansion if global interest rates rise, the European Bank for Reconstruction and Development said Wednesday.

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

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Tech Firms and Banks Re-energize the Market

By THE ASSOCIATED PRESS
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Technology companies and banks helped power U.S. stocks to solid gains Wednesday, improving on the market's flat finish a day earlier.

Energy stocks led the gainers after the price of crude oil climbed back above $70 a barrel a day after the U.S. moved to withdraw from a nuclear accord with Iran. Gains in industrial and materials companies outweighed losses in safe-play sectors such as utilities and phone companies.

"The areas of strength that you're seeing today are encouraging," said Willie Delwiche, investment strategist at Baird. "Energy, financials, materials and industrials. Those are more cyclical areas of the market, and that speaks to economic strength and a risk appetite on the part of investors."

The **S&P 500 index** rose 25.87 points, or 1 percent, to 2,697.79. The gain nudged the benchmark index into positive territory for the year. The **Dow Jonesindustrial average** posted its fifth gain in a row, climbing 182.33 points, or 0.7 percent, to 24,542.54.

The **Nasdaq** added 73 points, or 1 percent, to 7,339.91. The Russell 2000 index of smaller-company stocks picked up 9.66 points, or 0.6 percent, to 1,596.05.

The indexes are on track to end the week with solid gains. They were moving higher for much of the morning as investors weighed the latest corporate quarterly results.

Electronic Arts led a technology sector rally, climbing 5.7 percent to $131.01 after the video game maker's latest quarterly results beat forecasts.

TripAdvisor soared 22.8 percent to $47.62 after the online travel booking company reported earnings that were much higher than analysts expected. It also raised its annual forecast.

While technology companies helped drive the market higher, energy sector stocks racked up the biggest gain as crude **oil prices** rebounded a day after the Trump administration moved to withdraw the U.S. from a 2015 nuclear accord with Iran and reinstate sanctions on the country.

"We've had some noise from Iran, but some of the underlying (oil market) trends are probably still intact in terms of a recovering economy, high demand and higher inflation," Delwiche said.

Benchmark U.S. crude oil climbed $2.08, or 3 percent, to settle at $71.14 per barrel in New York. That's the highest level in nearly three and a half years. Brent crude, which is used to price international oils, gained $2.36, or 3.2 percent, to close at $77.21 per barrel in London.

The pickup in **oil prices** sent energy stocks higher. Occidental Petroleum rose 5.4 percent to $82.40.

Bond prices fell. The yield on the **10**-**year Treasury** rose to 3 percent from 2.98 percent late Tuesday. The rise in yields pushed up interest rates, which allows banks to make more money from loans. Financial sector stocks rose. Bank of America gained 2.6 percent to $30.72.

Some companies' quarterly results put investors in a selling mood.

Monster Beverage slumped 7.5 percent to $49.11 after the energy drink maker reported disappointing sales in the first quarter and said its profit margins decreased.

Papa John's International dropped 3.7 percent to $56.55 after the pizza chain's first-quarter results fell short of analyst estimates.

Walt Disney's better-than-expected results also failed to impress traders, who took a dim view of the entertainment company's struggling ESPN network. Disney shares fell 1.8 percent to $99.97.

Walmart Stores slid 3.1 percent to $83.06 after the retailer agreed to buy a 77 percent stake in India's Flipkart in a $16 billion deal. The move is Walmart's biggest acquisition yet and reflects the retailer's focus on growth opportunities as it tries to narrow the gap with Amazon.com.

The dollar strengthened to 109.72 yen from 109.02 on Tuesday. The euro rose to $1.1861 from $1.1858.

Gold dipped 70 cents to $1,313 an ounce. Silver added 7 cents to $16.54 an ounce. Copper was little changed at $3.06 a pound.

In other energy futures trading, heating oil rose 6 cents to $2.22 a gallon. Wholesale gasoline added 6 cents to $2.17 a gallon. Natural gas gained a penny to $2.74 per 1,000 cubic feet.

Major indexes in Europe finished higher. Germany's DAX rose 0.2 percent and France's CAC 40 gained 0.2 percent. Britain's FTSE 100 added 1.3 percent.

In Asia, Japan's Nikkei 225 dropped 0.4 percent and South Korea's Kospi fell 0.2 percent. Hong Kong's Hang Seng index added 0.4 percent. Australia's S&P/ASX 200 gained 0.3 percent. Stocks rose in Taiwan, Singapore and Indonesia, but fell in Thailand and the Philippines.

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

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

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The New York Times

Foreign Desk; SECTA
Country May Step Up Its Nuclear Program, Ayatollah Says

By THOMAS ERDBRINK; Stanley Reed contributed reporting from London.
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TEHRAN -- Iran's supreme leader on Wednesday hinted that his country might step up its nuclear program, signaling a possible escalation in an already **volatile** relationship with Washington after President Trump announced he was pulling the United States out of the 2015 nuclear deal.

Mr. Trump said on Tuesday that the United States would leave the agreement under which Iran agreed to strict limits for 15 years on its development of nuclear fuel. The deal was intended to prevent Iran from developing nuclear weapons, in return for an easing of economic sanctions. But now, Mr. Trump said, the United States will reimpose sanctions.

Iran has always insisted that its uranium enrichment was intended only to operate nuclear power plants and conduct research, but it also put Iran closer to producing fuel that could be used in atomic bombs.

''Last night, you heard the president of America making petty and mindless statements,'' Ayatollah Ali Khamenei, Iran's supreme leader, told a group of teachers in his Tehran office, according to the semiofficial news agency Fars. ''There were perhaps more than 10 lies in his statements.''

''He threatened both the system and the nation that 'I will do this and that,''' the ayatollah said. ''I say on behalf of the nation of Iran: 'Mr. Trump, you won't do a damn thing!'''

The other parties to the deal -- Britain, China, France, Germany, Russia, and the European Union -- continue to support it.

Western intelligence agencies say that Tehran has long had an eye toward, and at times has actively pursued, nuclear weapons.

Yukiya Amano, the head of the International Atomic Energy Agency, said in a statement on Wednesday that Iran was ''subject to the world's most robust nuclear verification regime'' and that his nuclear watchdog agency ''can confirm that the nuclear-related commitments are being implemented by Iran.''

It was Ayatollah Khamenei who ultimately approved the compromises made in the nuclear agreement in 2015, though he also warned at the time against trusting the Americans.

President Hassan Rouhani of Iran said on Tuesday that his country would continue to abide by the agreement, but Ayatollah Khamenei, the spiritual leader for the past 29 years, wields the ultimate power in the nation. On Wednesday, the ayatollah seemed to suggest that Iran had given up too much and needed a nuclear program.

''When the nuclear issue started, some of the elders of the country said: 'Why the insistence on keeping the nuclear power? Let it go,''' the ayatollah said. ''Of course, this was a wrong thing to say. The country needs nuclear power and according to experts, the country will need 20,000 megawatts of nuclear electricity.''

Israel, Saudi Arabia and the United States say they want to halt Iran's development of missiles, but if Tehran were to agree to those demands, ''they will bring up other things,'' the ayatollah said.

Reacting to reports that Mr. Trump wants to force ''regime change'' in Iran, the ayatollah said, ''wait for the day when Trump is dead, his corpse is fed on by snakes and insects, but the system of the Islamic Republic will still be standing.''

Iranian officials involved in nuclear negotiations say the focus will now be on how European parties to the deal react to Mr. Trump's announcement. The sanctions that the American president promised to revive actively discourage and punish European companies and Asian buyers of oil that do business with Iran.

European officials -- still committed to the Iran deal but eager to avoid American penalties -- appeared to be unsure of how to respond. ''It falls to the U.S. administration to spell out their view of the way ahead,'' Boris Johnson, the British foreign secretary, said.

Ali Khorram, a former Iranian ambassador to China and adviser to the country's nuclear negotiating team, said that Mr. Trump had ''violated all international norms that come with such an agreement.''

''If European companies are banned by America to do business with Iran, it is up to Europe to negotiate a solution with the U.S.,'' he said.

Iranian military commanders welcomed Mr. Trump's decision, the semiofficial news agency ISNA reported. ''Iranian people never favored the nuclear deal,'' the chief of staff of the Iranian Armed Forces, Maj. Gen. Mohammad Bagheri, was quoted as saying.

Iran already faces a severe economic crisis, with high unemployment, drought and a weakening currency.

But Iranian hard-liners expressed joy at Mr. Trump's decision. ''Now all Iranians blame the United States for their troubles,'' said Hamidreza Taraghi, a hard-line political analyst.

On social media, many Iranian users shared a hashtag, #untr_US_table, to signal their anger at the United States.

Oil markets were jittery on Wednesday, with Brent crude up nearly 3 percent at nearly $77 a barrel, the highest level since late 2014. Traders expressed fear that American sanctions would cut Iranian oil exports, shrinking supplies in an already tight market.

On Wednesday, Saudi Arabia, the world's largest oil exporter and an adversary of Iran's, tried to calm the markets.

The Energy Ministry released a statement saying that the kingdom ''would work with major producers within and outside OPEC as well as major consumers to mitigate the impact of any potential shortages.''

The actions of Saudi Arabia, which applauded Mr. Trump's decision, will be closely watched as the Iran confrontation plays out. Saudi Arabia is the only oil producer that can quickly add large volumes to its output.

Follow Thomas Erdbrink on Twitter: @ThomasErdbrink.

''Last night, you heard the president of America making petty and mindless statements,'' Ayatollah Ali Khamenei said Wednesday. (PHOTOGRAPH BY OFFICE OF IRAN'S SUPREME LEADER, VIA AGENCE FRANCE-PRESSE -- GETTY IMAGES)

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WSJ PRO CENTRAL BANKING

Economy

Transcript: Richmond Fed 's Thomas Barkin Speaks at George Mason University ; Central banker talks about the Fed's interest-rate path, the economy, bank regulation and fiscal policy

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Corrections & Amplifications

Mr. Barkin in the 37th paragraph said: "But actually my biggest exposure to banking was when I had the role at the Federal Reserve Bank of Atlanta." An earlier version of this transcript incorrectly quoted him. (May 9, 2018)

Richmond Fed President Thomas Barkin, in his first public appearance as a central banker , delivered remarks and answered questions Monday, May 7, 2018, at George Mason University . He discussed the Federal Reserve's interest-rate path, the economy, bank regulation, fiscal policy and other topics. GMU President Angel Cabrera moderated the discussion. Here is a transcript edited for length and clarity.

MR. BARKIN: I've been on the job about a hundred days, and I've spent a lot of time, obviously, digging in on the economy and on economics, but also digging into the district that we serve. We serve from South Carolina to Maryland, including West Virginia. That's the region that we cover.

I'm not new to the economy. I'm not new to the Fed. I was on the Atlanta board from 2009 to '14, and I spent 30 years at McKinsey, the consulting firm. And what I've done in my life has been working with firms to talk about what is happening, whether that be jobs – do they hire, do they fire? – compensation, and pricing. And so the stuff that we're doing in the Federal Reserve is pretty familiar to me.

My hope is I can walk into the (Federal Open Market Committee) room and bring something different. We have an unbelievable group of talent in that room. There's a bunch of Ph.D. economists, the best in the world, and these are guys that have been thinking about the macroeconomy forever. There are folks who have been in the bank regulation space, folks who have been in the policy space. But my hope is to bring something different, which is been in the management space. I'm the only person who has been in the management space there, and I do think there are opportunities to bring new insights and diverse perspectives from that.

Just to wet your whistle today, I was thinking maybe what I'd do is talk a little bit about what we see and what I see in the economy. I look at questions that what I see raises and how, you know, businesspeople tend to look at those. And after doing that, I'll give you a little bit of a tour. I look forward to hearing your questions, as well, at the end.

Before I start I should say, as we always say, that the views you're going to hear are mine and don't necessarily reflect those of my colleagues or the Federal Reserve – the Federal Open Market Committee in total. And so let me get to it.

Let me start with growth. To set the stage, real (gross domestic product) grew at about 2.6 percent last year. That's a notch above 2.2 percent, which has been the growth rate since the Great Recession. It grew at 2.3 percent in the first quarter. And most people project it to grow in the high 2 percent for the year.

What's behind that growth? I'd suggest to you the number one thing that's behind it unbelievably positive consumer and business confidence, all right? Consumers have jobs. They're looking at their income, they're looking at their stocks, and they feel good about spending. Consumer spending has been very strong. Businesses feel very strong. If you look at the business and consumer sentiment indexes that are out there, you'll see it about as high as it's been, right? So people have a lot of confidence. Business investment's been growing at 6 percent per year.

What's that driven by? It's driven by a bunch of things. Fiscal stimulus has helped, both the tax cut and the omnibus bill. A sense that we are deregulating has helped business confidence. The strength of the markets, of course, helps. The strength of the international economies has helped. And possibly just a sense that a bit of a hangover from the Great Recession is now behind us and people are looking forward to seeing some strength in the economy and feeling good.

There are, of course, risks. Our first quarter performance as an economy wasn't as good as the trend line. Some people say that stimulating the economy in the middle of an upturn isn't quite as significant an impact as stimulating it in the middle of a downturn. Market **volatility** is always a risk. Geopolitics are always a risk. I hear some businesses talk about supply chain constraints. And, of course, as we take – ramp risks up, that might dampen the economy and its growth as well.

Which then leads me to the first question, which is, you know, what do I think really has the most impact on business confidence? And here I'd start a conversation on tariffs. That's not so much because what's been announced has had – that is going to have that much direct impact. It's not clear what's going to be implemented in the end. Most economists feel that unless you have a broader trade war, you're not going to have that much impact. But there is an issue on business confidence. And the businesspeople that I talked to who were almost euphoric in January are now nervous, and they're nervous about where the macroeconomy is going, and they're nervous about what that'll do to their plans. I haven't heard any sense that folks are scaling back their plans, but I do hear people wondering where are we going and what are we – what are we doing. They're watching it quite closely.

So, on growth, we've got a good trajectory. It's strong. We have real confidence, and we have just a sense of watching and wondering what's going to happen next.

Let me turn to employment. The most **bullish** indicators come from the labor market. We've added more than 200,000 jobs a month over the last three months, which is a really strong number in a country with a low inherent population growth rate. Break-even, if you want to think about it like that, is probably, you know, in the realm of 100,000 a month or so.

The unemployment rate dropped to 3.9 percent last month. That's a good number – 3.9 percent, the last time we saw that was around 2000. The last time before that was in the late '60s. The last time before that was around the Korean War. Right, you could imagine, if we continue to grow like we've been growing, unemployment going to places we haven't been for over 50 years, right?

I'm really interested in the strength of the hiring that's going on as well. The number of unfilled jobs today is actually higher than the number of people looking for work. Now, I don't know if that's happened in the – in the time that we've been tracking those indices. We are particularly short on tradespeople and on nurses, on truck drivers or bus drivers. And it just raises this interesting question of how could we be here where we have very low unemployment and even more jobs available. Why aren't they matching them? And part of the answer is there's still mismatches in the economy.

I've been in a lot of rural neighborhoods in our district, and unemployment in the rural areas is a lot higher than it is in the urban areas. I think Northern Virginia is in the mid-2s, right? The state of Virginia is in the low 4s. And the rest of it is in the non-urban part of Virginia. So people don't necessarily move to where the jobs are. You've got mobility issues there. And you've got skill mismatches, too. But, you know, we have an economy that's pretty tight and it's getting tighter. And one of the challenges that we look hard at is, you know, are we able to match those people to those jobs.

We were always taught, or at least I was always taught, that low unemployment ought to bring higher wages. And we are seeing some firming of wages, but we're really not seeing outsized wage pressure. Why isn't that? That's really the second question that you sort of try to probe with businesspeople.

When you talk to them, what you find is that their expectations are, like, you know, pretty well-anchored. They think anything more than 2 or 3 percent wage increases actually puts them at risk, right, from a competitive standpoint. They're trying to find ways to get around it. They're targeting wage increases to just a few people, not to the whole population. They're exploring alternatives like offshoring or outsourcing. They're trying to bring new people into the workforce. I talked to a firm that's relaxed its point of view on people with criminal records. They're delaying filling jobs. Or they're trying to invest in ways they haven't in years in retraining to qualify some of their people for different new jobs.

In the – in the late '90s and the mid-2000s when wage pressure was higher, there were firms that actually had to look at their entire workforce and say, wow, we've got to take the whole compensation curve up. And the reason they had to do it was really significant attrition. And while attrition's been creeping up, we're not yet seeing it go to the levels that will make people take a look at their entire workforce. So that's what we're looking hard at.

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So a very strong employment market, but one without huge wage inflation.

Let's turn to inflation, overall price inflation. You may recall that last year there were several months in which inflation was unexpectedly low. In 2017 inflation was 1.7 percent. Core inflation was 1.5 percent. When you look at the more recent data, though, you see something different. Over the last 12 months, core inflation's been 1.9 percent. And in other words, over the last 12 months, it's essentially at our 2 percent target.

It does make you step back and ask the third question, which is you got a tight labor market, I haven't mentioned it but you have commodity price increases in places like oil and steel; why aren't we seeing more price inflation? And again, here I turn back to the behavior of firms. It may well happen in the longer term, but in the near term, you know, businesspeople say that their prices are a lot more driven by the markets they're in than their cost, right? To put it another way, there are certain markets where the market dynamics allow price increases – a lot of services, a lot of day-to-day goods, some places where you have big commodity price spikes. But if you're in a market or a place where you're selling through to the consumer, the numbers will show you it's very hard to take price increases, and it's been like that for 20 years.

You know, why is that? Well, you've got big retailers that just aren't interested in allowing you to take price increases, guys like Walmart or Home Depot . You've got the internet and Amazon and its role in making prices transparent, but also its role in helping new providers get access to the market. And you've got lower-cost providers in, you know, some offshore places who are able to manufacture and bring stuff onshore. And so all those things are challenging pricing there, and I think that's part of the reason you're not seeing more inflation.

So, for now, you know, inflation's stable. Again, it's something we're watching closely.

Which then turns us to monetary policy, and the question of how fast and how far the FOMC will raise interest rates. I'm not going to offer a prediction about how many increases are going to prove to be appropriate this year, but I did want to talk a bit about the underlying debate just to get your head around it.

First of all, we've been on a path of raising rates. What's the the case for raising rates? Well, one of them is monetary policy is still pretty accommodative. We still have our foot somewhat on the gas. And it's hard to argue that accommodation is appropriate when unemployment is low and inflation is effectively at our target. We probably ought to go to neutral in that environment rather than something else.

In addition, I think part of the reason inflation is under control is how credible we are in our commitment to step on the brake if we need to, right? So we don't want to risk our credibility of our commitment to low and stable inflation, so when the economy makes the call for removing accommodation because inflation's at target, labor markets are tight, and GDP's growing, we should probably follow through on that. And in the current robust environment, we don't see the risk of this as being significantly high.

Now, how high rates go depend a bit on growth in the underlying economy. The higher the underlying growth prospects, the higher rates can go. We're in a country that has pretty low demographic growth. The population is not going to grow very fast. I mean, five years from now it'll be about half a percent. There doesn't seem to be a trend towards increasing immigration, which is another way a population grows. And so you're highly dependent on productivity, which would be the fourth key question: How fast can we grow our productivity?

Now, if you look at the data over the last 20 or 30 years, you'll see we had a big boost in productivity from '95 to '05. But starting before the Great Recession, productivity came down almost by half, right? I think that's lower than the potential of American businesses, but you know, we just have to accept the picture right now that our productivity growth isn't where we need to have the kind of growth we want to have.

When I talk to businesspeople, they actually think they're growing productivity faster than the numbers would show. They talk about automation. They talk about investments they're making into capital – (inaudible). They talk about operating efficiencies. And so they actually think they're seeing more productivity, but the data doesn't support that. So maybe the data's accurate and they're wrong. Maybe the data hasn't yet caught up to what's happening. Maybe it's becoming less accurate over time. Or maybe it just takes some time for these investments to be realized. But this (is) an important part because if productivity rises, rates could go higher. You may be able to raise them, as we did in the '90s, a little bit slower. If productivity's lower, we risk pushing the economy past its potential and you start to have conversations about whether we're overheating or not. As a policy maker – a new policy maker, I can tell you it's a tight window to manage.

Of course, we're going to be looking at data over the next year or two and also talking in conversations with people who are in the district and what the data's telling us to try to guide the economy through these four questions on growth, on wage inflation, on price inflation, and on productivity. But I do want to leave you with the

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following thought. The economy's performance, as we sit here today, is remarkably strong: above-trend growth, low unemployment, inflation at target. For those of you who are seniors in here, I just want to say congratulations. You picked the right time to go into the job market. (Laughter.)

Thank you.

MR. CABRERA: (Inaudible.) So you mentioned earlier how your profile is fairly different from a traditional profile of a (Fed official)…For the most part you're economists or bankers…But you're pretty much in the minority, right? Or is that not the case in terms of, like, having more of a business background?

MR. BARKIN: Well, for – so we're all segments of one. And I think if we're going to make policy in this country, it's actually a really good idea to have diversity in the room on multiple dimensions. And, you know, one of the diversities I bring is I'm not a banker. I'm not an economist. I'm not a policy maker. I'm just a guy who was in business for 30 years. And I had an economics undergrad, so I should at least say stay in school or something like that – (laughter) – but – (inaudible). But I – you know, what I can bring is experience both in advising companies and in being, you know, the (chief financial officer, chief risk officer) and operator in our place of how do these real-world decisions get taken.

You know, for example, there was a tax cut that was announced at the end of last year. One of the big questions we had, you know, to debate is what kind of impact would the tax cut have. Well, I was the CFO of a sizeable corporation. You know, one of the things that is very clear to me is that no CFO in the world knows exactly what the benefit is of a corporate tax cut when it's made. It's unbelievably complicated. It's unbelievably arcane. Your tax accountants are going to work for months on it before you know it. And so when a lot of people are out there saying why aren't we seeing more investment spending really quickly after the tax cut, I could say, hey, wait a second, you know, most folks don't actually know what the impact's going to be yet, right? They're going to sort through and get at the impact. That's an example of where real-world experience perhaps helps, you know, bring a different perspective to the one – and again, I hope I give in the room. I know I learn a lot from these guys, and you know, maybe that will make us better.

MR. CABRERA: You mentioned the regulatory aspect. And I know you spent a fair amount of your time at McKinsey working with banks as a consultant, looking at how a system works, what makes them successful or less successful. And you were there, of course, during the last crisis, the 2008 period…Now you're at the Fed. What do you think has changed in that time, if anything? What still needs to change?

MR. BARKIN: So I consulted in lots of industries. But actually my biggest exposure to banking was when I had the role at the Federal Reserve Bank of Atlanta . And I was there from '09 to '14. And it was a pretty important part for the financial system. And my impression, first of all, is that the leadership that we had at that time in the Federal Reserve saved the business environment in this country. I was really very impressed as an outsider with the courage and the skill to keep, you know, complete cataclysm from happening. So that was very important and prescient.

And in that context, coming out of that for reasons that are perfectly understandable, we changed the regulatory model for banks. The banks in the system today have far more capital, far less leverage than they had before. I think that's a very important thing. We put in place the stress testing system. And for those who don't remember April '09 when we did the first stress test, we didn't know if all the banks would fail. We didn't know what we would find out. I actually think that stress test, in addition to giving the banks sort of an objective sense of whether they were in good shape or not, actually helped give the public assurance that the system's in good shape. And so we put the stress test in place, and a bunch of other things.

We're now in a slightly different world. It's 10 years later that we put the system in place. I do think the banks we have today are safe and secure. And we're now asking ourselves the question: All right, can we get all the same value for a little bit less cost, or a little bit less intensive a burden? And as a recovered consultant, I'm perfectly comfortable, you know, with that inquiry, right? Why wouldn't we ask whether we're getting everything done in the most efficient way possible? But I don't think we're changing the fundamentals of the regulatory framework we've put up there, which is to make sure we've got enough capital and enough liquidity in the banks. And in particular, the most important systemic banks, to your last question. And that we're doing in the way that's the most respectful of people's time and money.

MR. CABRERA: It sounds like large-scale banks, that's – (inaudible) – with some constraints, but not made it difficult for them to function. And for the smaller ones, then that might be particularly difficult. Also, at the other end, we're talking about cross-border banking. Does that become harder? Are the other implications for those globally?

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MR. BARKIN: Yeah. So our smaller, community banks, we're very much focused on the safety and soundness of those banks as well. They really, for the most part, you know, are – haven't been part of some of the complexity of – that we saw back 10 years ago. But each and every one, you know, is – you know, where we work with very closely to get that done. You'll see in the recent bill that's currently in front of the House and Congress an effort to tailor regulation, to make sure we, you know, put our ammunition in the place that has got the biggest impact, and we streamline the places where it has less effect. That tailoring would be a good example of the kind of streamlining I'm talking about.

In terms of the international system, I mean, there's – there's just no question that what happened in international **financial markets** was very relevant to what happened to us back in 2008-2009. And you'll remember the time we spent as a country thinking about Greece or thinking about the German banks that had a lot of these collateralized mortgage applications on their books. And that's part of the reason why we support, you know, international regulatory frameworks that are consistent across countries. So I do think that when you got open markets, what happens in one place is going to affect everybody.

MR. CABRERA: How about monetary policy as a goal, or a changing goal? We see it over the years, that it's not always a consistent, you know, clear plain vanilla function, and something that is a tool. How is that changing? Is it changing? Should it be changing? Particularly, as you said in your talk, that some of what's happening is great. And there's a question should be moving to neutral. Monetary policy as a tool – not just in this but in other times, what should its scope be?

MR. BARKIN: Well, I did a talk for our board a few weeks ago, because I studied economies quite intensively in the early '80s, and then went into business for 30 years, and I studied as well. And then I get to come back into it. And it's changed a ton. For example, transparency. We have long conversations in the Fed – at Federal Open Market Committee on the note that we send every month, the press conferences that the chairman gives. Thirty-five years ago, there was no note and there was no press conference. We didn't even announce what we did. We just went and did it, right? So there's a commitment to transparency and talking about the path that's fundamentally different.

In the early '80s, the theory of the case was that you advance the economy through managing the supply of money. You may remember M1, M2, and M3 – monetary aggregates. We switched years and years ago to targeting inflation. It's a very different – so that's just two examples that – and the point that I'd just make, that I've been so impressed with in the room, is everybody in there is a learner, right? it's not a – it's not a tic-tac-toe problem where after you've done it a few times you sort of figure out how to win or how to lose. It's an unbelievably complicated and endlessly varying problem, where the data is not accurate or isn't recent and the framework that you use to look at that data has to constantly evolve to incorporate what you've learned from before. And you make the best judgment you can in the interest of the country going forward.

And, you know, there are lots of people who have lots of different points of view. But there's no one person who is not a learner, and who is not willing stop and say: Let me test that against an alternative assumption. And you've got to be able – you've got to be able to do that, I think, to navigate what is fundamentally always unchartable territory.

MR. CABRERA: So it suggests that there is a certain amount of uncertainty built into the system that you can't avoid.

MR. BARKIN: There's massive uncertainty, right? What is going to happen in the next three months, six months? I try to give you a feel in my talk just of some of the risks that – simple risks that leap to mind. But you can pick up the paper any day and find an uncertainty that could affect the economy. It's interesting, you know, we're doing our best to manage under the uncertainty, while also doing our best to give those who are interested in what we're doing – people who invest in the future – a sense of where we think the world is going. But, you know, we always say we got to be dependent on what actually happens, because lots of stuff could happen between now and where we're going.

MR. CABRERA: So the current manifestation of this would be the tax – and you mentioned this and some of the positives you've seen lately. So if you maybe prognosticate it out, what's – what do you tell people?

MR. BARKIN: So two of three elements to the tax act that was passed in December. The first is there's a consumer tax cut in there. And a consumer tax cut is a pretty tried and true device, right, that does have some stimulative effect. It has a greater stimulative effect with lower-income folks than it does with higher-income folks. But even with higher-income folks, there's something people call a wealth effect. There's some amount of positive impact from a consumer tax cut. That has started to show up in people's pocketbooks in I think March. And, you

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know, we do expect that we'll be seeing some stimulative effect from the consumer art of the consumer part of the tax cut.

On the business, second big part of the tax cut is a corporate tax cut. That's got multiple pieces to it. It's a reduction in the corporate rate. It's an acceleration of depreciation on investments. And it's an incentive for repatriation of cash from offshore. That's a much harder one to guess what's going to happen. And I put myself back into the mind of the (chief financial officer) that I used to be and say: OK, you've got an interest in delivering earnings for the corporation. All of a sudden you get a windfall, right? How do you handle that windfall? Some of it you're undoubtable going to give back to shareholders of the company. By the way, that should have a wealth effect as they get wealthier.

Some of it you might on the margin be able to make some investments you weren't otherwise going to make. And we've certainly heard some stories about it. You might be pressured by your customers to give you some of that benefit back in price. And there are industries where it seems like that's happening more than other industries. And, you know, this might be the opportunity to address some of the labor compensation issues that we talked about in the tight labor market. So the question of how that all spreads out across those four areas, what they call climates, and what the stimulative effect is, I think is still to be told.

And I talk to businesses, we won't know maybe even into next year how people try to do it. I should then make a third point which is this all costs something, right? And if you look at the fiscal deficit, you project that out, (the Congressional Budget Office) projects it going from the 3ish percent range to the 5ish percent range, total debt of the company – of the country going from the 70ish percent range into the 90is percent range over the next 10 years. And that is a challenge. And if you end up with a fiscal situation that's tighter, it means the next time you have a downturn you probably have less fiscal stimulus to throw into it. It means those folks who invest in our debt may require a higher yield to do it. And that has a dampening effect on the economy as well. So, you know, we also look very hard at the fiscal situation.

MR. CABRERA: So the first (question from the audience) is …why have such a fixed (2% inflation) target, or should we have a range instead? And what are your thoughts about that? What's so magic about that 2 percent?

MR. BARKIN: So one of the things I did in preparation was just read a bunch of histories of the Federal Reserve because a lot of this happened before I got there. And it is interesting to try to figure out, you know, how you ended up there.

My understanding is that the first debate on the question of a target was in the mid '90s. And Janet Yellen – she was (then a Fed) board member, actually – was part of the task force – and I believe Al Broaddus, who's the former Richmond Bank president, was also on – to ask the question of what would be a reasonable target.

Part of the case that I've heard for 2 percent is that there are some biases in the inflation data. For example, you know, if you just introduced something that's brand new, it doesn't really get netted against – you can't compare it year over year to something from the year before because you didn't have it. And so there's some, if you will, deflationary bias, and some of that new. And 2 percent gives you a number that – you know, gives you a space to cover that kind of bias. But, you know, you can go back and forth. And they had a real full debate about 1, 2, 3, 2½, 1½, all that stuff.

Then, if you flash forward after the crisis, people did think it was important to give some notification, have some conversation about what we're really targeting and so, you know, we decided to go out and communicate a 2 percent target. That was – hadn't been communicated before. And that's a little bit about managing expectations for folks. There is a debate going on that you see in the press about should that 2 percent be arranged. If it's arranged, should it be a symmetric range. You know, I'm certainly intrigued by notions that talk about a range, because I'm not a big fan of what I call false precision, right? If you're at 1.9 or you're 2.1, are they – are you off of your target of 2 or are you at your target of 2? I tend to think that there's some standard interval around your target that's probably pretty OK, and so I kind of like notions that give you a standard interval sort of notion of range. But we'll be having that debate over the next year or two, and I think my mind is open on where we land that one.

MR. CABRERA: Interesting that in other parts of the world, right outside of the U.S., the mandate of the central bank would be just around price stability, right, and not so explicit. And the U.S. is a special case as far as it having economic growth that's the responsibility of the Fed.

MR. BARKIN: My memory, by the way – and again, please don't hold me accountable for this because I did a lot of reading over Christmas – but I believe that our original mandate did not include full employment, and that that was added in either the late '70s or early '80s by the Humphry-Hawkins Act that actually added that as a dual

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mandate. We live – you know, we're an act of Congress and we live according to that, so that's the – you know, that's what's been passed by Congress and that's what we look to.

MR. CABRERA: Well, this is (GMU) Professor (Steven) Pearlstein's question, is about the fact that obviously, as you mentioned earlier, the Richmond Fed was the prime regulator of Bank of America prior to the crisis, and there was considerable criticism that the bank's regulators were asleep at the switch. Do you still regard systematically important banks, and if – do you still regulate systematically important banks, and if so what reason do you have for confidence they won't miss the next one?

MR. BARKIN: Well, let me answer that question maybe conceptually and then specifically…So we are very serious about attacking the problems that came in the last crisis, and I would agree with you, there were lot of problems in the last crisis. You now see these banks, our biggest banks, other banks in the system with significantly more capital than they had before, significantly more scrutiny of their balance sheets, systemic vulnerability to shocks, and a wide variety of shocks.

I also come from the opinion that it's very rarely of the same problem twice in a row, and you always solve the last problem but not the next problem. And so we're also spending a lot of time trying to think hard about what's the problem we're not seeing. So I think that they did a lot on the problem we saw. And, you know, reasonable people could agree – disagree, but if you look at household debt levels today versus where they were 10 years ago and you look at the complexity of balance sheets, et cetera, et cetera, I think you'd see a sounder set of big banks.

But we're also trying to ask what's the next set of things. It is the shadow banking, you know, system and nonbanks? Is that something we need to pay attention to? Are there systemic connections between markets – you saw some stuff a few years ago in money market funds. So we're trying very hard to sort that out. And I'd say I haven't heard anything that makes me overly concerned, and that in and of itself just makes me nervous, because I kind of want to know – I want to know what I need to get concerned about…You know, one thing we take very seriously that I might put on the table is cyber. And sort of thinking orthogonally what's the next thing that could be a challenge, I'd put that on the table, a foreign power freezing our financial – those sorts of things. And we're working very hard both in our day jobs as operators of very big payment systems and in our other day job as regulators of banks who run very big payment systems. So really upped the bar on ourselves and on them on our cyber preparedness for exactly that reason.

MR. CABRERA: A question about the quantitative easing. And I guess we saw after the crisis the Fed take these absolutely unprecedented steps, where it was just about (inaudible) the balance sheet and the Fed now buying hundreds of things that it didn't used to buy, like long-term bonds and mortgage-backed securities and things like that. And now there's a big announcement that we're going to get – we're going to start winding that down. Can we get out from that without causing a huge disturbance in the market?

MR. BARKIN: Well, the FOMC, as you know, spent a lot of time trying to think about how to wind down the balance sheet. And we announced, I guess, in the third quarter last year our plan to do it. And we have been winding them down. We have been not repurchasing when things redeem up to a certain cap, and that cap has been increasingly quarter by quarter.

And I want to say – I think this is right – that our balance sheet is – by the end of the year might be as low as, like, a trillion dollars less than it was at its peak. So the balance sheet is coming down and it's coming down, you know, at a very measured pace. We do look hard about what's happening to the markets of late, and it doesn't look, as you see the market, like, you know, all of a sudden there's some big spike rates. In fact, maybe even the opposite. So I think we – where as we sit right now, we're reasonably comfortable that this notion of a measured path down is operating well.

And then we're going to have to get to the question of when are we done, right? Because there's a lot more currency in use today than there was when we started this thing, and so we're never going to as far down as we got before. At what point do we start to squeeze banks by having too little reserves in the system? And so we're taking it down, but we're also watching it very carefully. But I think if you're worried about that, at least my impression is there was a ton of really good work done by our teams in terms of thinking through how to do this in a measured fashion that wouldn't disrupt markets, and so far, so good.

MR. CABRERA: This is a McKinsey-ish question about industry structure and concentration. What we've seen is the latest announcement in cellphones with Sprint and T-Mobile announcing their potential merger. Of course, are all these concerns about Amazon having become this absolute giant in retail that dominates all over. I even watched a video recently of Jeff Bezos saying we fully expect now as this giant to draw out more scrutiny. But overall, this concentration of the economy, does it worry you in terms of rendering the economy that's competitive or causing bigger macroeconomic issues, in your view?

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MR. BARKIN: Tom (inaudible) taught a class when I was at business school called "The Coming of Managerial Capitalism." And the greatest case in that class – which must have been good if I can remember it 35 years later – was about the retail industry. They basically pointed out to, you know, 150 years of the retail industry in the U.S. And there was the general store, and then there was the butcher and the baker and the candlestick maker. And then at some point eventually you had, you know, a department store. And then you had Waldenbooks or B. Dalton Books that sort of took on the department store. And then you had the superstore, think Toys R Us or Home Depot , and then they got sort of beat by Walmart . And then, of course, you have the – you had Amazon as a bookseller, which took on those booksellers, and now you have Amazon as the department store, generally.

And the basic point that this case made is that, in the history of retail, you have consolidation and reconsolidation, consolidation and reconsolidation, and it's all around. And yet, every one of these things has made things cheaper for consumers, but it's about the ability to deliver value propositions and be able to deliver value at low price.

And so scale works great until somebody comes with a better, narrower mousetrap, and then they go deep on that. And I'm not informed enough to know what the next mousetrap is, but I'd say, in the world of retail, I really don't worry that there's not another mousetrap out there. I'm quite confident there is one. Maybe it's artificial-intelligence enabled, maybe it's a new technology we don't know about, maybe it's virtual reality, but I think something will come and take on Amazon.

MR. CABRERA: Speaking of artificial intelligence, there is a Taylor rule question from a fourth-year Ph.D. student – (inaudible). But are you concerned (you might) lose your job to artificial intelligence? Like, we create these systems that are better than these 19 wise people at the FOMC making monetary policy decisions?

MR. BARKIN: I've already retired once, so I guess I'll be – (laughter) – fine if I lose my job.

So I'd put it like this. The technology exists right now in the airplane, right, for the airplane – for someone to press a button and the airplane will taxi down the runway, get in its thing, take off, fly to Chicago, land. You don't actually have to have a pilot in the airplane. The airplane can do it. And you guys know driverless cars, the same conversation is going on.

But no one wants to get in an airplane without somebody in the cockpit, right? And so I think we value a lot getting information from various algorithms and rules. Those things are talked about and looked at. And I feel it will be up to the country whether we just don't want to have anybody in the cockpit.

You know, if the answer came out – it comes out the computer and we go from there? I don't know, I don't think so.

MR. CABRERA: So I guess I let you off too easy on this concentration question I asked…Or maybe it's just a follow up, which is, do you think that part of the reason why we're not seeing wage pressure and pressure on inflation is market concentration? Are employers more – have more power to keep wages down or – sorry, or import competition?

MR. BARKIN: OK, there's a lot in there, but I'll try to get at it. So, first of all, factually, if you look on a national org-level sense and you look at concentration industry by industry, you can find modest, not overwhelming, increases in concentration in those industries. There are places – airlines would be a good example – where they've gotten – U.S. airlines have gotten a lot more concentrated. And I think, as a result of that, have gotten a lot more pricing power. But by and large, we're talking about even decimals and points as opposed to going from 10 to 20 to 30 to 40 in certain industries.

As I've dug into it, as I've gotten a passion for this whole issue of firm behavior, I think when most folks talk about market concentration, they talk about it from a supplier side. And I really think it's more interesting to talk about it from a buyer's side, you know, what we used to call in the old days monopsony power.

I do think a big retailer – you know, think Walmart – has the ability to hold down prices for the people supplying it, right? That's a pretty important piece of the puzzle. I also think that labor unions, which used to be a pretty big factor in negotiating price increases, are a lot weaker than they were 20 or 30 years ago, and so that's another issue. But I think about it much more on the monopsony side than on the monopoly side, if that makes sense.

The last thing I'll say is you mentioned international. When you have to think about market value, you have to think about it in the relevant market. So it's nice that someone has got 11 percent, you know, nationally, but if they've got 60 percent of your town, that might mean something. I'd say that the internet has opened a lot of that monopoly seller power, so that even if you're in a small town, you get access to the prices that the people in the big towns get, so that's, you know, a useful break from monopoly power.

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I'll also say that the increasing globalization of business means that even unions in certain markets don't have the power that they used to because you could take jobs offshore, because you're competing in global markets, because you've got manufacturers in lower-cost countries who are bringing goods onshore. So the benefit is I do see a buying power piece of it, but honestly, I don't really see a pricing power impact, if that makes sense.

MR. CABRERA: Yeah. So here's a concern which I'm going to guess many citizens in your district and throughout the country probably have, which is wages are not growing, housing prices are; the sort of sense that, OK, there's sort of a mismatch between money in the pocket of a regular citizen and the real cost or the perceived real cost of living. There is the sense that the tax cut was going to have this trickle-down effect, if you will, but there is no evidence that employers are using whatever benefits might come from the tax cut to sort of increase wages. Is there anything the Fed can do to change this? I mean, I realize the Fed's powers are limited, but anything you can say to that ordinary citizen that feels the pinch?

MR. BARKIN: Yeah. So I think the first place you're headed is right, which is that – and what has been for the last 10 years, a rising-tide kind of market. I don't think it's been an even-rising-tide market. And so there's been massive differences between those who have done the best and those who haven't had that. And while the average is good, that doesn't mean that everything is good.

And, you know, it was interesting just to drive through South Carolina, which is in our district, and reflect on the difference between being in Charleston, which is a tourist city and very – it has – it has a Boeing plant and has got a big port and is very thriving, and then driving up I-26 and going to Orangeburg, which, you know, you drive through the city and it's lots of poor people and it's very rough to get by.

And I've mentioned that with rural and urban before, I think there is something about, how could we as a citizenry, right – I want to make sure the opportunity comes to people regardless of where they sit. If I understand what you're doing at George Mason right, you're doing that. You're giving a lot of people, maybe first generation, an opportunity to get into school and get an education that makes sense and hopefully, you know, train people for good jobs, like those at the Richmond Fed . (Laughter.)

But we should – I think we can do more. And one of the things that we're getting started on in our bank is – and, you know, different people do bring different things to the equation. We have a lot of money, but we can't bring money to the equation. We can, though, bring thought power. And our charter is around maximum employment and we've got a lot of people who are underemployed in parts of this community. We ought to be able to bring our thought power to the question of, what would it take to get them better employed?

Your school, Georgia State – I was talking to somebody at Western Governors', this is a different version of it – there's a lot of places that are helping people, I think, you know, get into the market. And by the way, all the stats would show that the real difference in lifetime performance is graduation from college. So your parents send you here – and there's a message. (Laughter.) But those who go to college and don't graduate often don't get the returns that allowed a better job, two or three years spent not earning in the process.

And so, again, we're going to try to do as best we can some research that helps put on the map some of these questions and helps policy makers, governors, you know, work against the levers that they can.

MR. CABRERA: This is a futuristic question about this whole discussion about the future of fractional-reserve banking and whether in the digital era to get rid of banks altogether, have a much narrower system, have this cashless society where all of a sudden it's banks as we know them aren't going to be needed anymore.

MR. BARKIN: Yeah. Just an interesting fact that I had no idea about that I've learned in the last three months is, do you know that cash is actually growing and not shrinking? Who knew that? I thought it was going the other way. I guess it's good when you process a lot of cash, but it's actually, you know, moving up.

Look, I think every bank in this country needs to pay attention to fintech innovators. I do not – I went – I said earlier yesterday I'm a lifetime learner. You'll be glad to know I'm on Venmo. (Laughter.) But two years ago when – two years ago when my son first tried to get me to pay him on Venmo, I had no idea what it was.

And, you know, the banks now are coming out with Zelle, which is a competitor to it. But, you know, I think if you're not in the peer-to-peer payment system as a bank, then you have a real problem and you end up like one of the retailers, you know, I was just talking about.

And so I think the good – now, banks have a natural advantage. Some of you may actually use a safe deposit box. There is still value to getting an ATM. Branches do have value, most people, you know, open their accounts

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there. But I think it's not enough to have a structural advantage, you've got to be competitive on the innovation. And then if you have A plus B, I think there's a role for you.

But if they get out of the zone of being competitive on innovation, then I think there is a real risk that Apple Pay or the card companies or whoever are going to, you know – (inaudible) – at least on the personal side.

The corporate side, when you see guys like Kabbage out there who are doing small-business loans, it is still pretty hard to imagine, you know, underwriting a corporation without knowing the people.

MR. CABRERA: So I guess we still teach the Phillips curve. And yet, it turns out since 2000 the correlation between unemployment and inflation is near zero. Even our fearless leader (Fed) Chairman (Jerome) Powell said that the connection is not as close as it once was. So if you get that question in the exam – final exam this week about Phillips curve, can you say, well, I've heard from Chairman Powell and President Barkin that this is just – it's a thing of the past?

MR. BARKIN: I'd say my thinking is still in flux on this. I am still relatively new. But the Phillips curve is interesting. When I learned it back in the early '80s, I thought of it as the following connection, which is, you know, unemployment at low levels and – like today – even extremely low levels ought to lead to wage inflation, right? That's how I thought about it. And that connection still makes perfect sense to me. I mean, you're seeing some connect there, right, even though it's not egregious wage inflation.

As I understand, as it evolved over time, it also became a correlation between unemployment and price inflation. And of course, price inflation is wage inflation, and then wages get passed on to customers. I still think that connection works in the long run.

In the short run there's something that comes between wages and prices, and that's markets and market power. And it does feel to me like a lot of businesses don't feel they have the market power to pass on the wages and they have other options on how to – you know, capacity utilization being a great example; it's still running under long-term norms – try to keep their profit margins without passing on the wages.

And so the phrase you hear is it's a relatively flat Phillips curve. But I do still believe personally that an extended period of low unemployment will have that effect. And as a(n) executive, I saw that effect. I said this earlier. When people start leaving your firm, you have no choice but to take action. And that action is compensation. So that is a thing – that is a real thing that's still existing.

I think the flatness is when you start tying it to prices, all the way to prices. Then you end up in a – I think it's still a longer-run answer. I just think there's lots of short-term things that – short-run things that happen that diminish the impact.

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* [Barkin: Economy No Longer Needs Stimulative Interest-Rate Stance]

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The New York Times

U.S.; Politics

Boeing C.E.O. Downplays Loss of $20 Billion Contract With Iran

By Jim Tankersley and Natalie Kitroeff
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WASHINGTON — The chief executive of the aerospace giant Boeing downplayed the fallout from the president's decision to withdraw from the Iran nuclear pact, saying on Wednesday that the company would abide by the Trump administration's decision to cancel Boeing's licenses to sell $20 billion of aircraft to Iran.

"We will continue to follow the U.S. government's lead," Dennis A. Muilenburg, the chief executive, told a luncheon crowd at the Economic Club of Washington.

He said Boeing had not committed to any production slots for the planes the company had planned to build for Iran, given there was a chance the United States would pull out of the 2015 pact.

Mr. Muilenburg spoke a day after the administration said Boeing would see its $20 billion contract to supply aircraft to Iran terminated because of the United States' withdrawal from the nuclear deal, thus restoring stringent sanctions it had imposed previously. Boeing's rival, Airbus, will also lose its license to sell to Iran, administration officials said.

"Under the original deal, there were waivers for commercial aircrafts, parts and services, and the existing licenses will be revoked," the Treasury secretary, Steven Mnuchin, said on Tuesday, in reference to Boeing and Airbus. "The licenses are coming down. The objective is to put and maintain maximum sanctions on Iran; that is the objective here."

The announcement means Boeing will lose out on a lucrative new market for jetliners, but the move will likely cost the company less than it will Airbus. Boeing agreed to sell 80 passenger jets to Iran Air for about $17 billion in 2016, but it never began building the planes or factored them in as future revenue.

Airbus, on the other hand, already sent Iran three planes and booked the $19 billion Iran Air order for 100 new planes as a part of its backlog.

"Boeing played it a lot more conservatively than Airbus," said Richard Aboulafia, vice president of analysis at Teal Group Corporation, a consulting firm in Fairfax, Va.

Scrapping the Iran deal may end up boosting Boeing, analysts said, as tensions in the Middle East inflate demand for the fighter jets, attack helicopters, bombs and missiles that Boeing produces. Saudi Arabia and Israel are both major operators of the F-15 fighter jet, and Boeing won a $6.2 billion order for the jets from Qatar in December. Kuwait recently completed a deal to buy more than two dozen of Boeing's Super Hornet jets.

"It is now a better market for arms sales, period," Mr. Aboulafia said. It's also possible that nixing the deal pushes up **oil prices**, padding coffers in countries like Saudi Arabia, Qatar and Kuwait. "Higher fuel prices could mean more buying power for Middle Eastern customers," he said.

Investors seemed to be buying that more optimistic assessment on Wednesday. After dipping late Tuesday on the Iran news, Boeing's **stock price** had risen by more than a percentage point by midday Wednesday.

Boeing has enjoyed a successful, but sometimes turbulent, ride under the Trump administration, simultaneously lifted and jostled by Mr. Trump's economic policies. Boosted by resurgent global aircraft demand, Boeing's share price has more than doubled since the beginning of 2017.

Jim Tankersley reported from Washington, and Natalie Kitroeff from New York. Alan Rappeport contributed reporting from Washington.

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Dennis Muilenberg, the chief executive of Boeing, spoke at the Economic Club of Washington on Wednesday, the day after the United States cancelled its license to sell to Iran. | Jim Watson/Agence France-Presse — Getty Images

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THE WALL STREET JOURNAL.

Markets

Iran Nuclear Deal Upheaval Shakes Up European Banks' Outreach; Smaller institutions that moved to rebuild bridges with Tehran face uncertainty after Trump re-imposes sanctions

By Max Colchester and Laurence Fletcher
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The U.S. decision to withdraw from a nuclear deal with Iran further hampers a tentative effort by a handful of smaller European banks to plug the Middle Eastern country back into the global financial system.

The re-imposition of sanctions likely won't hurt big non-U.S. banks, which have already cut ties with the country after being fined billions of dollars by U.S. authorities for dealing with sanctioned entities. But it could stymie efforts by those European banks who have taken steps to grab a slice of the business going into Iran in recent years.

"European banks are going to be less and less inclined to process any non-U.S. dollar transactions going in and out of Iran," said Matthew Oresman, partner at law firm Pillsbury Winthrop Shaw Pittman LLP. The threat of being cut off from the U.S. banking system looms large. "It definitely puts a chilling effect on these sorts of investments," he said.

After a 2015 Iran nuclear accord that lifted a range of sanctions, companies and investors looked at the Middle Eastern market with keen interest. Plenty piled in, forming joint ventures or launching funds to target the market.

International banks mostly stayed on the sidelines, worried that U.S. authorities would continue to punish finance companies with links to Iran. Some smaller European banks, however, took steps to rebuild bridges with Iran during the Obama administration's detente.

In 2015 Italian lender Mediobanca SpA, together with the Italian Ministry of Economic Development, signed an agreement with Iran's Ministry of Economy aimed at developing economic and trade relations between Italy and Iran. Executives at the bank spoke bullishly about seizing opportunities in the Middle East's second biggest economy.

An Austrian government delegation including representatives from Erste Group Bank AG and Raiffeisen Bank International AG met with Iranian officials to discuss future deals. Erste looked at building correspondent banking relationships with Iranian institutions. Others, including Belgian bank KBC Group NV, signed letters of credit for companies that do business in Iran but this was restricted to non-U.S. dollar trade only.

But the initial rush of excitement never translated to much business. Mediobanca sent staff to visit Iran but never did finance business there, according to a person familiar with the matter. Erste never signed any contracts with Iranian banks as part of its mooted correspondent bank network, according to a spokeswoman. A Raiffeisen spokeswoman says it has no exposure to Iran and "already pursued an extremely cautious business policy in connection with Iran."

A spokeswoman for KBC said the bank was reviewing the decision by the Trump administration.

Meanwhile, a political effort to get big non-U.S. banks to welcome Iran back into the global financial system largely fell flat. In 2016 John Kerry, while still secretary of state, traveled to London to urge lenders to open up to Iran. Banks ignored the pleas, pointing out that U.S. banks were still banned from doing business in Iran. The U.S. still kept sanctions on dozens of Iranian financial institutions, companies and individuals believed to be connected to the country's nuclear program. Owing to a scarcity of banks that would process payments, few funds actually went ahead and invested money into Iranian stocks.

One of the few funds to buy Iranian stocks was London-based Sturgeon Capital, which launched a fund in partnership with Iranian brokerage firm Mofid Securities. It began investing in Iran at the end of 2015, although it said at the time it had set up the fund "so as not to rely on sanctions relief as a critical factor."

"We're waiting until the situation clarifies," said Sturgeon founder Clemente Cappello, whose father worked as a diplomat in Iran, on Wednesday.

Over the past few years "there was a tentative putting of foot back in water by banks," said Michael Harris, director of financial crime compliance at LexisNexis Risk Solutions. Now with European and U.S. authorities at odds over how Iran should be treated, he added, "we are entering the realm of the unknown."

Asa Fitch contributed to this article.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Will Argentina's Nightmare Spread? The country's troubles are well known—but the factors pressuring emerging markets right now run deeper

By Nathaniel Taplin
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The dollar is rising and Argentina is having a debt crisis. The only surprising thing is that investors are so surprised.

In retrospect, Argentina's successful issue of a 100-year sovereign bond with a 7.9% yield last year was a sign of excessive investor complacency about emerging markets. It hasn't taken long for the country's traditional problems of high external indebtedness, currency mismanagement and government profligacy to re-emerge.

The bigger question is how much trouble this signals for broader emerging markets.

Here, the breadcrumbs are worrying. Emerging markets are under pressure because the dollar is strong and U.S. rates are rising, while growth in China, the key spoke in international commerce, is slowing. Moreover, **oil prices** are high, pressuring current account balances.

What's unusual is that this is all happening at once.

Oil tends to weaken when the dollar is strengthening and global growth is slowing—both because it becomes more expensive for non-U.S. buyers, and because demand growth for the fuel mostly comes from outside the U.S. That can provide a cushion for net oil importers such as Turkey and Indonesia. Though a strong dollar drains their capital accounts, at least their current accounts don't get slammed by pricey oil.

The last time the dollar was really shooting up, in 2015, the global oil industry was in a historic bust. In 2013, during the original "taper tantrum," oil was expensive but the dollar never strengthened dramatically, in part because emerging-market growth still looked relatively strong. In fact, the last time the world had a strong dollar, high **oil prices**, and a rosy U.S. economy was the late 1990s—not the best time for emerging markets.

The good news is that this situation may not persist. **Oil prices** have been boosted by geopolitical uncertainty together with supply restraint from U.S. shale producers, which is already showing signs of crumbling. U.S. oil rigs in operation hit their highest since March 2015 last week. Slower global growth—especially in China—should soon start hitting oil-demand growth too. High **oil prices** and a strong dollar may not stay hand in hand long enough to really trip up indebted emerging countries, outside the worst offenders such as Turkey and Argentina.

Still, the relatively smooth ride for emerging markets since the global financial crisis has conditioned buyers to expect tantrums and not breakdowns. If the dollar does keep heading higher and **oil prices** refuse to retreat, investors might feel more of a hangover from their yearslong search for yield.

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U.S. Markets
Markets

U.S. Stocks Rise as Energy Shares Gain on Trump's Iran Decision; Oil prices continue to climb; 10-year Treasury yield hovers around 3%

By Riva Gold and Amrith Ramkumar
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* 10-year Treasury yield back around 3%

* Crude oil jumps, lifting energy stocks

* WSJ Dollar Index little changed

The Dow Jones Industrial Average extended its longest winning streak in almost three months, lifted by gains in energy shares as investors continued to weigh President Donald Trump's decision to exit from the Iran nuclear deal.

Mr. Trump said Tuesday that he planned to impose sanctions on Iran and that the U.S. would sanction any nation that helps Tehran pursue nuclear weapons as well as U.S. and foreign companies and banks that continue to do business with the country.

Although investors had widely anticipated the news, oil prices and shares of energy companies climbed in response, as many expect fresh sanctions to hurt Iranian crude exports and reduce global supply. While that could mean higher input costs for many companies, some investors see oil's recent rally as a bullish sign for the broader market.

"Big picture, it's a positive," said Samantha Azzarello, global market strategist at J.P. Morgan ETFs, noting that many investors look at oil as an economic indicator and that energy firms have played a large role in profit growth for the broader market. "No one was really expecting oil prices to have so much momentum."

Still, prices have gyrated recently as analysts debate how much of an impact the sanctions will have and whether other countries such as the U.S. could fill a possible oil-supply gap.

The Dow industrials climbed 182.33 points, or 0.7%, to 24542.54, a fifth straight session of gains. The S&P 500 added 25.87 points, or 1%, to 2697.79 with nine of its 11 sectors rising, while the Nasdaq Composite advanced 73 points, or 1%, to 7339.91.

The S&P 500's energy sector extended its recent climb, surging as U.S. crude oil rose 3% to $71.14 a barrel to its highest level since November 2014.

Government bonds remained under pressure as oil prices rose, with the yield on the benchmark 10-year U.S. Treasury note climbing to 3.004% from 2.968% Tuesday. Yields rise as prices fall.

The rise in bond yields lifted shares of financial firms, as higher yields tend to boost lending profitability. Some investors expect higher inflation as a result of oil's recent gains, which could give the Federal Reserve a freer hand to raise interest rates and further buoy Treasury yields.

"For the past few weeks, we've seen yields increasing and we suspect a lot of it is related to oil prices going up," said Marija Veitmane, senior macro strategist at State Street Global Markets. "Should [the climb in] oil prices persist, that can potentially feed into inflation expectations and rate hikes, but probably not [force rate increases] yet," she said.

Meanwhile, "If you look at underlying sanctions and tariffs, so far the economic impact of that is negligible—what is worrisome is the threat of it escalating," Ms. Veitmane added.

Analysts were digesting data showing U.S. producer prices edged only slightly higher last month, a possible sign inflation pressures in the economy remain relatively modest. Anxiety over a possible surge in consumer prices has hurt stocks this year, so investors will also monitor Thursday's consumer-price data for the latest inflation reading.

The WSJ Dollar Index, which tracks the U.S. currency against a basket of 16 others, added less than 0.1% after closing at a 2018 high on Tuesday.

Among individual stocks, Walmart shares fell $2.68, or 3.1%, to $83.06 after the retailer said its $16 billion acquisition of 77% of Indian e-commerce firm Flipkart Group would hurt profit.

Elsewhere, the Stoxx Europe 600 climbed 0.6%, also supported by gains in oil-and-gas companies. Overall gains outside the energy and banking sectors were limited as investors contemplated the wider implications of the Iran developments. European companies ventured back into Iran much more quickly than their U.S. peers after the nuclear deal took effect in 2015.

Earlier, Hong Kong's Hang Seng Index edged up 0.4% and Australia's S&P ASX 200 rose 0.3% as oil's bounce gave a boost to shares of petroleum companies across the region.

Joanne Chiu and Benoit Faucon contributed to this article.

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THE WALL STREET JOURNAL.

Markets
Trump's Iran Decision Adds Volatility to Emerging-Market Currencies; Geopolitical tensions add to the pressure on emerging-market assets as investors look for safer havens

By Olga Cotaga
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Emerging-market currencies were **volatile** Wednesday, after President Donald Trump's decision to pull out of the Iran nuclear deal added to the woes of markets already pressured by a strengthening dollar.

The Russian ruble and the South African rand were among the currencies to fall initially but then turn higher; the Turkish lira whipsawed as investors dialed back on risk.

Through much of this year, most emerging-market assets had been resilient, even as other markets stalled. But recent rises in the U.S. dollar and Treasury yields have dented that performance, raising debt costs and inflation for some developing countries and drawing money back to the U.S.

Geopolitical tensions are increasing the pressure as investors look for safer havens, including the dollar. Emerging-markets bonds have also sold off in recent days.

"President Trump's decision…means geopolitical risks remain high, and this added uncertainty leaves emerging-market sentiment fragile for now," analysts at MUFG said in a research note.

Mr. Trump on Tuesday withdrew the U.S. from a 2015 international agreement to curb Iran's nuclear program, triggering a snapback of economic sanctions against the Islamic Republic that had been waived under the agreement.

That sent the price of Brent crude, oil's international benchmark, to a fresh 3½-year high of $77.21 a barrel Wednesday.

The higher **oil price** is particularly bad for the Turkish lira, given the country is a net importing country and more expensive energy will hurt the local economy, said Piotr Matys, emerging-market foreign-exchange strategist at Rabobank.

The Turkish lira fell early in the day, but by late New York trading it was up 1.1% at $0.2332. Reports that Turkish President Recep Tayyip Erdoğan is meeting central-bank officials to discuss recent lira losses led to speculation about interest-rate increases.

Despite being a major oil exporter, the Russian ruble initially fell versus the dollar, but late in New York it was 0.3% higher at $0.01586.

The Argentine peso dropped 0.9% against the dollar Wednesday to $0.0441, putting it down 9.5% this month. Argentina turned to the International Monetary Fund for financial backing to help stem the peso's depreciation.

The fact that Mr. Trump's announcement had been well telegraphed, and that the European leaders have decided to stay in the agreement, has helped to limit falls.

Moreover, emerging-market currencies have pared some losses because investors are hopeful that a new deal between Iran and the U.S. will happen, said Mr. Matys.

In Asia, the Indonesian rupiah pared back steep falls to end 0.2% lower, while the South African rand retraced its losses to finish up 0.1%.

Money poured into emerging-market funds in 2017 and early this year amid a softer dollar, low **volatility** and synchronized global growth.

Still, even as the greenback and Treasury yields began rising at the end of April on stronger U.S. economic data, pushing U.S. 10-year yields above 3%, many investors stood by emerging markets.

That may be changing, some investors say, given that last year's backdrop of synchronized global growth is fading, while the Federal Reserve continues to raise interest rates, attracting more investors to the higher U.S. yields.

"What was puzzling when U.S. yields were rising is that emerging-market bonds were resilient, but this didn't last," said Mr. Matys.

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THE WALL STREET JOURNAL.

Markets

Dollar Falls Against Canadian Counterpart; Other energy-related currencies rose against the greenback, driven by rally in oil prices

By Ira Iosebashvili
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The Canadian dollar and other energy-related currencies rose against the dollar Wednesday, driven by a rally in **oil prices**.

The U.S. dollar was recently down 0.7% against its Canadian counterpart to C$1.2854. It fell 0.8% against the Norwegian krone, and lost 0.3% against the Russian ruble.

U.S. crude futures rose 3.01% to $71.14 a barrel on the New York Mercantile Exchange after President Donald Trump pulled the U.S. out of the Iran nuclear pact, triggering renewed economic sanctions.

The Wall Street Journal Dollar Index, which measures the U.S. currency against a basket of 16 others, was recently up 0.1% at 86.66. The measure is up more than 3.6% over the past month, driven by signs that the U.S. economy continues to grow at a steady pace while an expansion in Europe and other areas falters.

Some of that rally has come amid a weekslong reversal in emerging market currencies that continued Wednesday. The dollar rose 0.8% against the Brazilian real and gained 0.9% against the Argentine peso.

The U.S. currency also gained 1.4% against the Malaysian ringgit, after an opposition party won a majority in the country's parliamentary elections.

Write to Ira Iosebashvili at ira.iosebashvili@wsj.com

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THE WALL STREET JOURNAL.

Economy
U.S. Producer Prices Edged Up 0.1% in April; PPI rose 0.2% excluding food and energy categories

By Eric Morath and Paul Kiernan
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WASHINGTON—U.S. producer prices edged only slightly higher last month, a possible sign inflation pressures in the economy remain relatively modest.

The producer-price index, a measure of the prices businesses charge for their goods and services, rose a seasonally adjusted 0.1% in April from a month earlier, the Labor Department said on Wednesday. Economists surveyed by The Wall Street Journal had forecast a 0.2% increase.

From a year earlier, producer prices advanced 2.6% last month, the smallest annual increase since December.

The latest data point to just mildly building inflation pressures. Other gauges broadly show stronger inflation in the U.S. The Commerce Department said last week its price index for personal-consumption expenditures was up 2% from a year earlier in March. That was the fastest gain in a year.

April's small increase in the producer-price index was driven by rising prices for transportation and warehousing services that were partly offset by falling food prices. The producer-price index for final demand captures changes in what firms charge the end user of the product, including consumers, other businesses and government entities, as well as products sold for export.

Excluding the **volatile** food and energy categories, producer prices advanced 0.2% in April, matching economists' expectations. When also excluding trade services, prices advanced just 0.1%. Economists had projected a 0.4% gain when removing all three **volatile** categories.

Producer energy prices rose 0.1% in April from March. Food prices fell 1.1%. Transportation and warehousing costs were up 0.6% on the month.

The producer-price report also tracks intermediate demand prices, or the cost charged for goods and services sold to businesses as inputs in production. Those figures tend to be **volatile** from month-to-month, but from a year earlier are rising at a faster rate than the final-demand measure.

Prices for processed goods for intermediate demand rose 4.7% in April from a year earlier. Unprocessed goods costs rose 3.2% from a year earlier last month. Intermediate services prices advanced 3.1% in April from a year earlier.

Write to Eric Morath at eric.morath@wsj.com and Paul Kiernan at paul.kiernan@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

Cord-Cutting Pain Hits Bond Investors

By Matt Wirz
845 words
9 May 2018
The Wall Street Journal
J
B1
English
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The consumer stampede to streaming media from traditional broadcasters is claiming an unexpected victim: high-yield bond investors.

Telecommunications, cable and satellite companies have borrowed hundreds of billions of dollars in junk debt to build networks that would allow them to dominate their markets for decades to come.

The proliferation of internet-based providers is upending that expectation, forcing investors to question the safety of bonds they bought from companies such as satellite broadcaster Dish Network Corp., cable giant Charter Communications Inc. and landline telecommunications company Frontier Communications Corp.

Dish, founded by satellite tycoon Charlie Ergen, may be the canary in the coal mine of the new technological landscape. Junk-bond investors have lent his companies more than $30 billion over the past 25 years, according to data from Dealogic, bankrolling Mr. Ergen's construction of a satellite constellation and, more recently, his buying spree of wireless spectrum. Now they are dumping Dish bonds and buying record amounts of derivatives that insure against a default by the company, fearing that the industry's rapid evolution is outpacing Mr. Ergen's business strategy.

Although most cable and telecommunications **bond prices** have declined moderately, Dish bonds have lost about one-quarter of their value in the past year, pushing yields above 9% from about 6%. Higher yields for companies rated below investment grade concern investors because such firms typically rely on new bond sales to pay back debt.

Cord-cutting -- as the consumer shift from cable-TV subscriptions toward streaming services is known -- is particularly worrying for high-yield bond funds because technology, media and telecommunications companies comprise about one-quarter of the $1.25 trillion junk-bond market, according to the ICE BofAML U.S. high-yield index.

The media component of the index has lost about 1.33% this year, compared with a 0.38% loss for the entire index.

"The level of cord-cutting is accelerating," said Jared Feeney a cable and media bond analyst for Neuberger Berman Group, which manages $41 billion of high-yield bond investments. Cable companies such as Charter can offset defecting subscribers with broadband internet sales, but the first quarter of the year brought unexpectedly low revenue from video subscriptions and video ad sales across the industry, he said.

High-yield bonds and media and telecommunications companies grew up together in the 1990s in a largely symbiotic relationship. Innovation and deregulation spurred the creation of dozens of new satellite, cable and telecom companies whose founders turned to the nascent junk-debt market for capital. Some grew steadily and rewarded stock and bond investors, but many, such as WorldCom Inc. and Global Crossing Inc., failed spectacularly in the early 2000s, when they ran out of money before reaching profitability and used fraudulent accounting to mask losses.

Defaults are low right now in telecommunications and media bonds, and some companies that offer broadband and wireless access actually benefit from the move toward streaming media.

Signs of cord-cutting trouble emerged last year when wireline companies, including CenturyLink Inc. and Frontier Communications, that deliver telecommunications over land lines reported faster-than-expected sales declines and their **bond prices** dropped.

The selling expanded to cable and satellite broadcasters such as Charter and Dish this year as it grew apparent that their customers are also abandoning them sooner than expected for internet-based alternatives like Netflix Inc. and Amazon.com Inc. Rapid change also spurred a wave of consolidation, from AT&T Inc.'s deal to buy Time Warner Inc. to Sprint Corp. and T-Mobile US Inc. attempting to combine for the third time in four years.

Mr. Ergen, who still controls Dish, has outlasted numerous satellite rivals such as cellular-phone magnate Craig McCaw and former hedge-fund manager Philip Falcone. He foresaw the decay of satellite video and began buying a large patchwork of wireless network licenses more than a decade ago to help transition Dish to the wireless broadband age.

A spokesman for Dish declined to comment. The company Tuesday reported a 6% revenue drop for the first quarter caused by loss of satellite-television customers.

Stock and debt investors backed Mr. Ergen through the decades in part because he perennially explored selling the company, and its wireless licenses, to larger companies like DirecTV, AT&T, T-Mobile US and technology firm Amazon that could give Dish growth and security. But as mergers sweep the industry, Dish has been left out and bondholders are worried Mr. Ergen will wait too long and run out of cash before he can realize the long-awaited merger that will transform his company.

Some of Dish's $16 billion of bonds traded Tuesday at around 82 cents on the dollar, and Dish credit-default swaps were the most heavily traded high-yield contract in the default derivatives market over the past three months, a CDS trader said. The price of insuring $10 million Dish bonds has about doubled this year to $692,000, according to IHS Markit.

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THE WALL STREET JOURNAL.
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Energy Stocks Flip From Dud to Darling --- The sector is up more than 10% in the past month as oil prices, company earnings rise

By Michael Wursthorn and Akane Otani
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The Wall Street Journal
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Shares of energy companies are rallying as crude prices hover near $70 a barrel, a major reversal for a sector that just six weeks ago had been among the worst-performing groups in the stock market.

Energy stocks had fallen out of favor after many investors lost huge fortunes when oil prices began skidding in 2014 from above $100 a barrel to under $30. Even as prices showed signs of rebounding earlier this year, wary investors avoided the S&P 500 energy sector, which recorded its worst three-month stretch in three years in the first quarter.

But fears that bubbling Middle East tensions could disrupt oil production have pushed crude prices sharply higher in recent weeks. Stronger balance sheets, signs of improved profitability and a focus on boosting shareholder returns have also helped fuel the rebound in the energy sector.

Combined, this cast shares of many energy companies in a new light.

"When we use those [oil] prices now to look at equities, we think they are incredibly undervalued," said Stan Majcher, a portfolio manager with Hotchkis & Wiley, an asset manager that oversees about $31 billion.

The result: After closing out the first quarter as one of the worst-performing sectors in the S&P 500, energy shares have risen more than 10% in the past month to bring their gains for the year to 3.1%. The sector ranks as the index's third-best performer this year behind technology and consumer-discretionary shares.

Petroleum refiner Valero Energy Corp., exploration and production firm Anadarko Petroleum Corp. and fellow E&P company Hess Corp. have all surged more than 20% this year, outpacing the S&P 500's slide of less than 0.1%.

Smaller energy equipment and services firms, whose shares tend to respond more to rising oil prices, have run up even more.

Many money managers continue to play coy with energy stocks. Fund allocations to shares of energy companies tend to be smaller than that of every other sector, with the exception of safety bets such as telecommunications, utilities and real estate, according to recent Bank of America Merrill Lynch data.

Investors' attitudes are changing, though, and not just because of oil's price. Profits rebounded at the world's biggest oil companies, with Exxon Mobil Corp. and Chevron Corp. last month posting their best first-quarter results in years.

In all, energy firms in the S&P 500 are on pace to report a 93% jump in earnings from a year earlier, more than doubling the earnings growth rate of technology and financial companies, according to FactSet.

Among the biggest winners: ConocoPhillips, which said in April that its quarterly profit jumped 52%, thanks in part to a pickup in drilling activity. Shares of the oil giant have risen 23% this year.

That has led money managers such as Credit Suisse to take a more bullish stance on the sector. In March, the Swiss bank told clients they should consider boosting their allocations to energy stocks now that valuations are at more attractive levels.

Another factor that has helped the energy sector is healthier balance sheets. Companies have aggressively cut costs, curtailed spending and, in some cases, shut down wells in a bid to improve cash flow. Those efforts have paid off, as most of the energy companies in the **S&P 500** are now generating more cash than they are spending, according to FactSet.

"In general, there's been apathy about investing in energy," said Bill Costello, a portfolio manager at Westwood Holdings Group. With companies appearing to be on stronger financial footing, that could change, he added.

Financial discipline is showing up in other ways. Big energy companies are moving carefully to avoid overspending on projects now that could prove too costly or unsustainable if **oil prices** move significantly lower. Companies are opting to return some of their extra cash to shareholders instead of plowing that money into capital-intensive projects.

Energy companies have authorized roughly $7 billion in share buybacks so far this year, more than twice the amount from the same period a year earlier, according to Goldman Sachs. And others, including Exxon Mobil and Chevron, are opting to raise their dividends.

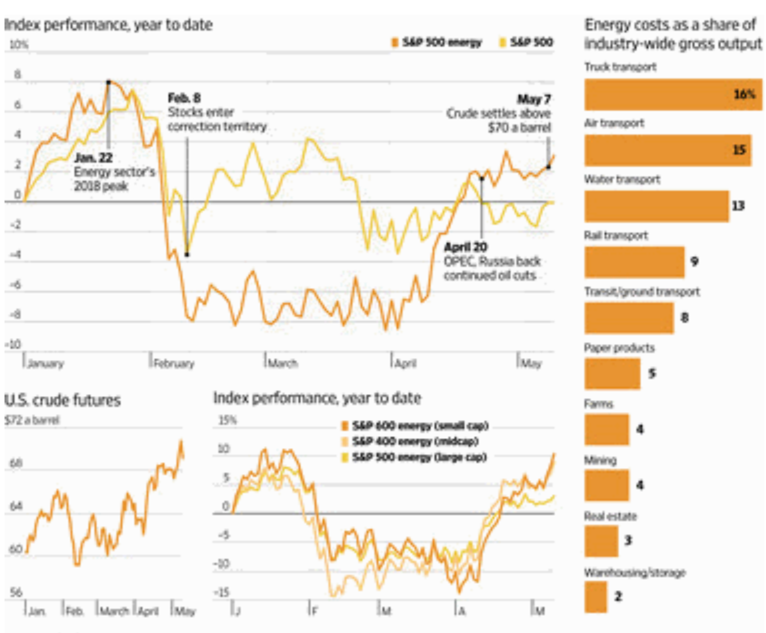
Chevron Chief Financial Officer Patricia Yarrington told analysts last month that dividend growth is the company's "No. 1" priority, followed by investing in the business and managing surplus cash.

Still, many investors are concerned that energy's recent gains could be fleeting.

In the U.S., oil production continues to grow. By some estimates, U.S. production is expected to overtake Russia in five years, and some worry the growing output from American shale producers could depress energy prices.

A strengthening U.S. dollar has also weighed on oil and other commodities prices, which are priced in the U.S. currency and become more expensive to foreign buyers when the dollar rises. The WSJ Dollar Index, which measures the dollar against a basket of 16 other currencies, on Friday posted its biggest three-week percentage gain since the period following the U.S. presidential election.

"The oil rally might last longer, but I'm skeptical about whether **oil prices** stay where they are," said Kate Warne, an investment strategist at Edward Jones.



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WSJ PRO PRIVATE EQUITY

Pro Private Markets
Garcia's Take: Higher Oil Prices Not All Good for PE Firms

By Luis Garcia
470 words
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07:30 AM
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RSTPROPE
English
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Late last year, cash-flush private-equity firms were expected to drive a new wave of acquisitions in the U.S. oil-and-gas upstream sector in 2018. But with **oil prices**hitting new highs, the wave may be smaller than anticipated.

Private-equity firms focused on the U.S. energy industry are sitting on large piles of dry powder after raising $21.9 billion in new capital across 27 funds during 2017 and $4.2 billion across seven funds as of May 3, according to data provider Preqin Ltd.

Those firms until recently seemed well positioned to gobble up assets in the upstream space, as more publicly traded oil-and-gas producers shed noncore assets to concentrate on their most profitable areas.

Higher **oil prices**, however, are likely to lift energy assets' valuations, making it more difficult for private-equity firms to find bargains. Additionally, public companies face less pressure to sell assets as their cash flows improve.

Valuations were already high in the popular Permian Basin of West Texas and southern New Mexico, even before a Monday price spike that sent oil over $70 a barrel for the first time since 2014.

The deal environment in the upstream sector is also more challenging today because there are fewer opportunities to generate acceptable private-equity returns in shale plays, said Frost Cochran, a managing director at Post Oak Energy Capital, which invests in the upstream, midstream and oil field-services sectors.

The Houston private-equity firm hasn't made any investments since it closed its latest fund in November at its $600 million hard cap. So far it is the second-longest period that the firm has gone without a new investment since it was founded in 2006, Mr. Cochran said. The longest span was in 2014, when **oil prices** also were high.

Some private-equity firms will still risk investments in the upstream space in a bet that **oil prices** will stay high or climb even further. Industry experts said these firms may find more opportunities in basins that are less crowded than the Permian. Diversified energy investors also can allocate a larger portion of their capital to the midstream sector, where demand remains high, or to oil-field services businesses, which continue to recover from the **oil-price** downturn.

Others, like Post Oak's Mr. Cochran, say they are willing to wait for the right deals.

"If risk for value isn't lining up, you just keep looking and just don't be too quick to pull the trigger. Let the market go by and valuations and opportunities will usually find their way to the right place," he said.

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WSJ PRO CENTRAL BANKING

Economy
EBRD Raises Growth Forecasts for Central and Eastern Europe; Bank warns that rising levels of company debt could weaken expansion if global interest rates rise

By Paul Hannon
516 words
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WSJ Pro Central Banking
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The economies of central and eastern Europe will grow more rapidly than previously expected this year, although rising levels of company debt could weaken their expansion if global interest rates rise, the European Bank for Reconstruction and Development said Wednesday.

For many of the region's economies, last year was their best since 2011. And while the EBRD believes that growth likely peaked in 2017, it now expects the slowdown over 2018 and 2019 will be more gradual than it had anticipated in November.

But the development bank, which was set up in 1991 to help countries make the transition from Communism to market economies, sees some clouds on the horizon. The biggest threat to a sustained expansion is higher levels of company debt. Those debts are often denominated in foreign currencies, which could become more expensive to repay if local currencies were to weaken in response to interest rate rises by the major central banks.

The EBRD estimates that company debts as a share of total economic output have risen 1.5 times since the global financial crisis.

"This presents a potential source of vulnerability should global financing conditions tighten rapidly and should net inflows of capital into emerging markets weaken substantially," the EBRD said.

The bank said most of the 37 countries in which it invests—including those in North Africa and the Middle East—have enough foreign-exchange reserves to withstand any sudden outflow of capital, such as that which occurred in the 2013 "Taper tantrum." But it said that was not the case in Belarus, Georgia, Mongolia, Tajikistan, Tunisia, Turkey and Ukraine.

The EBRD now expects eight economies in central Europe and the Baltic States—including Poland and Hungary—to grow 3.8% this year, a slowdown from the 4.3% expansion recorded in 2017, but stronger than the 3.3% it projected in November. For 10 economies in southeastern Europe—including Romania and Bulgaria—it raised its growth forecast for this year to 3.6% from 3.3%, again a slowdown from 4.1% in 2017.

One of the biggest changes to its forecasts concerned Turkey, where it now sees growth of 4.4% this year, up from 3.5% previously. But even with the economy cooling from its 7.4% expansion last year, the EBRD said further interest rate rises are needed to lower inflation following the lira's 20% depreciation against the U.S. dollar in 2017.

"This is key to reassuring investors at a time when the global cycle is turning," the EBRD said.

The bank expects Egypt to succeed Armenia as the fastest growing of the economies in which it invests during 2018, raising its growth forecast for the year to 5.3% from 4.5%.

The EBRD lowered its forecast for growth in Russia to 1.5% from 1.7%, despite the prospect of higher **oil prices**.

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THE WALL STREET JOURNAL.

Markets

Saudi Arabia Pledges to Support Oil Markets; U.A.E. has also previously said it is willing to boost exports to meet any supply shortage

By Summer Said
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Saudi Arabia pledged to help stabilize global oil markets in the wake of the Trump administration's decision to reinstate economic sanctions on Iran, a move that could eventually deprive world markets of a significant chunk of supply.

President Donald Trump said Tuesday he was pulling out of a multilateral deal that removed sanctions on Tehran in exchange for Iran abandoning its nuclear ambitions. Washington indicated new U.S. sanctions would limit Iranian exports of crude, although officials didn't provide specifics.

Saudi Arabia, long a regional rival to Iran and a fierce competitor for global oil market share, quickly telegraphed its willingness to step in. It has limited its own output since 2016, as part of a pact among big producers to help lift prices.

In the wake of Washington's decision, Saudi Arabia issued a statement saying it remained "committed to supporting the stability of oil markets." It said that, along with other big producers, the country would help "mitigate the impact of any potential supply shortages" caused by the new sanctions.

Iran has recently been exporting 2.7 million barrels a day of crude, or close to 3% of global supplies.

Most of that is bought by Chinese and other Asian buyers, as well as European customers. Some of those buyers, depending on the severity of U.S. sanctions, may need to find new suppliers.

The U.S. administration said it would give companies and banks several months to wind down commitments, although it wasn't clear how that might affect oil exports.

Oil prices have strengthened in recent weeks amid worry Washington would reinstate draconian sanctions that might quickly curtain Iranian exports, cutting global supplies. Traders have more recently bet any disruption may be more limited than expected and have sold off oil.

Light, sweet crude for June delivery settled down 2.4% Tuesday at $69.06 a barrel on the New York Mercantile Exchange, breaking a four-session winning streak, but paring some losses. Brent, the global benchmark, fell 1.7% to $74.85.

In Asian trading Wednesday, oil futures returned to 3½-year highs. Light, sweet crude futures were up 2.3% at $70.65 and July futures for Brent were up 2.5% at $76.70 a barrel.

Any further guidance from the White House about the severity and timing of the new sanctions in coming days could further roil markets.

Both Saudi Arabia and the United Arab Emirates, another big Mideast producer, have previously told the U.S. they were willing to boost exports to meet any supply shortage resulting from new Iranian sanctions, according to people familiar with the matter.

The Trump administration said Tuesday it sought to find oil producers, like Saudi Arabia, who might step in and fill any gap left by the reduction in Iranian crude exports.

"Without commenting on specifics, we've have various conversations with various parties…(who) would be willing to offset this," said U.S. Treasury Secretary Steven Mnuchin. "My expectation is not that **oil prices** will go higher. I think we're careful in wanting to make sure that we balance supply and demand."

Write to Summer Said at summer.said@wsj.com

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The New York Times

Business/Financial Desk; SECTB
After Late Rally, Markets End Up Where They Started

By THE ASSOCIATED PRESS
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The major U.S. stock indexes partially recovered from a daylong slide in the final minutes of trading Tuesday to finish essentially flat.

The indexes had been drifting slightly lower as investors weighed the Trump administration's decision to withdraw from a 2015 nuclear deal with Iran and reinstate sanctions on the country.

The policy change, announced in an afternoon speech by President Trump, had been largely expected by traders, who sent crude **oil prices** sliding more than 2 percent a day after crude reached above $70 a barrel for the first time in more than three years.

Health care, utilities and consumer-goods companies were among the biggest decliners. Banks, technology stocks and industrials posted gains. Energy sector companies also eked out a gain after being in a slump much of the day on lower **oil prices**.

''At least for the moment the movement in oil is moderate and seems to be more or less what the market was expecting,'' said Phil Guarco, global investment specialist at J. P. Morgan. ''While this is big news, it is not something that the market hadn't already priced in. Now we have to see what the reactions are.''

The **S**.**&P**. **500 index** dipped 0.71 points, or 0.03 percent, to 2,671.92. The lower close snapped a two-day winning streak for the broad market index. The **Dow Jonesindustrial average** gained 2.89 points, or 0.01 percent, to 24,360.21. The **Nasdaq** rose 1.69 points, or 0.02 percent, to 7,266.90.

Smaller companies fared better than the rest of the market. The Russell 2000 index of smaller-company stocks picked up 7.44 points, or 0.5 percent, to 1,586.39.

The major stock indexes spent much of the day in the red and **oil prices** slumped as investors awaited Mr. Trump's announcement on the U.S.-Iran policy.

Mr. Trump said the United States was withdrawing from the Iran nuclear deal, which he called ''defective at its core.'' The move reinstalls sanctions on Iran. The 2015 agreement required Iran to curb its nuclear enrichment program in exchange for relief from international sanctions.

After Mr. Trump's remarks, **oil prices** pared some of their earlier losses. Benchmark U.S. crude oil fell $1.67, or 2.4 percent, to $69.06 per barrel in New York. Uncertainty over whether the U.S. would pull out of the Iran pact helped lift the price of crude on Monday above $70 a barrel for the first time since November 2014.

On Tuesday, Brent crude, which is used to price international oils, lost $1.32, or 1.7 percent, to $74.85 per barrel in London.

So why didn't prices keep climbing Tuesday?

''It's all really in the expectations,'' Mr. Guarco said. ''The market was pricing in something even more aggressive. Still, things are very fluid and oil markets could turn on a dime if it seemed that the potential for a supply disruption got meaningfully larger.''

Energy stocks mostly reversed an early tumble. Marathon Oil led the gainers, rising 3.4 percent to $20.44.

Bond prices fell. The yield on the **10**-**year Treasury** rose to 2.97 percent from 2.95 percent. The rise in yields pushed up interest rates, which helped drive financial sector stocks higher. Capital One Financial rose 1.4 percent to $90.18.

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

CHART: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Tuesday.

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The New York Times

Business Day; DealBook
The Market's Trump Test Is About to Get Real: DealBook Briefing

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Good Tuesday. Here's what we're watching:

• Will Trump's moves on Iran and trade push markets over the edge?

• What's next for business after Eric Schneiderman?

• D.E. Shaw grapples with an ousted executive who's fighting back.

• What Rupert Murdoch will weigh if Comcast makes another bid for Fox assets.

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Will Trump's moves on Iran and trade push markets over the edge?

President Trump's antagonistic foreign policies have yet to cause serious losses in the **stock market**.

But investors' stoicism could face greater tests in the coming weeks. They have to contend with the repercussions of Mr. Trump's decision on Tuesday to withdraw from the nuclear deal with Iran and the increasing likelihood of a trade war with China and the European Union . And all this is happening at a time when a boom in corporate earnings, the chief driver of the **stock market**, appears to be cooling.

Up until January, investors were willing to pay high valuations for stocks because they expected corporate earnings to accelerate this year. But the best may already be behind us. Lori Calvasina, head of United States equity strategy at RBC Capital Markets , on Monday wrote that analysts now believe that earnings growth for this year likely peaked in the first quarter (at 23 percent over last year's first quarter.) After such peaks, the **stock market** tends to remain weak for a while, she added.

Investors likely won't have a big new jump in profits to look forward to. Earnings are expected to grow 10 percent next year, according to estimates compiled by Standard & Poor's . Without sustained support from corporate earnings, investors may be more willing to sell stocks in response to geopolitical events.

And in the coming weeks, there will be plenty of potential trade war triggers. The Trump administration could decide to impose tariffs on steel and aluminum from a number of countries, including those in the European Union , when exemptions expire at the end of this month. Proposed tariffs on $50 billion of goods from China could also be imposed this month, and the White House could release details on a second batch of tariffs on $100 billion of Chinese products.

Since neither the European Union nor China looks close to caving to Mr. Trump's threats, global trade tensions look set to escalate and a full-blown trade war is possible.

Investors may continue to hang tight, of course. The **stock market** is flat for the year, not a bad performance for a period in which the underpinnings of the international economic order are under assault.

And there is another possible outcome – Mr. Trump may temper some of his initiatives. Stocks are up 25 percent since he was elected in November 2016, a move that has contributed $4 trillion of financial gains to the balance sheets of United States households. He can assert that his policies – tax cuts and deregulation, in particular — helped bring about such increases. Mr. Trump's approval rating has risen in recent weeks, in part because of his handling of the economy .

But that support will most likely convince him that he is on the right track – and he will press on with his hard-edged international policies. But more than at any time in his presidency, he should not expect the **stock market** to tag along.

— Peter Eavis

New York's attorney general, who promoted #MeToo, resigns

As New York state's top law enforcement official, Eric Schneiderman took on both President Trump and Harvey Weinstein . His resignation , hours after The New Yorker published allegations of physical abuse by four women, was a stunning fall for a public official who prominently allied himself with women's rights advocates.

More from Matt Stevens of the NYT :

Mr. Schneiderman has denied the women's allegations.

Our big question: Mr. Schneiderman had also become a sharp critic of business and Wall Street practices, going after mortgage lenders and sellers of fake followers on social media . Will his replacement be as tough?

Elsewhere in misconduct allegations: The New Yorker profiles Lauren Bonner , the Point72 executive suing over sexual discrimination.

Trump to withdraw U.S. from Iran deal

The NYT's Mark Landler reports:

What's in a name (Valeant edition)?

In a surprise move on Tuesday, Valeant Pharmaceuticals said that it planned to change its corporate name to Bausch Health Companies, taking on the name of one of its many acquisitions, Bausch & Lomb .

Why would the company possible do this? We can think of a few reasons .

Here's what Joe Papa, the company's C.E.O., said:

— Michael de la Merced

How Takeda's Shire acquisition stacks up

Shire's board formally accepted Takeda Pharmaceuticals of Japan takeover bid .

So where does the deal stack up among big acquisitions? Here's a breakdown courtesy of Dealogic:

• It is the biggest deal announced this year, beating Cigna 's $55 billion acquisition of Express Scripts .

• It is not just the largest overseas acquisition by a Japanese company, but the biggest by a Japanese company. The $63 billion price tag just barely tops the $62.88 billion Mitsubishi Tokyo Financial Group paid for UFJ Holdings in 2005.

• The deal is the sixth largest pharmaceutical deal on record. Here are the biggest: Pfizer 's $110 billion purchase of Warner-Lambert , Glaxo Wellcome 's $77 billion deal for SmithKline Beecham , Actavis 's $72.7 billion acquisition of Allergan , Pfizer 's $68 billion deal for Wyeth, and Sanofi 's $66 billion purchase of Aventis .

Sally Yates has joined the law firm King & Spalding has joined the law firm

The former acting attorney general has returned to King & Spalding as a partner in its special matters team and will head up in the firm's investigations group, according to a news release.

Ms. Yates began her career at King & Spalding before spending 27 years at the Justice Department. She served as deputy attorney general under President Barack Obama . The Trump administration asked her to stay on as acting attorney general until Jeff Sessions was confirmed to be attorney general.

Then 10-days after President Trump's inauguration, he removed Ms. Yates as the nation's top law enforcement officer after she refused to defend his executive order closing the nation's borders to refugees and people from predominantly Muslim countries.

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Ms. Yates worked at King & Spalding as a civil litigation associate from 1986 to 1989.

Controversy over the firing of a senior D.E. Shaw executive

D.E. Shaw said yesterday that it had fired Daniel Michalow, a longtime executive at the hedge fund, for what it said were “gross violations of our standards and values.” Citing unnamed sources, Business Insider and Bloomberg reported that he faced accusations of mistreating women.

Mr. Michalow responded in a letter to David Shaw , D.E. Shaw’s founder, saying the firm had told him he hadn’t been accused of sexual misconduct. He admitted “an abrasive and intolerant management style,” but denied sexually mistreating anyone.

From what Mr. Michalow tweeted was “the letter D.E. Shaw spent all day trying to make sure you couldn’t read”:

Will Murdoch turn down a sweetened Comcast bid?

If Comcast goes through with a higher bid for the 21st Century Fox assets that Disney has agreed to buy for $52.4 billion, as Reuters and the WSJ report, would Rupert Murdoch be swayed? Two reasons he might not be:

• Mr. Murdoch already spurned a Comcast offer 16 percent higher than what Disney ’s, saying regulators were more likely to block it. (Comcast would move again only if AT&T gets its Time Warner deal.)

• He prefers receiving stock, as he would from Disney , because that’s a tax-free transaction.

The context: Comcast is also making life difficult for Mr. Murdoch and Disney by challenging Fox ’s bid for full ownership of Sky , the British satellite broadcaster.

The political flyaround

• President Trump’s expected withdrawal from the Iran nuclear deal is likely raise **oil prices**, already at $70 a barrel .

• Tokyo is becoming closer politically to Beijing, partly because it fears a U.S.-China trade war. (Axios)

• Mr. Trump is asking Congress to withdraw $15 billion in agreed spending, primarily from the Children’s Health Insurance Program and the Affordable Care Act. (WaPo)

• Qatar has reportedly expressed interest in investing in Newsmax, a publisher that supports Mr. Trump. (Politico)

• Mick Mulvaney has made his biggest mark in Washington not in the federal budget but at the C.F.P.B. (NYT)

• Don Blankenship , the former Massey Energy C.E.O. seeking a Senate seat in West Virginia, shrugged off Mr. Trump’s opposition to him ahead of a primary today. (Politico)

Ray Dalio gets animated

He’s had a cartoon mini-series made from his book “Principles.” Here’s what the billionaire Bridgewater founder told friends in a note:

The deals flyaround

• Shire’s board formally accepted a $62 billion takeover bid by Takeda Pharmaceuticals of Japan, one of the biggest ever in the drug industry. (FT)

• Walmart ’s deal to buy control of Flipkart of India for nearly $15 billion could be announced as soon as this week. (WSJ)

• Carl Icahn and Darwin Deason said that they would consider any bid for Xerox and Darwin Deason said that they would consider any bid for worth at least $40 a share , as they continued to try and oust the company’s C.E.O., Jeff Jacobson . Separately, Mr. Icahn appears to have scaled back his A.I.G. investment .

• Elliott Managementoffered to buy Athenahealth for $6.5 billion. Citigroup ’s shares rose in postmarket trading after the WSJ reported that ValueAct has a $1.2 billion stake in it.

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• Within T-Mobile and Sprint , their $26.5 billion deal was code-named “Lakes,” with T-Mobile being “Tahoe” and Sprint “Salt.” (Bloomberg)

• The European payments start-up iZettle plans to go public. (iZettle)

More on Buffett, Musk and moats

The business world has chortled over an unlikely spat: Warren Buffett and Elon Musk trading barbs over the candy industry and business moats. But there’s a legitimate concern in there, Andrew writes in his latest column : Moats still exist, and it remains hard for upstarts to break into banking, tech or, yes, automobiles.

More from Andrew:

Critics’ corner: Investors are already choosing sides in the fight , John Foley of Breakingviews writes.

More on Mr. Musk: Tesla’s 10-Q raises more questions he might find “boring.” A rare glimpse inside Tesla’s Model 3 factory .

More on Mr. Buffett: Why Berkshire shareholders love going to “the meeting.”

The tech flyaround

• The Uber self-driving car involved in a fatal accident in March reportedly detected the pedestrian it hit, and decided she was a false positive. Egyptian lawmakers want ride-hailing companies to turn over passenger data if asked. Drive.ai, an autonomous cab service, plans to open in Dallas.

• The parent company of the N.Y.S.E. has been working on an online Bitcoin trading platform . Warren Buffett and Bill Gates still aren’t into cryptocurrencies . Researchers at the San Francisco Fed blamed Bitcoin’s price drop on futures trading .

• Microsoft wants to position itself as the tech industry’s conscience. (NYT)

• Piazza Technologies, computer science students’ favorite social network, wants to be Silicon Valley’s new recruiting service. (Bloomberg)

Revolving door

• Snap has hired Tim Stone, a vice president of finance at Amazon, as its C.F.O. (Recode)

• Uber has hired Christopher Hart, the former head of the National Transportation Safety Board , as an adviser. (Bloomberg)

• Abernathy MacGregor, the P.R. firm, named Carina Davidson as its president. (Abernathy MacGregor)

The speed read

• Unions have rejected a pay offer at Air France-KLM , testing Emmanuel Macron ’s labor policies. (NYT)

• California now has the world’s fifth largest economy. (NYT)

• Ant Financial ’s sprawling business interests could increase its exposure to new regulations in China. (Bloomberg)

• Bank of America is preparing a critical loan for Remington Outdoor just weeks after it said it would stop financing “military-style” firearms for civilians. (Reuters)

• Deliveroo will spend $13 million on free medical insurance for 35,000 food delivery drivers worldwide, but stopped short of further benefits to avoid the risk of having to treat them as employees. (CNBC)

• Private placements are a fast-growing type of investment, but frequently involve brokers with red flags in their records. (WSJ)

• Samsung Securities said it intended to file a criminal lawsuit against employees who sold shares the company mistakenly issued during a “fat finger” incident last month. (WSJ)

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• Britain’s oldest bank has made a 32-year-old member of the controlling family a partner, hoping for what it called “millennial thinking.” (FT)

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Document NYTFEED020180508ee580038p

THE WALL STREET JOURNAL.

Politics

U.S. Allies Push for Trump to Stay in Iran Nuclear Deal; President has criticized the pact as 'ridiculous;' there have been no indications that his concerns have been assuaged

By Michael R. Gordon, Felicia Schwartz and Ian Talley
1,337 words
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Washington's European allies were bracing for the U.S. to withdraw from the Iran nuclear accord, after President Donald Trump said he would announce on Tuesday his decision on the landmark agreement that he has repeatedly condemned.

But some European officials are holding out hope that Mr. Trump, after leaving the agreement, would move slowly to reimpose sanctions, which would leave more time for negotiations.

Mr. Trump tweeted Monday that he would announce his decision at 2 p.m. Tuesday.

The message came as British Foreign Secretary Boris Johnson made a last-minute appeal to save the accord, including meetings with Vice President Mike Pence and Secretary of State Mike Pompeo, and an appearance on one of Mr. Trump's favorite television programs, "Fox & Friends."

"We need to find a way of fixing that and the president has been right to call attention to it," Mr. Johnson said on Fox . "But you can't do that without just throwing the baby out with the bath water."

Mr. Johnson's visit followed recent visits by French President Emmanuel Macron and German Chancellor Angela Merkel , who urged Mr. Trump not to withdraw. On Monday, a European diplomat said that the chances of keeping the accord intact are "very small" and that the Trump administration appeared to believe it would better to make a fresh start on nuclear issues. "We don't share that analysis," he said.

Trump administration officials declined to say what specific decision Mr. Trump had made. But the president has been fiercely critical of the accord and there have been no indications that his concerns have been assuaged.

U.S. and European diplomats have worked hard in recent weeks to close the gaps on several issues, including Iran's ballistic missile program and the scope of inspections.

But they have been at odds over the Trump administration's insistence that sanctions should automatically take effect eight years from now if Iran begins to expand its capability to enrich uranium by installing more advanced centrifuges, as it now is allowed to do under the agreement.

Europeans don't know what specific steps the U.S. will take if Mr. Trump decides to leave the agreement, including whether he will allow more time for diplomacy and how he hopes to constrain Iran's nuclear activities if the agreement is jettisoned.

Under one scenario, which diplomats have dubbed a "soft exit," Mr. Trump would refuse to waive sanctions on May 12 on Iran's oil export and transactions by its Central Bank.

Under such a move, the U.S. Treasury Department website states that companies would have 180 days to wind down their deals before the sanctions take effect, which could give the U.S. and the Europeans months more to try to settle their differences over the accord.

But Mr. Trump could go further by deciding on a "hard exit." That would entail stating now that he won't waive sanctions either now or in the future, effectively removing the U.S. from the agreement and forcing firms doing business in Iran with hard decisions.

Whatever approach Mr. Trump adopts may also pertain to another set of sanctions that come up for a U.S. decision in July, including secondary sanctions on foreign financial institutions engaging in significant transactions with Iranian entities.

Within the Trump administration, the criticism of the accord has been echoed by John Bolton , Mr. Trump's new national security adviser. Mr. Pompeo has also been critical even as the State Department has led an effort to try to shore up the accord by negotiating a supplementary understanding with European allies.

Mr. Trump criticized former Secretary of State John Kerry on Monday for meeting with foreign officials to discuss ways to save the nuclear deal with Iran.

Mr. Pompeo recently told Congress that Tehran appears to be complying with the Iran agreement. In February, U.S. intelligence agencies said in a report to Congress that the accord had extended the amount of time Iran would need to produce enough fissile material for a nuclear weapon from a few months to a year.

American military officials have acknowledged that the accord has constrained Iran's nuclear program at a time when the U.S. already has its hands full dealing with Iran's more assertive posture in the region.

In March, Army Gen. Joseph Votel, U.S. Central Command commander, told the Senate Armed Services Committee that the Iran deal "addresses one of the principal threats that we deal with from Iran." If the deal goes away, he said, "then we will have to have another way to deal with their nuclear weapons program."

Mr. Trump has made criticism of the Iran accord, which was negotiated by the Obama administration, a staple on the campaign trail. He has called the agreement "the worst deal ever" and "a horrible agreement for the United States." He has backed Israeli Prime Minister Benjamin Netanyahu who charged last week that Iran hadn't been honest about previous nuclear weapons work, citing new evidence.

The dispute with Europe over the Iran deal is exacerbating building tensions among the trans-Atlantic allies over a host of other policy matters. The Trump administration's steel-tariff threats, U.S. sanctions against a critical Russian aluminum supplier to the continent and the European Union 's proposal for a digital tax that could hit U.S. internet giants all have added to an increasingly strained relationship.

The Iran sanctions represent a potential threat to many European companies, including in Germany, Italy and Spain, that have deep business ties to Iran in the energy and industrial sectors. **Oil prices** could also go back up, hitting a European economy reliant on imports as it finally is gathering pace a decade after the financial crisis.

U.S. companies, such as Boeing Co ., have said they would abide by U.S. laws. But new sanctions against Iran could jeopardize their multibillion-dollar projects begun since the deal was reached.

Pulling out of the deal "will leave many unanswered questions about what sanctions look like and the timeline," said Elizabeth Rosenberg, a former senior adviser at the Treasury Department who was involved in the Obama administration's rollout of sanctions against Iran.

It takes months to craft the guidance necessary to explain to companies, banks, foreign financial regulators and central bank governors exactly what the Trump administration's new sanctions will mean in practice, said Ms. Rosenberg, now a senior fellow at the Center for a New American Security.

The current guidelines on how a reinstatement of sanctions on Iran could work were prepared by the Obama administration. The Trump Treasury Department could rewrite those instructions because they aren't enshrined in law or in the nuclear deal.

If the Trump administration shortens or eliminates the 180-day period that companies have to sever their ties to Iran, it would be faced with the task of ensuring massive, global compliance, raising tensions with allies and other nations over their failure to adhere to U.S. policy.

When the Obama administration first imposed its heavy-duty Iran sanctions regime, it took many months of high-level shuttle diplomacy to capitals around the globe to encourage compliance.

Jessica Donati, Nancy A. Youssef and Laurence Norman contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Oil Pares Losses After Trump Withdraws From Iran Deal; Geopolitical risk has helped support crude as prices have climbed to multiyear highs

By Stephanie Yang
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Oil prices settled lower on Tuesday, recovering some losses after President Donald Trump announced his decision to abandon the Iran nuclear deal.

Light, sweet crude for June delivery settled down 2.4% at $69.06 a barrel on the New York Mercantile Exchange , breaking a four-session winning streak. Brent, the global benchmark, fell 1.7% to $74.85.

Prices swung wildly ahead of Mr. Trump's speech, in which he said the U.S. will withdraw from the 2015 Iran nuclear deal and reimpose "the highest level of economic sanctions" against Iran.

U.S. oil futures fell as much as 4.4% Tuesday morning on speculation Mr. Trump could decide to leave the deal intact, and briefly returned to above $70 during the announcement.

"He was very hawkish on Iran in this newscast," said Rebecca Braeu, senior economist and strategist at BNY Mellon Asset Management North America. "He clearly means business."

Crude prices climbed to the highest level since November 2014 on Monday, lifted by concerns that fresh sanctions will hurt Iranian exports and reduce global supply. Mr. Trump also threatened to sanction other nations that help Iran pursue nuclear weapons.

"That might create some incentive for countries not to deal with Iran and buy their barrels of oil," Ms. Braeu said.

As investors have piled into **bullish** bets on oil, analysts warned of a selloff on Mr. Trump's official decision.

"The market had built in a nice premium on expectations of this announcement," said Gene McGillian, research manager at Tradition Energy. "Now that they've actually gotten it, you're seeing a bit of money being scraped off the table."

Mr. McGillian added that the exact impact on the oil market will be hard to determine without more details on the sanctions and how crude importers such as China and India will respond.

"There's uncertainty as to how the global community is going to react to it," he said.

Since international economic sanctions on Iran were eased more than two years ago, Iran has been able to increase crude production and exports by around 1 million barrels a day, according to analysts. Estimates on the impact of new sanctions also range as low as 300,000 barrels a day.

"The removal of Iranian barrels of crude from the market could cause a tightening of demand balance and send prices higher, especially in addition to the potential supply losses from geopolitical risks stemming from Venezuela, as well as Iraq," according to Ehsan Khoman, head of research for the Middle East at MUFG Bank Ltd .

Crude prices have climbed more than 14% this year as production cuts by the Organization of the Petroleum Exporting Countries and strong demand have depleted global stockpiles and geopolitical tensions have raised questions over source of supply.

"Overall, oil supplies continue to get tighter," said Andy Lipow, president of Lipow Oil Associates. "We are seeing world-wide inventories declining as those cuts are maintained at the same time that world oil demand is growing."

Traders are also awaiting inventory data from the U.S. Energy Information Administration due Wednesday. Analysts surveyed by The Wall Street Journal expect that crude stockpiles remained on average unchanged in the week ended May 4.

Gasoline futures settled down 1.1% at $2.1114 a gallon and diesel futures declined 1.3% to $2.1577 a gallon.

Alison Sider and Christopher Alessi contributed to this article.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Why It's Not Crazy to Buy a Mall Giant in the Age of Amazon; Buying Westfield will improve the portfolio of mall giant Unibail-Rodamco at a time when retailers only want the best shops

By Stephen Wilmot
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The company betting billions to create a trans-Atlantic shopping-mall giant is playing a riskier game than its investors are used to. In a riskier retail world, though, that may be no bad thing.

The mall deal hasn't gotten much attention, but its dramatic size and breadth, and its timing, during a period of pessimism about traditional retailing, make it worth watching. Franco-Dutch mall giant Unibail-Rodamco, which owns $52 billion of retail real estate in Europe, is set to buy Australian developer Westfield, owner of a $22 billion mall portfolio in the U.S. and U.K.

The new company will own the top shopping centers in New York, Los Angeles, San Francisco, Paris, Barcelona and London. It will be close to U.S. behemoth Simon Property in scale and unique in its trans-Atlantic scope. Announced in December, the deal should close next month after approval by both sets of shareholders.

Investors don't seem excited: Unibail's stock is down 9% since the deal was announced, while the wider European real-estate sector is up 3%.

Peter Papadakos at REIT research firm Green Street Advisors thinks investors are worried about the company's exposure to the more difficult U.S. and U.K. markets. The U.S. has roughly three times more retailing space per capita than Europe, while e-commerce is very advanced in the U.K.

Another potential problem is that Unibail is taking on debt just as interest rates are starting to creep up, a trap many real-estate firms fell into before the financial crisis. Unibail says net debt will amount to 37% of its portfolio value when the deal closes, up from 33%, but this figure excludes hybrid and off balance-sheet financing while including Westfield's goodwill; Green Street thinks 43% is more realistic.

On a long-term view, though, the combination of Westfield's glitzy assets and development skills with Unibail's record of driving up rents is compelling. Crucially, Westfield's malls are better quality than Unibail's at a time when retailers only want to be in the most popular shopping destinations. The company's longstanding strategy of keeping its centers fresh by aggressively rotating tenants also seems well adapted to today's **volatile** retail environment in the U.S., which will soon account for 22% of Unibail's portfolio.

It may take time for Unibail to prove its operating model can work in the U.S. But the cheapness of its shares offers some compensation for this risk. With a dividend yield of 5.5%, the stock is trading 7% below book value; for most of the past decade this bluest of blue-chip REITs has traded at a premium to the value of its assets.

Odd as it may sound, Unibail is buying Westfield as a bulwark against Amazon. Investors who can afford to take a long-term view might do well to go shopping for the stock.

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THE WALL STREET JOURNAL.

World

Companies Forced to Reassess Iran Operations as Sanctions Loom; Oil firms, plane makers, banks have months to wind down their ties before risking penalties following Trump's decision to pull out of nuclear accord

By Ian Talley in Washington, Benoit Faucon in Tehran and Sarah Kent in London
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President Donald Trump on Tuesday said the U.S. would levy the "highest level" of sanctions against Iran—including the punishment of Western companies and banks if they continue to do business with the country—as Washington pulled out of the Iranian nuclear accord.

Senior administration officials said economy-crippling sanctions that persuaded Iran to sign the 2015 nuclear accord were immediately back in place with the president's decision to withdraw from the deal.

While new contracts are banned, companies and banks will have 90 days or 180 days to wind down their ties before risking penalties, the administration said.

"Any nation that helps Iran in its quest for nuclear weapons could also be strongly sanctioned by the United States," Mr. Trump said.

The sanctions cover every major aspect of Iran's economy, most importantly banning oil exports from the country, but also hitting the financial sector and the automotive and aviation industries. The administration signaled the U.S. would add new sanctions to curb Iran's development of ballistic missiles and support for U.S.-designated terror groups and militants in Yemen, Syria and Lebanon.

"This administration is resolved to addressing the totality of Iran's destabilizing activities," said Treasury Secretary Steven Mnuchin, who had joined Mr. Trump for the announcement at the White House Tuesday.

To enforce those sanctions, the administration is threatening to penalize banks and companies doing business with Iran, including in trans-Atlantic allies, if they don't wind down their ties by the deadline.

European companies—which ventured back into Iran much more quickly than their American peers after the nuclear deal took effect in 2015—are now reviewing once-heady investment plans there, and, in some cases, weighing contingencies should new U.S. sanctions force them to leave.

Financial or business activities outlawed by Aug. 6, Treasury said, include exports of airplanes and parts, dollar transactions, trade in gold and other metals, sovereign debt and auto-industry deals. By Nov. 4, sanctions ban oil purchases, dealings with Iran's ports and shipping industry, any ties to its insurance sector and dealings with the central bank.

Secretary Mnuchin said the hiatus before enforcing compliance is to buy time for allies to exit the Iran deals. It is also meant to get Iran and European allies to back a potential new accord on nuclear development and other activities deemed hostile by Washington.

"The wind down periods allow for more than enough time that if there's not a deal that the sanctions will take effect," the secretary said. Mr. Trump's objective in re-imposing sanctions on Iran and threatening to penalize allies "is to enter into a new agreement," he said.

Just as the Trump administration announced steel tariffs but later provided temporary exceptions for allies, the U.S. is leaving itself wiggle room should its actions prove to be too disruptive or too tough to enforce.

Mr. Mnuchin said that the U.S. could give exemptions to countries proving they were significantly reducing their purchases from Iran. Treasury didn't elaborate on what "significant" means.

The secretary also said the administration had negotiated with other major producers to ensure global oil markets are supplied and **oil prices** remain stable as the U.S. tries to force cuts in Iranian crude exports. Oil exporter Saudi Arabia said after the announcement it remains committed to supporting the stability of oil markets and would work with other countries to mitigate any potential supply shortages.

Still, Mr. Mnuchin said the U.S. is committed to penalizing any company that continues to do business with Iran past the set deadlines, even if it meant creating fresh frictions with allies.

Boeing Co. and the companies that supply parts for its planes such as General Electric Co., are directly affected by the administration's decision to cancel authorization of a planned multibillion-dollar sale of airplanes to Iran. Boeing had agreed to supply 110 jets to two Iranian airlines with a list price of close to $20 billion before customary discounts.

Boeing hasn't delivered any of the jets or booked them in its order book. Chief Executive Dennis Muilenburg said last month that any deliveries had been deferred beyond 2018.

"Following today's announcement, we will consult with the U.S. government on next steps," Boeing said in a statement.

"We are reviewing the President's decision and will adapt our activities as necessary to conform with these changes in U.S. law," GE said in a statement. "GE's activities in Iran to date have been limited and in compliance with U.S. government rules, licenses and policies."

Europe's Airbus SE, which had a multibillion-dollar sale planned, will also be affected. "We're carefully analyzing the President's announcement," Airbus said in a statement.

Among the European oil giants that had vied for more business with Iran are Total SA and Royal Dutch Shell PLC.

Shell in 2016 signed a contract to sell licenses to use its proprietary petrochemical technologies to Iranian partners.

Before Mr. Trump's announcement, Total had said it was hoping it could hold on to its $1 billion deal to develop an offshore natural-gas field despite new U.S. sanctions by ringfencing those operations. For instance, Total made sure it doesn't use U.S. software and other technologies and that no American citizens are involved in the project, according to people familiar with the matter.

Total Chief Executive Patrick Pouyanné has informally asked French officials to intervene with the Trump administration to secure a waiver for the project, called South Pars, if sanctions return, according to one of the people.

People familiar with the situation say Total is discussing possible scenarios with its joint-venture partners, the National Iranian Oil Co. and China National Petroleum Corp. Total is considering plans to transfer its 50.1% stake in the venture to CNPC if new U.S. measures make it impossible to stay, these people said. Treasury said the sanctions cover Iran's state oil company.

Both Total and Shell declined to comment after the U.S. announcement.

The threat of sanctions—and how strictly the U.S. plans to apply them—is part of the brinkmanship of negotiations. That strategy is likely to exacerbate building tensions and could not only erode diplomatic relations but also undermine its broader sanctions program, expert say.

"It would seem very paradoxical if what we end up with is a sanctions battle between the U.S. and the EU when the problem is Iran's possible nuclear development and other activities in the region," said a senior European diplomat.

Robert Wall and Doug Cameron contributed to this article.

Write to Ian Talley at ian.talley@wsj.com, Benoit Faucon at benoit.faucon@wsj.com and Sarah Kent at sarah.kent@wsj.com

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
Global Trade Is Already Weakening, War or Not; Clouds over global growth could encourage a calmer approach to trade talks

By Nathaniel Taplin
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Investors have become used to fluctuating narratives in 2018: The U.S. and China will or won't go to the barricades on trade, President Trump will or won't exempt allies from metal tariffs, Tesla will or won't run out of money.

When something really changes, it's worth paying attention.

Some important global trade indicators are suddenly pointing downward. Chinese data for April may have looked fine, with exports up 3.7% on the year in yuan terms after falling 9.8% in March. Still, that rebound was likely thanks to the late Lunar New Year holiday in 2018: In seasonally adjusted terms, export volumes fell 2% on the month, Capital Economics estimates—the worst decline in nine months. Exports from Korea, another Asian trade bellwether, declined in April—the first drop since October 2016.

The droopy numbers have come in just as key industrial commodities are already coming under pressure. Copper prices are off over 6% this year, weighing on the share prices of miners like Freeport-McMoRan and Glencore. Dr. Copper's weakness is a sobering sign for China and Asia in general: The region sucks up 70% of global demand for the metal.

Key manufacturing purchasing managers' indexes have also started stuttering: U.S., eurozone, Chinese, Japanese and South Korean PMIs all appear to have peaked between December and February, although all—apart from Korea—are still expanding.

Slower global trade—particularly when paired with higher **oil prices** and rebounding inflation—bodes ill for industrial firms such as Caterpillar, Deere and Japan's Komatsu. Caterpillar has already warned that its first quarter results were likely the "high watermark" for the year.

It might, though, help head off worse tensions between the U.S. and China. With the growth rate in Europe, China's largest export market, suddenly looking much weaker, the cost of a big rift with the U.S. is rising. Chinese companies are also starting to struggle at home: Industrial profits grew just 3% in March, their worst showing since December 2016.

China is unlikely to budge on its determination to create national champions in tech. But it might start offering more meaningful concessions on tariffs, restricted sectors for investment, and other trade irritants if foreign demand for its goods wavers.

Given the extreme negotiating positions both sides have staked out, U.S. trade tensions with China may get worse in the near-term. But the gathering clouds over the global growth story might eventually help encourage cooler heads to prevail.

Write to Nathaniel Taplin at nathaniel.taplin@wsj.com

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

Stocks Recover to Finish Flat; Early declines disappear as President Trump says U.S. will withdraw from the Iran nuclear deal.

By Allison Prang and Jon Sindreu
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U.S. stocks recovered from early declines to finish flat Tuesday as President Donald Trump said the U.S. will withdraw from the Iran nuclear deal.

The president had long criticized the agreement, calling it "the worst deal ever," and his decision was largely expected by investors. **Oil prices** had run higher in recent weeks, and buoyed energy stocks as well, on expectations that a withdrawal would hurt Iranian crude exports and further reduce global supply.

Stocks have struggled to find their footing in recent weeks. Earnings season largely topped expectations but failed to light a spark in the market. Geopolitical tensions, trade concerns and worries about slowing global growth continue to keep some investors on the sidelines, and the **S&P 500** remains down 7% from its January high.

The **Dow Jones Industrial Average** closed up 2.89 points, or less than 0.1%, to 24360.21. The **S&P 500**% fell 0.71 point, or less than 0.1%, to 2671.92, and the **Nasdaq Composite** rose 1.69 points, or less than 0.1%, to 7266.90.

At Tuesday's news conference, Mr. Trump called the Iran accord a "horrible, one-sided deal" and said the U.S. will institute "the highest level of economic sanctions" against Iran.

Shares of energy companies were the best performers in the **S&P 500**, turning higher after the Iran announcement and finishing up 0.8%, while utilities posted the steepest losses, dropping 2.5%. The index's financial, tech and industrial sectors all closed in positive territory.

Crude on the New York Mercantile Exchange fell 2.4% to $69.06 a barrel after earlier falling about 3% and crossing $70 a barrel Monday for the first time since 2014.

Brent futures, the global benchmark, fell 1.7% to 74.85 a barrel but has rallied over the past month, buoyed by expectations that the White House would back away from the nuclear accord.

Basil Williams, head of portfolio management for Paamco, said the market has moved past the announcement regarding Iran and that he "wouldn't spend too much time on" it.

"I think you have to look through some of the noise," Mr. Williams said, adding Mr. Trump's announcement doesn't necessarily mean investors need to alter their portfolios. "He creates a lot of noise."

Linda Duessel, **equity market** strategist for Federated Investors, said the announcement from Mr. Trump—whose approach, she said, the market is becoming accustomed to—was "not a surprise and thus not market-moving."

Ms. Duessel said she would focus on the fact that market multiples are "quite reasonable" and good earnings are likely to persist.

Oil prices have risen to $70 a barrel from being rangebound around $50 only a year ago, on the back of a stronger global economy, production cuts from the Organization of the Petroleum Exporting Countries and other major producers, and potential supply disruptions in the Middle East.

Matt Miskin, market strategist at John Hancock Investments, called the market "directionless" and said there is a "geopolitical fog as it relates to trade policy."

"It's hard to navigate this environment for investors," he said, given the potential for issues like tariffs and trade to come to the forefront.

The WSJ Dollar Index, which tracks the U.S. dollar against a basket of other major currencies, added 0.3%, and the **10**-**year Treasury** yield climbed to 2.968% from 2.950% on Monday. Yields move inversely to prices.

While some investors are concerned the Federal Reserve could overreact to stronger consumer-price figures, which are boosted by the rise in **oil prices**, and nudge up interest rates faster than previously expected, the latest comments by U.S. officials suggest they would allow inflation to overshoot their 2% target for a while.

"We see global fixed income as relatively well anchored here," said Andrew Balls, global fixed-income chief investment officer at Pacific Investment Management Co., who doesn't believe the Fed is likely to tighten much more aggressively from here. "If yields were to move significantly higher, we would see it as a good opportunity."

Ese Erheriene contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Activist Investors Flex Their Muscles in Asia; Shareholder activists launched 106 campaigns in the region last year—up from just 10 six years ago

By Steven Russolillo
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Activist investors are increasingly finding new targets in Asia, as a growing awareness of corporate governance in the region makes many large companies vulnerable to investors who agitate for change.

A new report from J.P. Morgan finds that shareholder activists launched 106 campaigns in Asia last year, with companies in Japan, Hong Kong and Singapore experiencing the most activity. By comparison, there were just 10 such campaigns that took place six years ago.

Activist investors buy up stakes in what are perceived to be undervalued companies—and sometimes get board seats—with the goal of pushing for changes to improve a company's value, such as buybacks or even breakups.

Shareholder activism in Asia should keep growing at a steady pace "as the practice becomes increasingly accepted and weaves itself into the fabric of Asian capital markets, transitioning from a temporary to a permanent investment strategy," David Hunker, head of shareholder activism defense at J.P. Morgan, said in the report.

Asia now makes up 31% of all activist investment campaigns outside the U.S., with the percentage nearly tripling from six years ago.

A rising share of foreign investors who own Asian equities, combined with new corporate-governance regulations, have turned the region into fertile ground for shareholder activism.

A 2017 study by research firm Activist Insight found that activist investors successfully pushed for change in 40% of the companies in Asia they targeted over the past four years—compared with a 56% success rate in the U.S. Success was defined as a company conceding fully or partially to an investor's demands.

There were 662 new activism campaigns launched around the world last year, with 52% of them involving companies outside the U.S., the firm added. It marks the first time such international campaigns exceeded those launched in the U.S. in a given year.

Japan experienced the most activity in Asia, accounting for 32% of that total. Corporate governance has been a key pillar of Prime Minister Shinzo Abe's economic-revival program, with a goal of improving transparency. The country in 2015 introduced a corporate-governance code, calling for companies listed on its main **stock market** to have at least two outside directors.

Two of the six campaigns launched in recent years by prominent activist investor Daniel Loeb, head of Third Point LLC, have been focused on Japanese companies.

Hong Kong accounted for one-fourth of the activist activity in Asia last year, with companies in finance and technology sectors typically being targeted, J.P. Morgan said. Campaigns in mainland China, frequently targeted by short sellers, made up 10% of the activity.

Despite the rise in activity, activist investors face challenges as they look towards Asia. A main hurdle is the need to break down resistance from large family-owned companies that abound in the region, as with activist hedge fund firm Elliott Management Corp.'s long-running battle to force change at the Hong Kong family-owned banking titan Bank of East Asia Ltd.

Elliott has been involved in various Asian campaigns for years. Last month it said it had accumulated more than $1 billion in shares in three listed affiliates of Hyundai Motor Group, showing renewed interest in South Korea's corporate-governance reforms. South Korea wants to boost transparency around its massive family-owned conglomerates, known as chaebols.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Shire Investors Can Profit From Takeda Skepticism; Outlook for $62 billion pharma deal is not as gloomy as investors fear

By Charley Grant
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Making a $62 billion acquisition work for your investors isn't easy, but the odds of success for Takeda Pharmaceuticals with Shire are higher than the market currently thinks.

The cash and stock deal will solve a major strategic problem for Takeda since drug sales in Japan are falling due to an aging population and fairly strict government regulations on drug prices. Shire books a majority of its sales in the U.S., where the long term industry outlook is brighter and pricing is more permissive.

But investors, who have sent U.S.-listed Takeda shares lower by nearly 25% this year and about 20% since word of a potential deal broke in March, are skeptical that the Japanese company can manage its swollen balance sheet. They also fear pending shareholder dilution from new stock issuance. Takeda will need to win them over since two thirds of its shareholders will need to approve a deal.

While warranted, their skepticism already is reflected in Takeda's **stock price**. Management can win investors back by hitting an ambitious deleveraging target announced on Tuesday. Chief Executive Christophe Weber says the goal is to reach a debt ratio of two times earnings before interest, taxes, depreciation and amortization within five years. That would mark a significant improvement. Takeda expects a ratio of nearly five times Ebitda if the Shire deal closes.

Hitting its target will require smart cost-cutting and consistent cash flow generation.

Takeda has promised at least $1.4 billion in annual cost synergies. Such claims are standard fare in large acquisitions, but Shire and Takeda have overlapping businesses like neuroscience and gastroenterology that should enable meaningful cost cuts without impairing future earnings potential.

Takeda says its return on invested capital will exceed its cost of capital from year one, which is a key measurement of a deal's attractiveness. Shire's rare disease businesses generate significant cash flow and are generally well-insulated from competition. The pipeline of potential new rare disease drugs shows promise as well, since regulators have made approving them a major priority.

Shire's stock is trading significantly below Takeda's offer price, which reflects doubts the deal will close. Those doubts, however, offer a chance for Shire owners to earn big profits fairly quickly.

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THE WALL STREET JOURNAL.

Markets

Copper Flounders on Iran Nuclear Deal Exit; Metal traders say a stronger U.S. dollar was also weighing down copper prices.

By Benjamin Parkin and David Hodari
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Copper prices fell as geopolitical uncertainty loomed over metals markets.

Traders spent much of Tuesday's session positioning ahead of President Donald Trump's eventual decision to take the U.S. out of the nuclear deal with Iran. Concerns that the move could have a knock-on effect for oil supplies and the global economy weighed down the copper market, participants said.

While higher crude **oil prices** might help commodities like copper in the short term, said Tai Wong, head of metals trading at BMO Capital Markets, any longer-term drag on the economy could hurt demand for base metals.

"This will take a little time to digest," Mr. Wong said. "The base metals market will probably take its lead from how crude goes."

Front-month copper contracts for May delivery fell 0.6% to $3.0405 per pound at the Comex division of the New York Mercantile Exchange ahead of President Trump's decision, and pared back some of those losses in after-hours trading following his announcement. U.S. prices were down over 7% for the year so far.

"The bears are in control," said Alex Turro, a market strategist at RJO Futures. "The path of least resistance is down."

Crude **oil prices**, meanwhile, rallied above $70 a barrel this week to the highest point since 2014 before easing on Tuesday. Many analysts said U.S. efforts to dismantle the deal with Iran could lead to tighter global supply.

Metals traders said a stronger U.S. dollar was also weighing down copper prices. The greenback rose on Tuesday, with the WSJ Dollar Index up 0.3% to 86.6. A recent rally in the dollar has hurt prices for commodities like copper, making them less attractive to global buyers.

Elsewhere on Tuesday, traders were parsing signs of Chinese demand —a major market mover. Commodity import data out of the world's largest copper consumer was a mixed bag, analysts said. Volumes rose over 15% in the first four months of 2018 from a year earlier, according to research consultancy Capital Economics, and were slightly higher from March to April.

While some said those figures were better-than-expected, others said it pointed to a lukewarm outlook for the Chinese economy in the months to come.

"There are signs that growth in China's commodity imports is softening, which is consistent with our view that economic activity will slow over the course of this year," Capital Economics said in a note.

May-dated gold contracts ended Tuesday's session little changed at $1,312 a troy ounce, before turning higher after hours in the wake of the White House's decision. The stronger dollar pressured the gold market, though RJO's Mr. Turro said that a heightened sense of risk if the U.S. does leave the Iran agreement could help prices go higher.

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WSJ PRO CENTRAL BANKING

Economy

Quick Hits: Turkish Lira Slumps to New Low Against Dollar; In Sweden, minutes of the Riksbank's last policy meeting reflected caution among officials toward raising rates

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A move by Turkey's central bank to tighten lira liquidity hasn't stopped the currency's fall against the dollar, Swedish central bankers stressed the need for caution in setting monetary policy, and Bank of Canada researchers weighed in on the political impact of U.S. immigration. Here are quick hits on central banking and related market views from around the world.

Turkish Lira Slumps to New Low Versus Dollar

The Turkish lira slumped to a record low against the dollar Tuesday. This means the central bank's tweak of the reserve option mechanism, or ROM, on Monday—lowering the upper limit for the forex maintenance facility to 45% from 55%, in a bid to tighten lira liquidity—has done little to help the currency. "It seems that the change in the ROM hasn't really done much to support the lira," says William Jackson, senior emerging-market economist at Capital Economics. The monetary policy committee "will try to avoid an emergency rate hike unless absolutely necessary…My base case is that policy makers will try to shore up the currency over the next month through unorthodox measures and verbal intervention."

Yeliz Candemir

Riksbank Members Stress Vigilance and Caution in Monetary Policy

Several rate setters at Sweden's central bank urged vigilance and caution in monetary policy, according to the minutes of the Riksbank's April meeting. "My impression is that inflation is still not moving lastingly and more or less symmetrically around the target," said RiksbankGov. Stefan Ingves. "We are still not completely on a firm footing." Deputy Gov. Cecilia Skingsley said that "the circumstance that inflation outcomes have again been on the low side in relation to the forecast strengthens my view that we do not need to be altogether too hasty to initiate rate rises."

Nina Adam

Swedish Krona Fall Looks ‘Overdone,' SocGen Says

While the Riksbank is in no rush to raise interest rates despite Swedish inflation rising in March, neither is the European Central Bank, says Société Générale. This implies that EUR/SEK shouldn't rise too much further as the Swedish krona fell in the wake of the Riksbank late last month pushing the first rate increase back toward the end of this year. With gross domestic product growth "likely to come in around 2.5% this year and the current account surplus still reflective of the tight fiscal/easy monetary policy balance, the SEK fall looks overdone," says Société Générale.

Olga Cotaga

Bank of Canada Researchers Weigh In on U.S. Immigration

Researchers at the Bank of Canada weighed in on the political impact of high- and low-skilled immigrants in the U.S. in a paper published online Tuesday. They found that an increase in the number of low-skilled immigrants in a given U.S. county corresponds with a significant boost in votes for the Republican Party. On the other hand, more highly skilled immigrants correspond with fewer Republican votes. The impact is stronger in low-skilled and nonurban counties, the researchers said, consistent with political preferences shifting to the Republicans in areas where low-skilled migrants are seen as competition in the labor market. The researchers didn't comment on any implications of their work for Canada.

Kim Mackrael

Newsflow Gauge Shows Signs of Economy Topping Out

Global growth may have already peaked according to a key component of an index tracking news coverage. The economic portion of the Absolute Strategy Research/WSJ newsflow indicator fell for the third straight month in April, while the monetary policy component rose and remains "consistent with further global tightening," ASR says. "Economic newsflow is starting to suggest that global growth is past its best," adds the data analysis firm about a period that roughly coincides with a more hawkish Federal Reserve and signs the economy may be cooling. While the economic component fell sharply last month, the overall newsflow indicator did rise to 62.5 from 61.8 and that level still "remains associated with stock returns beating bond returns on a year-on-year basis," according to ASR.

Patrick Sheridan

Relief for Indian Bonds May Be Temporary

The relief for bond investors following the Indian central bank's surprise buyback announcement late Friday may be short-lived, says DBS, as risks like rising **oil prices** and U.S. yields haven't diminished. It thinks more bond buybacks will be needed to lower supplies and "for us to alter our view on further" gains in local yields. The 10-year is at 7.57%, versus 7.7% before Friday's announcement.

Anant Vijay Kala

(The items in this column come from Market Talk, a feature of Dow Jones Newswires that provides real-time analysis of news developments and market activity.)

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The New York Times

Technology
Bitcoin Sees Wall Street Warm to Trading Virtual Currency

By Nathaniel Popper
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SAN FRANCISCO — Some of the biggest names on Wall Street are warming up to Bitcoin, a virtual currency that for nearly a decade has been consigned to the unregulated fringes of the financial world.

The parent company of the New York Stock Exchange has been working on an online trading platform that would allow large investors to buy and hold Bitcoin, according to emails and documents viewed by The New York Times and four people briefed on the effort who asked to remain anonymous because the plans were still confidential.

The news of the virtual exchange, which has not been reported before, came after Goldman Sachswent public with its intention to open a Bitcoin trading unit — most likely the first of its kind at a Wall Street bank.

The moves by Goldman and Intercontinental Exchange, or ICE, the parent company of the New York Stock Exchange, mark a dramatic shift toward the mainstream for a digital token that has been known primarily for its underworld associations and status as a high-risk, speculative investment.

The new interest among Wall Street power brokers also represents a surprising new chapter in the renegade history of Bitcoin.

The virtual currency was created after the 2008 global financial crisis by a still-anonymous programmer who used the name Satoshi Nakamoto. The idea was to replace the existing banking structure with an online alternative that couldn't be controlled by a handful of powerful organizations.

But instead of being replaced, the old banks are beginning to assert their own role in the unorthodox financial world of virtual currency, sometimes called cryptocurrencies.

While Bitcoin was originally intended to be used by consumers for all sorts of transactions — without any financial institutions getting involved — it has mostly become a virtual investment, stored in digital wallets and traded on mostly unregulated exchanges around the world. People buy Bitcoin in the hope that its value will go up, similar to the way they purchase gold or silver.

Details of the platform that Intercontinental Exchange is working on have not been finalized and the project could still fall apart, given the hesitancy among big Wall Street institutions to be closely associated with the Wild West of virtual currencies. A spokesman said that the company had no comment.

Many corporations and governments have expressed interest in the technology that Bitcoin introduced, particularly a form of database known as the blockchain.

Some large financial exchanges, including the Chicago Mercantile Exchange, have already created financial products linked to the price of Bitcoin, known as futures. But the new operation at ICE would provide more direct access to Bitcoin by putting the actual tokens in the customer's account at the end of the trade.

ICE has had conversations with other financial institutions about setting up a new operation through which banks can buy a contract, known as a swap, that will end with the customer owning Bitcoin the next day — with the backing and security of the exchange, according to the people familiar with the project.

The swap contract is more complicated than an immediate trade of dollars for Bitcoin, even if the end result is still ownership of a certain amount of Bitcoin. But a swap contract allows the trading to come under the regulation of the Commodity Futures Trading Commission and to operate clearly under existing laws — something today's Bitcoin exchanges have struggled to do.

The chief executive of **Nasdaq**, Adena Friedman, recently said her company could also create a virtual-currency exchange if regulatory issues are ironed out. While several hedge funds have been buying and selling Bitcoin, most large institutional investors, such as mutual funds and pensions, have avoided it largely as a result of similar regulatory concerns.

Bitcoin still faces plenty of skepticism in the mainstream financial world. Over the weekend, Warren E. Buffett of Berkshire Hathaway, who has long been critical of virtual currencies, said Bitcoin was "probably rat poison squared" in an interview with CNBC. The Microsoft co-founder Bill Gates added his own skepticism, saying he'd "short" Bitcoin if he could.

And the new efforts to trade Bitcoin don't help answer basic questions about what makes the virtual currency useful in the real world. Most attempts to use Bitcoin for everyday commerce haven't gained traction, and investors have treated it as a speculative commodity like gold or silver.

Some Bitcoin enthusiasts have said that its increasing integration into the existing financial system has pulled it away from its founding ideals. Paul Chou, a former trader at Goldman Sachs who set up LedgerX, a regulated Bitcoin exchange that would compete with Intercontinental Exchange, said his company has made a point of focusing on large Bitcoin holders, rather than financial institutions.

"The reason we got into crypto was not to partner with a bank, but to replace them," Mr. Chou said, using the shorthand for cryptocurrencies. "We deal with crypto holders directly in a way that really takes advantage of Bitcoin's strengths, while avoiding brokers, banks and other institutions that take multiple cuts of the transaction."

Goldman will initially only be trading futures contracts linked to Bitcoin's price. But Goldman executives said they were looking at moving in the direction of buying and selling actual Bitcoins.

Intercontinental Exchange's effort, if it pans out, could make Bitcoin available to a much wider and more influential customer base, including other financial firms.

Several big corporate names, including the giant technology investor SoftBank, which has stakes in Sprint and Uber, have been in discussions about being involved with the exchange in some way, the people familiar with the project said. But a spokesman for SoftBank said this week that it was no longer involved.

LedgerX, the exchange founded by Mr. Chou, is the only exchange that now offers the kind of swaps that ICE has discussed. LedgerX has experienced increasing trading volume in recent months, but ICE would start with an edge because essentially every large financial institution is already hooked into it.

The interest in Bitcoin trading illustrates how the reputation of the virtual currency has, after a rocky start, improved.

Regulators are currently looking at whether many virtual currencies, including the second most widely used digital token, Ether, have been issued and traded in violation of securities regulations. Institutional investors believe that because of the way Bitcoin was created and structured — without any one company or organization behind it — it would be on safer ground with regulators.

ICE was considering launching a swap contract linked to Ether, but backed away from that because of regulatory uncertainty, the people briefed on the effort said.

Mr. Chou, at LedgerX, said he made a similar decision and has delayed creating any products linked to Ether.

With Bitcoin, on the other hand, Mr. Chou said that road seems to be clear for big institutions to get involved.

"The industry is seeing unprecedented institutional interest for the first time in Bitcoin's history," he said. "I've been amazed that the strongest believers in cryptocurrency often start out the most skeptical. It's a healthy skepticism. But at some point the perception shifts, and for many institutions — I think we're finally there."

Follow Nathaniel Popper on Twitter: @nathanielpopper.

* Goldman Sachs to Open a Bitcoin Trading Operation

* Buying the N.Y.S.E., in One Shot

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* A Former Top Wall Street Regulator Turns to the Blockchain

* Coinbase: The Heart of the Bitcoin Frenzy

Traders at the New York Stock Exchange last week. The exchange’s parent company is said to be working on an online platform to trade Bitcoin. | Justin Lane/EPA, via Shutterstock

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Heard on the Street
Oil Bulls Can't Rely on Iran Curbs

By Spencer Jakab
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[Financial Analysis and Commentary]

The oil market has surged on the expectation that President Donald Trump will reimpose sanctions on Iran. No matter what Mr. Trump decides, oil bulls and other beneficiaries of higher prices shouldn't get too confident.

The nearly 14% rally in Brent futures in the past month to around $75 a barrel is due in no small part to the view that he won't prolong what he has dubbed "the worst deal ever." But even new sanctions on Iran won't necessarily remove a big chunk of oil supply.

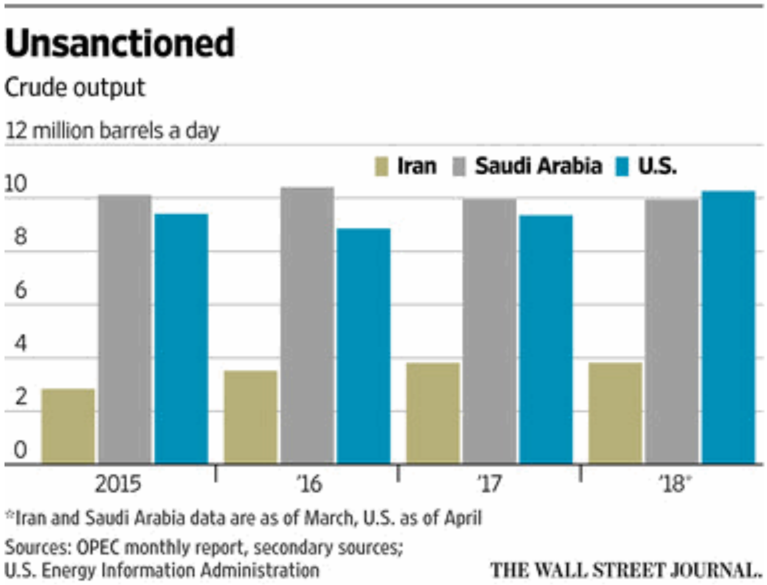
Instead there is a range of scenarios. Most are **bearish** for prices and for beneficiaries of the big rally, including Saudi Arabia. Under pressure from European allies, Mr. Trump could choose the middle ground by waiving sanctions but for a shorter time. That would prolong uncertainty but probably shock oil bulls betting on immediate disruption. He also could decide on a partial reimposition.

Even if Mr. Trump takes the harshest possible position, the rally still may be overdone. Since the U.S. doesn't import Iranian crude, and enablers of Iranian exports such as European maritime insurers may continue doing business with Iran, the supply impact may be far milder than expected. Some estimate the reduction could be as little as 250,000 barrels a day, compared with one million barrels before the 2015 deal. To put that into perspective, U.S. supply this year alone has increased by 865,000 barrels and continues to rise.

A reimposition of sanctions, no matter what it does to **oil prices**, could have surprising consequences for major oil exporters. Iran and Russia have adapted to leaner times since prices crashed in 2014. Iran's oil minister recently said his country prefers crude at $60 to $65 a barrel. The worry is that loftier prices might spark an eventual bust caused by a flood of supply from U.S. shale producers.

Saudi Arabia, though, needs prices to rise further to fund its economic reforms. The International Monetary Fund recently estimated that the Saudis now need a crude price of $88 to balance their budget despite raising some subsidized domestic prices. Hungry for revenue, the Saudis may be tempted to fill any shortfall in the market created by renewed sanctions on Iran.

Oil traders who have bought the Iran sanctions rumor should sell on the news no matter how **bullish** the headlines sound.



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Deng's Take: Chinese Banks Can Breathe a Sigh of Relief

CFTC Considers Buyouts, Extension of Hiring Freeze

Republican Regulator Who Blasted Dodd-Frank Rules to Step Down

New York Attorney General Schneiderman Resigns After Abuse Allegations

WSJ Pro: Fed Paper Ties Launch of Futures Contracts to Bitcoin's Fall

Chinese Banks Can Breathe a Sigh of Relief

When it comes to China's dual goals of reining in financial risk and maintaining financial stability, the latter usually prevails.

The final version of rules adopted last month was slightly watered down from a draft floated in November, after industry pushback. Beijing is also freeing up more than $200 billion for banks to lend and repay short-term loans.

Those moves, analysts say, show that Chinese policy makers are taking a measured approach to stepping up financial oversight, even as they adopt some of the strictest rules in years to rein in risky lending.

"The direction of strong oversight hasn't changed," said Lian Ping, chief economist at Bank of Communications Co. "But there's been a small adjustment to the intensity."

China's central bank and financial regulators last month formally adopted rules for its $15 trillion asset-management industry, imposing a deadline on commercial lenders and other financial institutions to set aside more capital for loans repackaged as investments.

The rules—which apply to any financial institutions issuing high-yield investment products, known as wealth-management products—are at the core of authorities' campaign to control debt in the financial system. Borrowing and lending have proliferated and become murkier, as banks collaborate with less-regulated nonbanks known as shadow lenders.

Chinese banks have until the end of 2020 to fully comply with the new asset-management rules, lengthening a previously expected timeline of 1½ years. Lenders will also be able to roll over investment products that are invested in hard-to-value assets with long maturities, like corporate loans.

Such measures give breathing space to the industry, especially midsize banks that have relied on issuing investment products to expand quickly in recent years. Under the new terms, "banks have been quite receptive," said Nicholas Zhu, an analyst at Moody's Investors Service.

Chinese authorities rarely admit being swayed by industry players, although in a recent interview with Chinese financial magazine Caixin, central bank governor Yi Gang said that "there has been ample consideration of how much the market can bear, in the speed of regulatory measures."

The central bank implemented a cut to the amount of reserves commercial banks are required to hold by 1 percentage point on April 25—two days before the final version of asset-management rules were released to the public.

The People's Bank of China has maintained that it will keep its monetary stance "neutral," although many analysts say that doesn't rule out further cuts to banks' reserve requirement ratio. UBS expects a further reduction of 200 basis points this year, which the group's China economist Wang Tao said "will provide an offset to regulatory tightening."

"It is critical for the [central bank] to proactively manage liquidity," she wrote in a note," adding that the aim would be "to prevent the market from freezing up or rates rising too sharply as [the asset-management] rules are implemented."

Key Developments in Washington, on Wall Street, and Beyond

CFTC Considers Buyouts, Extension of Hiring Freeze

After years without a boost in funding, the U.S. derivatives regulator is considering employee buyouts and the extension of a hiring freeze. It also is asking other government agencies for help with some work.

The Commodity Futures Trading Commission's flat budget comes as the markets under its jurisdiction are growing and changing. Officials say they are worried the commission can't keep up with developments such as cryptocurrencies and high-speed trading.

Congress this fiscal year cut the agency's budget by $1 million to $249 million after three consecutive years of flat funding. The agency's top officials are exploring how to adjust.

Republican Regulator Who Blasted Dodd-Frank Rules to Step Down

A Republican member of theSecurities and Exchange Commission who was a frequent critic of postcrisis regulations and helped quash some rules embraced by Democrats plans to leave the agency in July.

Michael Piwowar said he intends to step down from the SEC on July 7, after serving nearly five years on the five-person commission. Mr. Piwowar's departure would leave the agency with four commissioners, meaning some votes could be deadlocked if the SEC's two Democrats oppose measures favored by Chairman Jay Clayton, a Trump administration appointee.

That could slow Mr. Clayton's progress on his priorities, which include stricter rules for brokers advising retail investors and lightening the regulatory burdens on public companies.

New York Attorney General Schneiderman Resigns After Abuse Allegations

New York state Attorney General Eric Schneiderman abruptly resigned Monday night after the New Yorker published an article in which four women alleged he physically abused them.

Mr. Schneiderman denied the allegations and said they were unrelated to his work as attorney general. But he said in a statement that the accusations "will effectively prevent me from leading the office's work at this critical time."

As the top law-enforcement officer in the state of New York, Mr. Schneiderman, 63 years old, was one of the leading regulators of Wall Street and has been a prominent critic of the Trump administration.

WSJ Pro: Fed Paper Ties Launch of Futures Contracts to Bitcoin's Fall

The steep drop in bitcoin prices from their 2017 highs is likely tied to the launch of futures contracts that finally allowed investors to profit from falling prices in the cryptocurrency, according to a new Federal Reserve Bank of San Francisco paper.

The launch of Chicago Mercantile Exchange bitcoin futures contracts links up closely with the peak value for the currency, which surpassed $19,000 in mid-December, the paper says.

The futures contacts gave investors a vehicle to make money from declining bitcoin prices, which they hadn't been able to do up to that point. Bitcoin went on to lose more than half of its value before rebounding modestly. On Monday, CoinDesk data showed bitcoin trading at around $9,350.

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Samsung Securities Seeks Charges Against Some Employees Over 'Fat Finger' Mistake

Samsung Securities Co. said Monday it intends to file a criminal lawsuit against employees who sold shares the company mistakenly issued last month during a "fat finger" incident, citing "moral hazard" issues.

The complaint from the stock-trading arm of South Korea's largest conglomerate will be sent to prosecutors, who will review the case and determine whether to proceed with charges against employees for the April mishap.

The trading error occurred after an individual keyed in the wrong type of dividend payment, causing the brokerage to accidentally issue close to $105 billion worth of its shares—instead of billions of South Korean won—to more than 2,000 employees enrolled in a company stock-ownership plan.

WSJ Pro: Transcript: Panel Discussion With Fed's Quarles at Hoover Institution Conference

The Federal Reserve's vice president for supervision, Randal Quarles, and former Bank of England deputy governor Paul Tucker spoke on a panel Friday, May 4, 2018, at the Hoover Institution's "Currencies, Capital and Central Bank Balances" policy conference at Stanford University. The topic of the discussion was "Financial Stability, Regulations and the Balance Sheet." Stanford University economist John Taylor moderated the conversation. Here is a transcript, lightly edited for length and clarity.

WSJ Pro: Transcript: Panel Discussion With Fed's Bostic, George and Kaplan

Analysis: Warren Buffett's New Target: Rule That Cut $6.2 Billion From Berkshire Earnings

The same accounting rule change that boosted Alphabet earnings is now hurting Warren Buffett's.

Mr. Buffett's Berkshire Hathaway posted a $1.14 billion first-quarter loss Saturday, but said that was due to $6.2 billion in losses on equity investments that the company now has to count in net income because of an accounting change that took effect at the start of the year.

The investment losses stem from a new rule that accounting rule-makers issued in 2016 on how companies should recognize and measure the value of the financial instruments they own. One part of the rule requires companies to include in their net income some gains and losses on their equity investments that had previously been kept out of the net income calculation.

Sketchy Brokers, Bilked Investors

Investment deals called private placements have boomed amid a fervor for private capital markets. Businesses use private placements to raise money for a wide range of projects, from real estate to oil and gas development, so much so that more money is being raised privately now than in the public markets. Most private placements appear legitimate. For typically sophisticated investors such as pension funds they offer the potential for better returns than in the public markets.

In recent years, however, hundreds of billions of dollars in private placements have been sold each year by stockbrokers, often to individuals. And the brokers who sell them are far more likely than other brokers to have sketchy records, a Wall Street Journal analysis has found. One in eight brokers marketing private placements had three or more red flags on their records, such as an investor complaint, regulatory action, criminal charge or firing, the Journal found in a review of data including Securities and Exchange Commission records from September 2008, when they became electronically available, through 2017. That compares with one in 50 among all active brokers.

Brokers selling private placements also are six times as likely as the average broker to report at least one regulatory action against them, the Journal analysis found. (See the methodology.) The figures suggest a sharp expansion in brokered sales of private placements over the past decade has created heightened risks for individual investors.

Tuesday, May 8

9 a.m.

The Practising Law Institute hosts a webcast seminar on the Volcker rule, including how regulators provide and coordinate advice on the rule and how to best comply with the rule.

10 a.m.

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The Center for Strategic and International Studies hosts a discussion on the challenges and opportunities in financial inclusion.

10:35 a.m.

Commodity Futures Trading Commission member Brian Quintenz speaks at the Securities Industry and **Financial Markets** Association's operations conference.

Wednesday, May 9

NA

The Insured Retirement Institute holds a three-day conference on regulatory and legal issues important to the retirement income industry, including proposed changes to the standards of conduct for broker-dealers and investment advisers and the ongoing review of disclosures.

8:30 a.m.

The American Enterprise Institutehosts a panel discussion on consolidation in the U.S. banking system and the effect on community banks.

Thursday, May 10

NA

Securities and Exchange Commission holds its annual conference on **financial markets** regulation, an event that focuses on academic research that is relevant to regulation of securities markets. The conference kicks off around 1:40 p.m. with remarks by Commissioner Hester Peirce, followed by a research session and panel moderated by Commissioner Michael Piwowar.

4 p.m.

The Cato Institutehosts a screening and roundtable discussion on a new Federalist Society short documentary, "Medical Marijuana and Money Laundering," which explains how the federal prohibition on marijuana prevents banks from serving legitimate marijuana clients—resulting in billions of dollars of marijuana-related profits being handled almost exclusively in cash.

U.S. Banks Have Simplified Their Structures Postcrisis

The largest U.S. bank holding companies "have somewhat simplified their organizational structures," but "they remain very complex," according to research by Linda S. Goldberg and April Meehl of the Federal Reserve Bank of New York. Looking at measures of organizational complexity for the largest 50 bank holding companies in 2007 and in 2017, they found the median number of subsidiaries fell from 84 to 42.5 and "the geographic footprint of the median bank fell from four countries to two." Large bank holding companies "on balance have shifted their foreign subsidiaries slightly toward advanced economies over emerging markets," but the overall share of subsidiaries located in tax-haven and financial-secrecy locations hasn't declined, they write.

The Challenge of Proving ‘Spoofing'

The second prosecution for a new crime called "spoofing" resulted in an acquittal, highlighting the struggle prosecutors will face when trying to prove a trading strategy crosses the line into criminal conduct, Peter J. Henning writes in a New York Times opinion piece. Traders are prohibited from making a bid or offer with the intent to cancel the order before it is executed, but "most orders in the securities and commodities markets go unfilled, so canceling orders cannot be criminal just by itself," he writes. In the case that resulted in acquittal, the trader placed orders manually, not via an algorithm or automated trading, which "made it more difficult for prosecutors to show that his goal was to manipulate other traders, when there was at least a chance the order would be filled," he says. "For defendants facing charges of spoofing, that means the more they can show the human element in trading—and how their conduct differs little from that of other players in the markets—the greater the possibility that the jury will return a verdict in their favor," he writes.

One of Australia's biggest banks has scrapped sales-based bonuses for its financial planners and vowed to drop planners who provide inappropriate advice.

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Activist investor ValueAct Capital Partners has built a roughly $1.2 billion stake in Citigroup, a bet that the giant bank's strength as a service provider to corporations will enable it to thrive in the postcrisis era.

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The New York Times

Business/Financial Desk; SECTB
U.S. Oil Tops $70 a Barrel As Deadline Nears on Iran

By MATT PHILLIPS and STANLEY REED
1,063 words
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A cutback in world oil output, engineered by some of the biggest producers, has more than doubled prices from their ebb two years ago. Now, a looming decision by President Trump on the Iran nuclear agreement is pushing them even higher.

Benchmark prices for American crude oil closed above $70 a barrel on Monday for the first time since 2014 as traders factored in a prospective United States withdrawal from the accord, which eased international sanctions on Iran in exchange for restrictions on its nuclear program.

Investors fear that a withdrawal would lead to new sanctions on Iran, the world's fifth-largest producer of crude oil last year, further curtailing a global supply that is already relatively tight.

Mr. Trump has threatened to pull out unless Britain, France and Germany agree to make wholesale changes to the agreement. Late Monday, the president said he would announce his decision on Tuesday afternoon.

''The market is watching nervously,'' Ann-Louise Hittle, an oil analyst at the market research firm Wood Mackenzie, said of the deadline.

Analysts estimate that reimposing sanctions on Iran could reduce the country's daily oil sales by 300,000 to 600,000 barrels, or perhaps as much as one million barrels. But imposing new sanctions would most likely take time. And if prices stay high, Iran could increase its earnings from oil sales in the short run.

''Our base case is the rollout of sanctions will be quite slow and messy,'' said Ben Cahill, an analyst at the market research firm Energy Intelligence.

''In the very short term,'' he added, ''the price run-up could benefit'' Iran.

That threat of a reduction in supply coincides with production cuts by the Organization of the Petroleum Exporting Countries and Russia, one of the world's largest oil producers, that have helped drain a glut that was depressing prices. Their deal was reached in 2016 and began to take effect last year.

OPEC, led by Saudi Arabia, has a spotty track record of carrying out production cuts, but compliance has been strong this time. ''I think we are where we are because OPEC got their groove back,'' said Helima Croft, an analyst at RBC Capital Markets.

The flow of oil to the global market has been further constricted in recent years as a result of the political and economic crisis plaguing Venezuela, another major producer of crude.

The reduced global supply -- combined with the solid global economy -- has helped push **oil prices** higher since they fell below $30 a barrel in early 2016. The rising tide has lifted the price of the international benchmark, Brent crude, above $75.

''It is mostly a fundamentals-driven market, but the icing on the cake is the worry about Iran,'' said Michael Lynch, president of Strategic Energy and Economic Research, a consulting firm.

A boom in production in the United States has helped offset some of the tightening in supply in recent months. But higher prices elsewhere have prompted American producers to sell on the global market, driving oil exports to record highs and pulling domestic **oil prices** higher.

That has benefited energy companies, as well as and oil-producing states like Texas. Chevron and Royal Dutch Shell recently reported quarterly profits comparable to what they generated four years ago, when prices topped $100 a barrel.

But for large swaths of corporate America, the higher prices mean a hit to profits. Airline stocks fell by more than 1 percent Monday as investors took fuel-price pressures into account.

Likewise, consumer incomes will be pinched by elevated gasoline prices. The national average price for unleaded regular has risen above $2.80 in recent days, according to AAA, and is up roughly 20 percent over the last 12 months. That far outstrips the 2.6 percent year-over-year growth in average hourly earnings through April.

As a larger chunk of workers' paychecks goes to fuel, less disposable income is left to be spent elsewhere, a potential problem for an economy heavily reliant on consumer spending. Consumer spending slowed sharply in the first quarter, when it inched up at a 1.1 percent annual clip.

Much of that had to do with a slowdown in auto sales after a surge in car-buying late last year to replace vehicles damaged by Hurricane Harvey.

Higher fuel prices could also weigh on auto sales. Low gasoline prices have shifted car purchases heavily toward pickup trucks and sport-utility vehicles, which tend to be less fuel-efficient than passenger vehicles.

Automakers have adjusted their offerings to match the market, with Ford recently announcing it was phasing out the Focus, the Fusion and other sedans from its North American business. Ford's decision suggests that some carmakers think demand for S.U.V.s and pickups -- which are far more profitable -- is unlikely to be shifted by any short-term move in gas prices.

''I think you have to get $4 to $5 per gallon before you start having a psychological impact,'' said Joseph Amaturo, who covers the automotive industry for Buckingham Research.

Oil companies responded to the price crash that began in 2014 by cutting exploration and other spending and negotiating sharply lower rates from drillers and other contractors, who do much of the work in the oil industry.

As a result, oil and gas projects that are going forward tend to have sharply lower costs than those begun in the $100-a-barrel era. Jessica Uhl, Shell's chief financial officer, said recently that a United States oil field in the Gulf of Mexico that Shell was developing would break even at less than $35 a barrel thanks to a 70 percent reduction in its original projected capital costs. ''By applying industry-standard designs, we simplified the scope,'' she said.

Lower costs, combined with higher **oil prices**, are likely to raise profits as long as these conditions hold. Of course, cost inflation may return to the industry, and the cash rolling in may eventually loosen spending discipline, as it did a few years ago.

An offshore platform in Texas. Oil and gas projects started during the four-year price crash have sharply lower costs than those begun during the $100-a-barrel era. (PHOTOGRAPH BY EDDIE SEAL/BLOOMBERG) (B4)

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The New York Times

Business/Financial Desk; SECTB
Rebounding Oil Prices Put Investors in Buying Mood

By THE ASSOCIATED PRESS
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NYTF
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English
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Stocks closed modestly higher on Monday, extending the market's gains from last week.

Technology companies and banks accounted for much of the latest increase, outweighing losses among beverage makers and other consumer goods companies.

Energy stocks got a lift from American crude **oil prices**, which closed above $70 a barrel for the first time since November 2014.

''Geopolitical risk has cooled a little bit, and economic data, even if it isn't accelerating as fast as it was a month ago, is still accelerating,'' said Karyn Cavanaugh, senior markets strategist at Voya Investment Management. ''The last couple of days are showing that investors are getting their sea legs back.''

The **Standard & Poor's 500**-**stockindex** rose 9.21 points, or 0.4 percent, to 2,672.63. The **Dow Jonesindustrial average** gained 94.81 points, or 0.4 percent, to 24,357.32. The **Nasdaq composite** index added 55.60 points, or 0.8 percent, to 7,265.21. The Russell 2000 index of smaller-company stocks picked up 13.34 points, or 0.9 percent, to close at 1,578.95.

Trading got off to a solid start early Monday, as investors weighed the big move in energy futures.

Crude **oil prices** have been rising as investors weigh increased geopolitical risks in the Middle East, a push by the Organization of the Petroleum Exporting Countries to slash oil production, and strong worldwide demand amid a global economic expansion.

On Monday, oil futures climbed to their highest levels since November 2014 as a May 12 deadline approached for the United States to decide whether to remain in a nuclear agreement with Iran.

Benchmark United States crude rose $1.01, or 1.4 percent, to settle at $70.73 a barrel in New York. Brent crude, the international standard, gained $1.30, or 1.7 percent, to close at $76.17 a barrel in London.

The pickup in **oil prices** helped lift energy company shares. Range Resources rose 3.7 percent to $14.12.

''Concern about Iran has oil up, taking energy stocks up and helping out the whole market,'' said Erik Davidson, chief investment officer at Wells Fargo Private Bank.

Technology companies accounted for a big slice of the **S**.**&P**. **500**'s gains. Nvidia led the sector, rising 4 percent to $248.68. Financial stocks also racked up solid gains. Morgan Stanley added 2 percent to $52.39.

After a couple of weeks of choppy trading, the market got a strong boost on Friday from government data showing that hiring continued at a solid clip in April.

Corporate earnings have also been a source of good news for investors.

Roughly 80 percent of the companies in the **S**.**&P**. **500** have reported results so far this earnings season, and some 62 percent of those have delivered both earnings and revenue that exceeded financial analysts' expectations, according to S&P Global Market Intelligence.

"The market doesn't seem quite as skeptical about the future prospects as maybe it was a couple of weeks ago," Mr. Davidson said.

Investors also had their eyes on the latest company deal news.

Starbucks slipped 0.4 percent to $57.45 after Nestlé paid $7.15 billion for the rights to sell the company's coffee products around the world. Nestlé gained 1.4 percent to $77.35.

Bond prices were little changed, and the yield on the **10**-**year Treasury** held at 2.95 percent.

The dollar fell to 109.04 yen from 109.11 yen on Friday. The euro weakened to $1.1924 from $1.1962.

Gold slipped 50 cents to $1,312.20 an ounce. Silver dropped 2 cents to $16.50 an ounce. Copper lost a penny to $3.08 a pound.

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

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

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The New York Times

Business/Financial Desk; SECTB
Should the Fed Create Its Own Bitcoin? Hear Him Out

By NEIL IRWIN
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Many enthusiasts of Bitcoin and other cryptocurrencies are motivated by deep skepticism of the central banks that control the world's money supply.

But what if central banks themselves entered the game? What would happen if the Federal Reserve, or the European Central Bank or the Bank of Japan used blockchain technology to create their own virtual currencies? Besides, that is, having some cryptocurrency fans' heads explode?

A former Fed governor -- who was also a finalist to lead the central bank -- thinks the idea deserves serious consideration.

''Most central banks have a view that these crypto-assets are clever, like guys in the garage did it and it's kind of cool, or risky,'' given the potential investor losses and widespread fraud, said Kevin Warsh, who was a governor at the Fed from 2006 to 2011 and was a top contender to become its chairman late last year when President Trump instead appointed Jerome Powell.

If he had returned to the Fed, Mr. Warsh said, he would have appointed a team ''to think about the Fed creating FedCoin, where we would bring legal activities into a digital coin.''

''Not that it would supplant and replace cash,'' he said, ''but it would be a pretty effective way when the next crisis happens for us to maybe conduct monetary policy.''

He added that blockchain technology, which allows reliable, decentralized record keeping of transactions, could be useful in the payment systems operated by the Fed, which enable the transfer of trillions of dollars between banks.

''It strikes me that a central bank digital currency might have a role to play there,'' Mr. Warsh, who is now a distinguished visiting fellow at the Hoover Institution at Stanford, told several reporters Thursday evening.

Some central banks are already doing work in this vein, including the Monetary Authority of Singapore and the Bank of England. And Mr. Powell acknowledged the potential applications in his confirmation hearing for the Fed chairmanship in November, saying, ''We actually look at blockchain as something that may have significant applications in the wholesale payments part of the economy.''

It would be quite a twist if a technology whose most ardent fans are motivated by distrust of central banks became a key tool for those banks.

But it would address some of the concerns connected to Bitcoin and its many privately created rivals. To the degree that the value of existing cryptocurrencies fluctuates wildly, they are ill-suited as a medium of exchange. Central banks have spent hundreds of years learning how to keep the value of money stable.

And to the degree Bitcoin and the like facilitate tax evasion, money laundering and fraud, they will be a target of global law enforcement. Central banks are used to building systems that allow enforcement of those laws.

It's clear that central banks weighing use of blockchain technology don't share the more anarchist impulses of some of the most die-hard cryptocurrency enthusiasts. But there may be more commonality than it might seem.

As Mr. Warsh argues, if people really do believe that digital currencies in some form are the future of money, it would behoove central banks to treat them as more than a novelty.

"Congress gave the Fed a monopoly over money," Mr. Warsh said. "And if the next generation of cryptocurrencies look more like money and less like gold -- and have less **volatility** associated with them so they would be not just a speculative asset but could be a reliable unit of account -- as a purely defensive matter I wouldn't want somebody to take that monopoly from me."

In other words, if cryptocurrency enthusiasts are correct that this technology could become a better way of carrying out even routine transactions, the Fed and its counterparts are the institutions that have the most to lose.

Kevin Warsh, a former Fed governor, in London in 2014. He says virtual currencies could help central banks control monetary policy. (POOL BY ALASTAIR GRANT)

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THE WALL STREET JOURNAL.

Markets

Activist Sets Sights on Citigroup; ValueAct puts focus on bank's ability to grow as a service provider for companies

By David Benoit, Cara Lombardo and Telis Demos
1,097 words
7 May 2018
09:00 PM
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WSJO
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Activist investor ValueAct Capital Partners LP has built a roughly $1.2 billion stake in Citigroup Inc., a bet that the giant bank's strength as a service provider to corporations will enable it to thrive in the post-crisis era and make up ground its shares have lost in recent years.

ValueAct, which has built the position over the past four to five months, continues to boost it "opportunistically," according to a letter to its own investors reviewed by The Wall Street Journal. The stake amounts to about 0.7% of Citigroup, which has a market value of $175 billion.

The San Francisco investment fund has been talking to management and supports Citigroup Chief Executive Michael Corbat, partially because he rose through what it views as the bank's crown jewel, the part of the bank that works closely with large corporate clients, according to people familiar with the investment.

Still, the quarterly letter to its investors details a view of an evolving industry that has often led ValueAct to request a board seat.

The letter doesn't call for any significant strategic changes, though it suggests the bank could boost its plan to return cash to shareholders via buybacks and dividends to about $50 billion from $40 billion. The firm had disclosed an $80 million stake in Citigroup as of the end of December, but it hadn't been clear it would bulk up the stake to one of its biggest investments.

A spokeswoman for New York-based Citigroup said: "We have been having constructive conversations with ValueAct and welcome them as investors."

Mr. Corbat, who became CEO in 2012, has been focused on increasing profitability and reshaping the bank. He worked to resolve Citigroup's difficulties with the Federal Reserve's stress tests, which the bank failed in 2012 and 2014.

He has also championed growth initiatives, such as Mexican retail banking and global equities trading, and held the bank's first investor day in nearly a decade last July to signal Citi's emergence from years of troubles after it was ravaged in the financial crisis.

With the new Citi share purchases, ValueAct now has more than a third of its money in the financial sector, which it sees as undergoing a transformational shakeout and as less risky than at "any time in our investing lifetimes" following post-crisis regulatory moves, according to the letter.

The bets, which include positions in Morgan Stanley and KKR & Co., come as federal banking regulations are set to ease under the Trump administration. That could give the nation's biggest banks more room to make shareholder-friendly moves. That, in turn, could remove a key reason the industry's leaders have mostly been left alone in the wave of corporate activism that has forced breakups, capital returns and other major shifts at companies across the U.S.

ValueAct's letter to its investors says Citi's advantage is the "old-fashioned treasury management for global businesses" that has made it an important "plumbing" cog in the global financial machinery, positioning it well in businesses such as foreign-exchange and debt underwriting for multinational clients.

ValueAct says that makes Citi indispensable to clients and creates stable profits—unlike investment-banking services such as merger advisory in which Citi has sometimes trailed rivals. Such businesses are comparatively inexpensive to run and ValueAct isn't pressing for retrenchment.

"We believe that in this era of banks, the winners and losers will be decided by strategic focus, customer centric innovation, and capital allocation, as opposed to product breadth, appetite for risk and investment in trading talent that defined competition in the pre-crisis era," ValueAct wrote to its investors.

Citi, the fourth-biggest U.S. bank by assets, has been lagging behind its peers in recent years with a subpar return on equity and stock performance. Citi shares have gained about 50%, including dividends, in the past five years, compared with an 87% gain in the KBW **Nasdaq** Bank Index, and more than 150% at JPMorgan Chase & Co. and Bank of America Corp.

The bank's return on equity was 9.7% in the first quarter, up from 7.4% a year earlier but behind the average for rivals of 13%.

ValueAct says much of the path to closing the gaps in return on equity and stock performance is already paved by the roughly $40 billion in capital returns the bank has planned for the next two years.

Citi should be able to generate at least $10 of earnings per share by 2020, double the 2017 figure, ValueAct says in its letter. The firm bought its position at around book value per share, which was $71.67 in the first quarter.

The stock closed Monday at $68.50, up slightly. Citi's shares rose 1.8% to $69.71 in late trading after the Journal reported ValueAct's investment.

Unlike activist investors such as Carl Icahn who publicly agitate for change, ValueAct considers itself a friendly counselor to management. It has shepherded technology companies including Microsoft Corp. and Adobe Systems Inc. through transformational times.

ValueAct believes the financial industry is at a crossroads similar to the shift the technology industry underwent as the focus moved from personal computers to cloud computing.

In 2013, Microsoft agreed to give ValueAct a board seat, which surprised many since the activist held only a 1% position. ValueAct Chief Investment Officer Mason Morfit joined Microsoft's board the next year. The software company's chief executive, Satya Nadella, has said he has come to rely on Mr. Morfit's opinion, often approaching him before pitching the board on strategic moves.

In 2016, ValueAct made a $1 billion bet on Morgan Stanley, supporting Chief Executive James Gorman's drive to bulk up the Wall Street firm's brokerage business and dial back its weaker units. The stock shot up and ValueAct sold some shares, but it remains a large investor.

ValueAct founder and CEO Jeffrey Ubben recently stepped back as chief investment picker to launch a new project focused on environmental and social investing, leaving Mr. Morfit in charge.

ValueAct invests in a small number of companies at once and, in some cases, pushes for representation on the board. ValueAct partner Kelly Barlow, a former Adobe director, last year joined the board of financial-services firm Alliance Data Systems Corp., which operates loyalty programs and private-label credit cards.

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THE WALL STREET JOURNAL.

Markets
Oil Prices Reach Highest Level Since 2014; U.S. President Trump says he will announce a decision on Iran sanctions Tuesday afternoon

By Alison Sider and Stephanie Yang
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U.S. **oil prices** rose above $70 for the first time since 2014, the latest sign that buoyant economic growth and investor concern about the risk of Middle East conflict are once again reshaping the global energy industry.

The $70-a-barrel milestone represents a victory for Saudi Arabia, which in late 2016 spearheaded a landmark production-cutting deal between the Organization of the Petroleum Exporting Countries and other major producers, including Russia. That helped dry up a massive glut of oil more quickly than many on Wall Street expected.

The rebound is also a relief to U.S. oil companies that endured an oil bust that sent U.S. crude prices as low as $26 in 2016. U.S. refiners have been among the best-performing stocks this year, as demand for the fuel they churn out continues to expand.

But supply, demand and inventories are far from the only factors at work. **Oil prices** have risen nearly 14% in the past month as President Donald Trump indicated the U.S. will likely withdraw from a 2015 agreement with Iran that eased international sanctions on Iran in exchange for curbs to its nuclear program. President Trump tweeted Monday that he will announce a decision on U.S. participation in the agreement Tuesday afternoon.

Mr. Trump's decision over whether to withdraw from the accord with Iran raises the prospect of renewed sanctions that could curtail that country's oil output.

"There was this view that we were post-geopolitics" as a result of an oversupplied market, said Helima Croft, head of commodity strategy at RBC Capital Markets. "Now we're really seeing the reckoning for that."

Rising crude prices will pressure margins at U.S. transportation companies like airlines, railroads, trucking companies and delivery services, which will be paying more for fuel after years of cost savings. Auto makers could have cause for concern, as the SUVs and trucks that have driven U.S. auto sales lately may become less appealing to consumers as prices at the pump edge toward $3 a gallon.

Light, sweet crude for June delivery rose 1.45% to $70.73 on the New York Mercantile Exchange. Brent, the global benchmark, gained 1.74% to $76.17. Both benchmarks are at their highest since November 2014. Prices pared gains after Mr. Trump's tweet in late trading, as traders and investors took profits ahead of the decision on Tuesday.

Crown Prince Mohammed bin Salman of Saudi Arabia is aiming to push global **oil prices** to at least $80, senior Saudi officials have said. Higher prices give the Saudis more breathing room to enact a wide-ranging economic overhaul, analysts said.

But some OPEC members have been more cautious, looking to their prospects for production further out in the future. Iranian oil minister Bijan Zanganeh told The Wall Street Journal in March that **oil prices** around $60 were ideal.

There are "countries who are concerned that too high an **oil price** will actually slow down demand," said Amy Myers Jaffe, a senior fellow at the Council on Foreign Relations. "If you take the 10-year view, having a period of very high **oil prices** is definitely going to accelerate the trend away from oil."

Factors outside of OPEC's control have helped lift **oil prices**. For example, Venezuela's output has been falling faster than most expected, as its political and economic crises worsen. '"Every day there's some new story that's not good for their production capacity," said Ms. Croft.

Some analysts have said that geopolitical risk has caused unwarranted panic and if fears turn out to be overblown, investors could rush for the exits.

"A de-escalation of the geopolitical tension is likely to trigger an outflow from investors," Citigroup analysts cautioned last week.

In the U.S., shale producers have already pounced on higher prices, hiring workers and buying equipment. Output has climbed above 10 million barrels a day—its highest ever.

"Higher **oil prices** are not necessarily bad for the U.S. economy. It's not the same black and white that it used to be," said Joe McMonigle, senior energy policy analyst at Hedgeye Risk Management.

And since a ban on most crude oil exports was lifted in 2015, shipments of U.S. crude have flowed to Europe, Asia, and South America and gained a foothold in markets once dominated by Middle Eastern suppliers.

While U.S. consumers have already started paying more at the pump, **oil prices** would have to climb to $80 to $100 a barrel before it would crimp demand, refiner Valero Energy Corp. told investors last month.

But the prospect of higher inflation could put pressure on the Federal Reserve to raise interest rates more aggressively. In March, the Fed's preferred measure of inflation rose 2% compared with one year ago, the largest monthly increase since February 2017.

"While we do not expect the rise in **oil prices** to have a big negative impact on the overall U.S. economy…we caution against being too complacent in assuming that growing U.S. energy production will insulate the economy," Pacific Investment Management Co. said in a Monday blog post.

Write to Alison Sider at alison.sider@wsj.com and Stephanie Yang at stephanie.yang@wsj.com

More

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Texas Economy Is Fastest Growing

By Sarah Chaney
260 words
8 May 2018
The Wall Street Journal
J
A2
English
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Texas wrapped up 2017 with the fastest-growing economy in the U.S., propelled by a resurgence in oil extraction that lifted business across the state.

The Lone Star economy grew at a 5.2% seasonally adjusted annual rate in the fourth quarter, with the mining industry the leading factor behind output gains, according to the Commerce Department.

The sector helped buoy the state's economic output over the year, after Texas had weathered several quarters of weak growth and even contractions.

The economic recovery in Texas sheds light on how strong oil production in the Permian Basin is closely linked with other sectors, namely manufacturing, and fuels overall growth in the state and across the nation.

"It's actually Texas that's driving much of the national numbers on manufacturing," said Rob Martin, U.S. economist at UBS. "In part, with the further rise in **oil prices**, we're seeing other energy fields coming online. The Permian Basin was first. We're seeing increased activity in Pennsylvania, North Dakota [and] New Mexico as those fields become more profitable."

Texas added the most manufacturing jobs of any state from December 2016-2017, with payrolls rising by more than 16,000 over the period, Labor Department figures show.

Though the state's size is part of the story, it isn't the whole story: Manufacturing-employment growth in Texas outpaced national growth beginning around mid-2017 on a percentage basis as well.

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The New York Times

Business Day; DealBook
Is Comcast Going to Crash Dinsey's Deal With Fox ?: DealBook Briefing

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Good Monday. Here's what we're watching:

• Is Comcast going to play spoiler?

• Why bitcoin tumbled from its highs at the end of last year.

• Apple is just $80 billion shy of $1 trillion.

• Elliott Management offers to buy Athenahealth .

• Catch up on the highlights from Berkshire Hathaway 's annual meeting.

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Is Comcast going to play spoiler?

Shares of 21st Century Foxjumped more than 4 percent Monday evening after Reuters reported that Comcast is preparing to upend Disney 's $52 billion deal to acquire most of Fox 's assets.

According to Reuters, Comcast is holding discussions with investment banks about financing an all-cash deal, but the cable giant is waiting on a judge to rule next month on the Department of Justice's suit to block AT&T 's acquisition of Time Warner before submitting an offer, Reuters reported.

Context

Rupert Murdoch spurned Comcast last year in favor of Disney . Comcast . made an offer for the Fox assets that was 16 percent higher on a per-share basis than the deal Fox struck with Disney . Mr. Murdoch's camp ultimately decided that a transaction with Comcast "carried a qualitatively higher level of regulatory risk, including the possibility of an outright prohibition, than such a transaction with Disney ," according to a filing with the Securities and Exchange Commission .

Since then, Comcast has moved to complicate Fox 's plan to sell the bulk of its businesses to Disney .

As part of that deal, Disney would buy Fox 's 39 percent stake in the British Broadcaster Sky . Late last month Comcast . Late last month formally unveiled a $30.7 billion takeover bid for Sky , which Fox had bid $16 billion for the 61 percent it does not already own. Comcast 's bid caused the British broadcaster to withdraw its recommendation for the Fox deal.

Robert Iger , Disney's chief executive, has described Sky as Fox's "crown jewel," and has left Fox with few good options: Revise the terms with Disney to exclude Sky or enter into a bidding war.

Now Fox may soon have another option.

Why bitcoin tumbled from its highs at the end of last year

On Dec. 17, 2017, the price of bitcoin hit a high of $19,511. That capped a remarkable 10-month run for the cryptocurrency, which traded below $1,150 on Feb. 22, 2017.

Since mid-December, the price of bitcoin has retreated. It bottomed out below $6,000 in early February and is currently down more 50 percent from its high.

What triggered the tumble? Researchers at the Federal Reserve Bank of San Francisco blame it on the CME Group 's decision to list bitcoin futures, which allowed investors to bet against the price of bitcoin rising. Bitcoin futures began trading on the CME on Dec. 17, 2017, the same day its price peaked.

The researchers write:

Countdown to $1 trillion is back on.

Shares of Apple have risen nearly 16 percent, including a 1.9 percent gain on Monday, the past six sessions. That rally has pushed the iPhone maker's market value back above $900 billion and just $80 billion shy of $1 trillion.

By Bloomberg's calculations , Apple 's shares need to climb another 8.6 percent to $203.48 to reach that milestone, a first for a company listed on an American exchange.

Apple 's shares had stumbled late last month as investors grew increasingly concerned that sales of iPhone's would disappoint. But revenue from the iPhone proved stronger than feared, and the company announced a $100 billion buyback plan.

News that Warren Buffett's Berkshire Hathawayhad increased its stake in the company by $12.5 billion in the first quarter added to the gains.

Apple 's recent run has pushed its market value well above that of its next two biggest rivals in the race to become the first $1 trillion company. According to Bloomberg , Amazon is $222 billion away from $1 trillion, while Google parent Alphabet is $264 billion shy.

Elliott Management offers to buy Athenahealth offers to buy

Elliott Management offered on Monday to buy Athenahealth for $160 a share, or $6.5 billion.

The offer was made in a letter Elliott sent to the board of the health care software company. The activist hedge fund led by Paul Singer also said it may be "able to substantially improve the proposed price with additional, private diligence."

Elliot disclosed a year ago a roughly 9 percent economic interest in the company through its ownership of shares and derivatives and said that there were "numerous operational and strategic opportunities to maximize shareholder value."

In Monday's letter, Elliott said: "Athenahealth 's potential will never be realized without the kind of operational change that the company seems unable to deliver."

Elliott said it approached Athenahealth about the company going private in November.

Shares of Athenahealth rose 18 percent to $149.24 on the news.

In other activist news

Shares of Citigroup rose 1.7 percent after the close on a WSJ report that ValueAct had built a $1.2 billion stake in the lender.

Citigroup has a market value of $175 billion, so ValueAct owns about 0.7 percent of Citigroup .

"The letter doesn't call for any significant strategic changes, though it does suggest the bank could increase its plan to return cash to shareholders to about $50 billion from $40 billion," The WSJ reports, citing ValueAct's letter to its investors.

Berkshire Hathaway is (slightly) less about Buffett

Saturday was the day for the "Woodstock of capitalism" — Berkshire Hathaway 's annual meeting, and a celebration of Warren Buffett — and Andrew joined shareholders, analysts and other journalists seeking to ask the Oracle of Omaha about virtually anything.

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Of course, one of the big topics was succession. Mr. Buffett (half-) jokingly said that he was “semiretired,” given that Ted Weschler and Todd Combs now manage about $25 billion, while Ajit Jain and Greg Abel do more day-to-day oversight of the business. But Mr. Buffett still runs about $300 billion worth of investments. Charlie Munger , his longtime business partner, added, “Not much has changed.”

Andrew has more from the meeting: Shareholders applauded a question — which they rarely do — that was critical of Berkshire’s ownership of Wells Fargo . And Mr. Buffett’s response to a gun question and a critique of Elon Musk caused lots of chatter.

Some other highlights from DealBook :

• Mr. Buffett is sticking with Wells Fargo despite its current troubles, and said that its current C.E.O., Tim Sloan, “is correcting mistakes made by other people.”

• He loves Apple — but wants the company, of which Berkshire owns about 5 percent, to keep buying back shares. He had less-kind words for cryptocurrencies, which he said will “come to bad endings.”

• He defended business with the gun industry, reiterating, “I do not believe on imposing my political opinions on the activities of our businesses.”

Behind Nestlé ’s $7.2 billion deal with Starbucks ’s $7.2 billion deal with

Why is the food giant paying billions in cash for the right to sell Starbucks products in non-Starbucks locations worldwide? Because coffee is Nestlé ’s fastest-growing product line — it’s also why it bought a majority stake in Blue Bottle last year — and buying the royalties to Starbucks products will supercharge its efforts.

There’s another possible reason, according to Corinne Gretler of Bloomberg :

How Michael Cohen made his millions

The federal raid and investigation into President Trump’s fixer has cast a spotlight on Mr. Cohen’s side businesses. Among the most notable aspects is Mr. Cohen’s expansive taxicab empire , encompassing several dozen medallions in New York and Chicago — and racking up tens of millions of dollars in debt.

Then there was this, from the NYT :

Another must-read: How the Trump Organizationspent over $400 million in cash — much of it apparently from its own coffers — on properties in the nine years before Mr. Trump became president.

In other Trump investigation news: Rudy Giuliani had another, um, freewheeling TV interview . Mr. Trump knew about the $130,000 payment to Stormy Daniels months before denying any knowledge of it. Tom Barrack was questioned by the special counsel’s team. Meet George Conway , Kellyanne Conway’s husband, Wachtell Lipton lawyer and frequent Twitter pundit.

The political flyaround

• The Affordable Care Act isn’t gone, despite the president’s assertions. In some ways, the Trump administration is enforcing it more aggressively than the Obama administration did. (NYT)

• State budgets are looking rosier thanks to the improving national economy, but any lift from the tax cuts may be temporary, analysts say. (WSJ)

• The pharmaceutical industry is preparing to fight a move to rein in prescription drug prices (NYT)

• A closer look at Patagonia’s legal battle with the Trump administration over Bears Ears National Monument. (NYT)

• Don Blankenship , the former Massey Energy C.E.O. now running for a U.S. Senate seat in West Virginia, has been surging in recent Republican polls. (Politico)

• The Trump administration reportedly hired Black Cube , the Israeli investigative firm used by Harvey Weinstein , to collect information on Obama administration officials who worked on the Iran deal.

• As negative press piles up, Scott Pruitt, the E.P.A. chief, has reportedly bunkered down . An E.P.A. official reportedly tried to shop around negative stories on Interior Secretary Ryan Zinke .

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What's next in the U.S.-China trade fight

The Trump administration delegation left Beijing last week without a deal, as expected. But while President Trump continued to call for changes in the trade relationship, China appeared to soften its own combative tone somewhat.

Two new hot spots: China's ordering 36 airlines to purge their websites of references to Hong Kong, Macau and Taiwan as separate countries, and the setting of global industrial and tech standards .

Elsewhere in China news: ZTE has asked for relief from a U.S. ban on American businesses selling to the Chinese telecom company. WaPo looked at the Chinese operations of Erik Prince , the Blackwater founder. Washington is worried about a wave of U.S. patent applications from Chinese citizens , many reportedly filled with false information.

The oil market flyaround

• Exxon Mobil 's stock may be down, but it is poised to benefit from a recovery in global **oil prices**. (Barron's)

• Oil futures hit multiyear highs today as prices cracked $70 a barrel . Saudi Arabia wants oil to reach at least $80 a barrel this year.

What about that other Facebook data?

Aleksandr Kogan wasn't the only academic to harvest data from Facebook users: Researchers have collected information from the site for more than a decade. But the proliferation of these data sets has made it easier to identify some of the millions of individuals whose information was collected.

More from Sheera Frenkel of the NYT :

Elsewhere in data privacy: What Europe's new law, the General Data Protection Regulation , means for you. For Margrethe Vestager , antitrust is about data , not market power.

Elsewhere in tech: The YouTube host whose questions Elon Musk preferred over research analysts' took a shot at Wall Street . Mr. Musk hung up on the chairman of the National Transportation Safety Board amid an investigation into a Tesla crash and also trolled Warren Buffett . The veteran venture capitalist John Doerr speaks on management and A.I.

The deals flyaround

• SoftBank's talks to invest in Swiss Re are reportedly close to collapsing. (FT)

• Glencore and Qatar aren't selling their stake in Rosneft to CEFC China Energy after all. (WSJ)

• Investors have quickly soured on Good Doctor , the health care arm of Ping An that went public last week. Shares in the cybersecurity firm Carbon Black rose 26 percent on Friday, their first day of trading.

• Dan Loeb 's Third Point wants United Technologies to consider breaking itself up . The expiration of Jana Partners 's standstill agreement with ConAgra may mean renewed pressure on the food maker.

• Brompton Bikes, the maker of popular fold-up bicycles, has snubbed traditional investor firms for crowdfunding platforms. (FT)

Revolving door

• Jean-Marc Janaillac announced plans to resign as Air France 's C.E.O., sending shares in the beleaguered airline tumbling. (Bloomberg)

The speed read

• Backstage Capital has announced a new $36 million fund that will invest exclusively in black female founders. (Recode)

• More than 1,500 items from the estate of Peggy and David Rockefeller are going up for auction, which Christie's estimates could fetch over $500 million. (Bloomberg)

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• Money hasn’t made Steve Schwarzman universally beloved. (NYT)

• How the mission to rebuild Puerto Rico’s power grid stumbled badly.(NYT)

• A legal secretary from Brooklyn left the Henry Street Settlement $6.24 million — the largest single gift from an individual to the social service group in its 125-year history. (NYT)

•The National Rifle Association asked members attending its annual convention in Dallas to “steer clear” of a local restaurant that said it would donate proceeds to help end gun violence. (NYT)

• Robocalls are getting worse. (NYT)

• Should you stop drinking Venezuelan rum? (NYT)

We’d love your feedback. Please email thoughts and suggestions to bizday@nytimes.com .

Brian Roberts, the chairman and chief executive of Comcast. | Elijah Nouvelage/Reuters | Jack Guez/Agence France-Presse — Getty Images | Paul Singer | Steve Marcus/Reuters | Warren Buffett still runs about $300 billion worth of Berkshire Hathaway investments. | Nati Harnik/Associated Press | Ali Asaei for The New York Times | Michael D. Cohen | Jeenah Moon for The New York Times | The United States delegation in Beijing for trade talks. | Nicolas Asfouri/Agence France-Presse — Getty Images | Aleksandr Kogan obtained the data of up to 87 million Facebook users through a quiz app and sold the information to Cambridge Analytica. | Agence France-Presse — Getty Images | Masayoshi Son of SoftBank. | Kazuhiro Nogi/Agence France-Presse — Getty Images | Jean-Marc Janaillac, center. | Benoit Tessier/Reuters

Document NYTFEED020180507ee570025t

The New York Times

Breakingviews
Business Day; DealBook
Musk vs. Buffett: An Invitation for Investors to Take Sides

By John Foley
572 words
7 May 2018
04:59 PM
NYTimes.com Feed
NYTFEED
English
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Elon Musk and Warren E. Buffett clashed over the weekend after Mr. Musk, Tesla's chief executive, derided as lame Mr. Buffett's concept of companies having "moats" to keep potential competitors at bay. When Mr. Buffett, the Berkshire Hathaway chairman, cited his confectionery maker, See's Candies, as proof to the contrary, Mr. Musk pledged to launch his own candy maker. It's an invitation for investors to take sides; many already have.

For the 40,000 shareholders who flooded Omaha for Berkshire Hathaway's annual meeting on Saturday, Tesla looks like the epitome of a terrible investment. Mr. Buffett prizes companies with healthy management incentives, simple operations and little competition. Mr. Musk's electric-car maker flunks on all three counts.

Take incentives. Mr. Musk is remunerated in part for pumping up Tesla's share price — his new 10-year bonus plan could net him $55.8 billion in stock if the company's market capitalization hits $650 billion and bull's-eyes certain revenue and profitability targets. Investors won't be complaining if he gets there, but it's an incentive to take huge risks. If the company misses those goals, or fails outright, Mr. Musk has other irons in the fire. He holds a significant stake in the rocket company SpaceX, recently valued in a private transaction at around $26 billion.

The gulf in temperament is also growing wider. Mr. Musk last week threw a tantrum over "boring, bonehead questions" from analysts. He then took to Twitter to justify his outburst, complaining that they represented a "short seller thesis," although he later said he was "foolish" not to answer them. Mr. Buffett, meanwhile, sat for hours on Saturday answering investor questions that ranged from punchy to banal.

The cultural divide is mirrored on the balance sheet: While Berkshire Hathaway holds $116 billion in cash, Tesla has just $2.7 billion in cash — roughly equivalent to one year's capital expenditure — yet is burning greenbacks and has $500 million in debt coming due in a few months.

The Oracle of Omaha and the Playboy of Palo Alto have taken opposing positions before, including when Mr. Buffett's Nevada energy company clashed with Mr. Musk's solar-panel group SolarCity in 2016. Yet they share some common ground, too. Both think deeply about their customers. Mr. Musk often responds personally to Twitter requests — such as for a service center in Iceland or a hardtop convertible. He'd probably agree with Mr. Buffett that thinking like a consumer is paramount.

For now, at least, shareholders have Mr. Musk trailing Mr. Buffett. Tesla's highly **volatile** shares are down 4 percent over the past year, whereas Berkshire Hathaway's are up 19 percent. And investors have piled into short-selling Tesla, with almost one-quarter of the stock out on loan, according to Thomson Reuters data.

Of course, Tesla doubters could end up burned if the shares rise in the short term, as Mr. Musk says they will. And Mr. Buffett himself doesn't bet against stocks falling. So buying Berkshire Hathaway and shorting Tesla makes ample sense for those who believe Mr. Buffett's teachings — but not those who actually copy him.

Warren E. Buffett, the chairman of Berkshire Hathaway, prizes companies with healthy management incentives, simple operations and little competition. | Nati Harnik/Associated Press

Document NYTFEED020180507ee57006k5

THE WALL STREET JOURNAL.

Markets

Do-Good Funds Finally Are Paying Off in Performance. Will It Last? Most ETFs that invest in companies considered socially responsible outperformed the broad market in the year through March

By Dan Weil
1,131 words
6 May 2018
10:17 PM
The Wall Street Journal Online
WSJO
English
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Corrections & Amplifications

The SPDR **S&P 500** exchange-traded fund has a 10-year annualized total return of 9.4%. A chart with an earlier version of this article misstated the return as 14.64%. Also, while the chart accurately showed that all eight ESG funds with a 10-year record are trailing that S&P benchmark, the funds' individual return figures were overstated in a similar fashion. (May 9, 2018)

ESG exchange-traded funds are having their day.

Over the past 10 years, ETFs with a focus on environmental, social and governance issues have fallen short of broad **stock-market** returns. But in the 12 months through March of this year, most ESG exchange-traded funds outperformed the broad market.

That is a promising omen for ESG funds, also known as sustainable, impact, or socially responsible funds. But it's too soon to tell if the positive performance is sustainable. "Long-term studies show these funds have a chance to outperform, but you can't draw any conclusions from one year," says Hortense Bioy, director of passive-fund research in Europe for investment researcher Morningstar.

A study from research firm ETF.com shows that 26 of the 47 socially responsible ETFs that have been around for more than a year, or 55%, outperformed the broad market as represented by SPDR **S&P 500** ETF Trust (SPY) for the 12 months through March 31.

That is quite a contrast to the 10 years ended that date. The eight funds that have existed for that period all trailed SPY's 10-year performance, with only two coming close.

ESG exchange-traded funds also have drawn a growing amount of money from investors in the past couple of years. Net inflows totaled $1.43 billion for the 12 months ended March 31 of this year, up from $1.01 billion the previous year, making it the biggest inflow for any year ending on March 31 since 2008, according to Morningstar.

'Money where their mouth is'

So what changed over the past year? "You can never reach into the mind of investors, but I'd like to say they are putting their money where their mouth is," says Dave Nadig, managing director of ETF.com, a unit of Cboe Global Markets Inc. "We have heard that institutional investors are interested in ESG for a long time. Now we're starting to hear from advisers that the same is true for individual investors," particularly millennials and wealthy women.

Structural changes in the funds also have helped draw investors and boost performance, analysts say.

In the past, managers of ESG funds largely built their portfolios by simply eliminating stocks with negative ESG ratings, but recently their focus has turned more to choosing the companies that have the best financial performance among those with positive ESG ratings, reflecting a change in emphasis among investors.

"There has been an evolution," Mrs. Bioy says. "Now investors prefer products with companies that are best in class in a certain category," such as limiting carbon emissions.

To be sure, investors shouldn't necessarily expect their 401(k) plans to be full of ESG options. The Labor Department, which oversees 401(k) plans, issued a notice in April saying companies "must not too readily treat ESG factors as economically relevant" to investing choices. "It does not ineluctably follow from the fact that an investment promotes ESG factors, or that it arguably promotes positive general market trends or industry growth, that the investment is a prudent choice for retirement or other investors," the department wrote in its guidance.

Top return

The top-returning ESG exchange-traded product over the past year was the exchange-traded note iPath Global Carbon ETN (GRN), with a return of 213%. That points to another factor boosting the category: improved statistics. "Ten years ago, finding out the carbon impact of a small-cap, emerging-markets company was impossible," Mr. Nadig says. Now, data sets are more available, he says, widening the pool of stocks available to portfolio managers. In addition, fund issuers can do more-detailed research on companies' financial performance, thanks to advances in analytics, so it's easier for them to find the most promising stocks in that wider pool.

Another **bullish** factor for ESG funds over the past year is that newer entrants into the category have adopted a tighter focus. The top returners after GRN during the past year were WisdomTree China ex-State-Owned Enterprises ETF (CXSE), with a return of 54%; Guggenheim Solar ETF (TAN), 45%; WisdomTree Emerging Markets ex-State-Owned Enterprises ETF (XSOE), 30%; and an older fund, PowerShares WilderHill Clean Energy Portfolio (PBW), 27%, though down more than 11% annualized for 10 years.

"The narrow focus makes it easier to find outliers," Mr. Nadig says. "China ex-State-Owned Enterprises is a smaller set of securities, and the opportunity for outperformance goes up."

Analysts warn, though, that those tight targets are a double-edged sword. "The narrower focus works in certain environments and hurts in others," says Todd Rosenbluth, director of ETF and mutual-fund research at research firm CFRA. Chinese stocks and technology stocks generated stellar returns last year, while fossil-fuel stocks sagged. But that almost certainly won't be the case every year. "The law of small numbers is that some will hit it out of the park, and some will strike out," Mr. Rosenbluth says.

Psychic benefit

Another thing to keep in mind in considering the performance of ESG exchange-traded funds is that it's difficult to tell how much the performance of the stocks they hold stems from ESG factors. Indeed, "what drives individual stocks often has nothing to do with ESG," Mr. Rosenbluth says. For example, the top holding of iShares MSCI USA ESG Select ETF (SUSA), which returned 14% in the past year, is Microsoft Corp. "I'm not sure exactly why Microsoft did well last year, but it has less to do with ESG than broader demand for its products," he says.

One approach for investors interested in ESG would be to treat funds that closely track broad market indexes as core holdings and funds that are narrower as satellite holdings, says Morningstar's Mrs. Bioy. For example, SPDR **S&P 500** Fossil Fuel Reserves Free ETF (SPYX) could substitute for the SPY **S&P 500** fund as a core position. And the tightly focused funds cited above could be satellite positions.

Given that ETFs represent passive investments, what investors should hope for is returns in line with broad market indexes plus a psychic benefit, Mr. Rosenbluth says.

Mr. Weil is a writer in West Palm Beach, Fla. He can be reached at reports@wsj.com.

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* Author David Bach on His Best and Worst Investments

* How to Navigate '529' Transfers

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* Investors Trip in the 'Return Gap'

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THE WALL STREET JOURNAL.
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Investing In Funds & ETFs: A Monthly Analysis --- Alternative Investments: Oil MLPs Are Beckoning Again, but Know the Risks --- Yields are enticing for master limited partnerships, as long as investors remember past stumbles

By Jeff Brown
969 words
7 May 2018
The Wall Street Journal
J
R6
English
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Corrections & Amplifications

Master limited partnerships are "pass-through entities" not taxed at the corporate level so long as at least 90% of their earnings come from certain energy-related activities. The portion of earnings passed on to investors by MLPs is set in the partnership agreement. An Investing in Funds report article Monday about MLPs incorrectly said that, similar to real-estate investment trusts, 90% of earnings must be passed on to shareholders.

(WSJ May 9, 2018)

(END)

Oil producers are pumping fiercely, and crude prices are up since last summer but still below previous peaks. Car buyers are grabbing gas-guzzling pickups and SUVs. World demand for oil is growing.

To some, in short, it looks like a good time to invest in master limited partnerships, especially those that own such facilities as pipelines, refineries and tank farms, and offer investors high yields -- in the range of 7% to 9%. These "midstream" MLPs earn fees from transporting products and thrive on high volumes more than energy prices.

Some experts warn, however, that the handsome yields of MLPs can be a siren song for investors who can't stomach energy-industry **volatility**.

Weak energy markets last year drove down MLP prices. Though **oil prices** and production have since increased, MLP prices often lag behind market conditions. That produces attractive opportunities today, says Sal Russo, head of research at EMM Wealth, a multifamily office in New York. He says the current market can be "a good entry point for investors looking to own midstream infrastructure assets with strong fundamentals."

Still, for those who can't wait out the downturns, or don't know when to get out, MLP investors may find plunging share prices wiping out their fat dividend earnings. That has happened all too often in recent years.

"Investors developed a false sense of security in these securities while **oil prices** were stable, but quickly found after 2014 that the elevated income yields came with elevated price risk," says Brian Sterz, portfolio manager at Miracle Mile Advisors in Los Angeles.

Investors with a taste for risk can enjoy today's high yields and hope to ride a rebound in share prices, says Richard Steinberg, managing director and partner at HSW Advisors, a private wealth-management firm in New York.

"I believe the strong current yields, coupled with opportunities for growth and depressed [share price] valuation [and] sentiment makes this a particularly interesting time to invest," says Mr. Steinberg.

Mr. Steinberg notes that earnings of MLPs specializing in oil transportation can stay strong even when fuel prices drop, since they do not own the fuel they move but earn fees based on volume.

Investing in MLPs has become easy with the rise of exchange-traded funds and notes. The largest, the $8.5 billion Alerian MLP ETF (AMLP), yields an enviable 8.32%. But the fund is off about 4.5% this year through May 4, and averaged losses of nearly 4% a year for the past five years, according to Morningstar.

The No. 2 fund, the $3 billion JPMorgan Alerian MLP Index ETN (AMJ), yields 7.21% but is down about 4% this year. It is down an annual average of 6% for the past five years.

The category took a hit in 2015 and 2016 when some MLPs cut distributions to investors as **oil prices** collapsed. And in March, the Federal Energy Regulatory Commission reduced a key tax benefit for these MLPs, though many experts now believe that hit won't be as bad as first thought.

MLPs are "pass-through entities" similar to real-estate investment trusts. They aren't taxed at the corporate level and must pass at least 90% of earnings on to shareholders. The tax cuts enacted last year allow investors to claim a 20% deduction on MLP earnings, boosting their after-tax returns.

The biggest category is "midstream" MLPs that own gathering, processing, compression, transportation and storage facilities. "Upstream" funds own exploration and production operations, and mineral and royalty rights. "Downstream" funds are involved in refining, marketing and wholesale distribution.

Professionals say MLPs should not be considered a substitute for traditional fixed-income holdings like Treasury bonds. Mr. Steinberg says investors should view MLPs as risky holdings, like stocks.

While MLPs have had a tough run in recent years, Mr. Steinberg figures today's conditions are promising for the midstream partnerships. Upstream partnerships are more susceptible to **oil prices** and could suffer if prices fall.

Mr. Russo agrees that midstream firms are the best bet in MLPs today. Investors, he says, should examine "distribution coverage ratio" -- cash available divided by cash paid to shareholders. The higher the ratio the better, as that means there's plenty of cash for payments to shareholders.

Investors should look for an MLP that regularly raises its dividend, Mr. Russo says. Also make sure profits are divided fairly between the general partners who run the fund and the limited partners who invest in it, he says. Limited partners typically get 95% to 100% of initial profits, Mr. Russo says, with general partners receiving larger shares, as much as 50%, later as predetermined thresholds are met.

Finally, he notes there are tax issues for MLP investors that can boost returns, depending on the individual's tax situation. Investors can receive tax deferrals from amortization and depreciation, for example.

While rising interest rates typically undermine values of fixed-income securities, MLPs offer some protection, according to Rob Thummel, managing director at Tortoise, a $16 billion asset-management firm specializing in energy.

"With a current yield of 7%, MLPs look compelling relative to other dividend-oriented equity securities such as REITs and utilities that have current yields around 4%," Mr. Thummel says.

He notes that during the past 15 periods when interest rates rose by half a percentage point or more, the average return of MLPs has been better than those of REITs, utilities and the **S&P 500**.

Mr. Brown is a writer in Livingston, Mont. He can be reached at reports@wsj.com.

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THE WALL STREET JOURNAL.

Markets

What to Know About '529' Transfers; Rules on beneficiary switches are tricky, but can also be to your advantage

By Chana R. Schoenberger
1,005 words
6 May 2018
10:15 PM
The Wall Street Journal Online
WSJO
English
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Corrections & Amplifications

There could be capital-gains taxes when money is moved from a child's Uniform Gifts to Minors Act (UGMA or UTMA) account into a "529" college-savings plan. An earlier version of this article incorrectly suggested that there would be no tax consequences. (May 8, 2018)

We again asked experts to consider questions from readers about college savings, in particular the tax-advantaged "529" savings accounts that invest in mutual funds and are used to pay for higher education.

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What are the transfer rules for 529s?

The beneficiary of a 529 can be switched to any direct relative of the original beneficiary without penalty.

"The designated beneficiary can be changed without transferring accounts, and you can make this change by submitting the request in writing, using a transfer/rollover request form typically from the receiving plan," says Rachel Ramos, product manager for the American Funds 529 plan, CollegeAmerica, at Capital Group.

Many 529 plans also allow the account owner to transfer ownership, for instance from the student's grandparent to the parent. The owner can also select a successor owner, to take over the account when the original owner has died. Check with a tax adviser first, so that transfers don't trigger unforeseen taxes, says South Carolina State Treasurer Curtis Loftis, the administrator of the state's Future Scholar 529 plan.

Switching beneficiaries is a way to avoid the IRS rule that allows account owners to switch their current fund choices only twice in each calendar year, since you can also do it whenever changing beneficiaries.

Funds can be moved between various kinds of educational savings plans, Ms. Ramos says. For instance, money can be transferred from a Coverdell savings account to a 529 for the same child, or from a qualified U.S. savings bond into a 529. (To do that, the bond must be a Series EE bond issued after 1989 or any Series I bond owned by an individual at least 24 years old before the bond's issue date, Ms. Ramos says.)

Money can also be moved from a child's Uniform Gifts to Minors Act (UGMA or UTMA) account into a 529 for the same child. Because the contribution to the original UGMA is considered an irrevocable gift, moving the money into a 529 for the same beneficiary isn't treated as a new gift, Ms. Ramos says, although this could trigger capital-gains taxes.

Although income taxes won't be owed if a 529 is transferred to certain members of the family of a beneficiary, be aware that there may be tax consequences if the new beneficiary belongs to a younger generation than the original beneficiary, Ms. Ramos says. In that case, the original beneficiary is considered to be making a gift to the new beneficiary.

This year, gifts of $15,000 or less can be excluded from generation-skipping tax, but if the gift exceeds that amount, it has to be factored into the donor's exemption of $5.6 million on federal estate or gift tax, she says.

***

How does a grandmother-owned 529 affect scholarships a student can receive? Should I hold back until the student's final year in school?

Unless the student wins a scholarship based on academic merit, sports or another similar talent, financial aid will depend on the family's expected financial contribution, which is a calculation of how much the family can afford to pay toward college expenses. Parent-owned 529s count at a rate of 5.64%, but grandparent-owned 529s don't count at all, until withdrawals to pay for college begin. At that point, the money is considered income to the student, Mr. Loftis says. Student income is assessed at 50%, meaning colleges expect the student will spend half of all the money he or she earns on paying for school, Ms. Ramos says.

Colleges look back at two years of income, so grandparents often wait until the student reaches the second half of college before spending their 529 money, if they have that ability.

"What's important to remember is that income for parents and students is by far and away the biggest factor in determining financial aid," says Mr. Loftis.

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Can I use 529 funds to pay for flight school? Does it matter if I attend a certified flight school or can I train with a friend who is a certified private instructor?

The question isn't whether your friend is certified as an instructor, but whether he or she is working for an accredited school.

"Private lessons may not be qualified if the instructor isn't acting in direct affiliation with a qualified institution for those lessons or courses," Mr. Loftis says.

To see if the school (or any institution) is eligible, search for its Federal School Code at the fafsa.ed.gov website, Ms. Ramos says.

***

Is it true that Americans in any state may use 529 funds to pay private high-school tuition? How can we make a qualifying withdrawal?

No. Some states aren't permitting 529 funds to be used for K-12 education, which means those states will tax the gains portions of any withdrawals made to pay for K-12 education. But this year's U.S. tax changes mean such payments will be regarded by the IRS as qualified withdrawals and so not subject to federal tax.

If you live in a state that does allow this, such as South Carolina, you can withdraw up to $10,000 a year per beneficiary for private K-12 tuition, Mr. Loftis says.

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Ask Us a Question

* Have a question about college finance in general? We'll be answering some of them in future Investing in Funds & ETFs reports. Send them to reports@wsj.com.

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THE WALL STREET JOURNAL.

Markets

What's Spooking Boeing and Ford? Wild Aluminum Prices; U.S. sanctions hit world's second-largest producer of the metal; 'My suppliers were freaking out. It was pandemonium.'

By Amrith Ramkumar, Scott Patterson and Sarah McFarlane
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Wild swings in aluminum prices have jolted buyers and sellers of the metal, threatening profits of companies that make everything from jets to beer cans.

The price for aluminum deliveries in three months' time hit a more-than-six-year high recently. During April, prices also swung over their widest monthly range since at least 1997, the oldest data available, according to an analysis by WSJ Market Data Group.

The **volatility** in aluminum threatens to squeeze profit margins of large companies that use the metal, at a time when higher fuel prices are already worrying manufacturers. The unpredictable aluminum prices also have contributed to worries over higher inflation, giving the Federal Reserve a freer hand to raise borrowing costs, which could become an added challenge for some companies. Trade tensions between Washington and much of the rest of the world are another big new worry.

Last month, the U.S. sanctioned a big Russian aluminum producer, curtailing supplies. In some cases, buyers delayed shipments or canceled orders. Others have left shipments of the metal they received untouched, fearful of falling afoul of Washington's restrictions.

Aluminum executives say they can't remember anything as jolting to the industry. Jeff Henderson, president of the Aluminum Extruders Council, which represents aluminum-product makers, says he was flooded with calls in the first few days following the announcement of the sanctions on April 6. "The aftereffects were complete shock and awe to the industry," Mr. Henderson said.

Consumers could get pinched, too, if prices stay high and companies pass on costs. Aluminum prices have eased somewhat after the U.S. Treasury spelled out ways for the sanctioned Russian company, United Co. Rusal, the world's second-largest producer, to win relief. But the process could be lengthy, and industry veterans are bracing for continued **volatility**.

Two weeks after Washington announced the Rusal sanctions, aluminum prices peaked intraday around $2,700 a metric ton, or 35% higher than presanctions levels. As traders bet that the U.S. might reverse course because European companies complained that Rusal metal is vital to their operations, prices retreated.

They extended declines when the U.S. softened its stance on Rusal and when sanctioned majority owner, Russian billionaire Oleg Deripaska, agreed to sell his stake in the company to get it off Washington's list. Still, aluminum remains 17% higher than before the sanctions, as there are few obvious buyers of Mr. Deripaska's stake, and Washington will scrutinize any deal to ensure a real transfer of control.

The sanctions have coincided with Trump administration tariffs on steel and aluminum imports, further limiting supply options for American buyers. That has boosted premiums for aluminum deliveries in the U.S.

Russia, primarily through Rusal, supplied about 12% of all aluminum demand in the U.S. in 2017, according to the Aluminum Association, a U.S. trade group. Analysts expect the company's exports to halve over the next six months, as buyers move to find alternative suppliers ahead of the Treasury's deadline for investors to exit from dealings with Rusal.

Rusal's deliveries in ports such as Baltimore and Houston are sitting unopened, their customers worried that taking delivery might violate sanctions, said Jorge Vazquez, founder of Harbor Aluminum Intelligence, an Austin, Texas, consultancy whose clients include aluminum companies, banks and hedge funds.

Mike Rapport, president of Corona, Calif.-based Merit Aluminum Corp., said he shrugged his shoulders when he first heard about the sanctions. Then calls from companies he buys aluminum from started flooding in. "My suppliers were freaking out," Mr. Rapport said. "It was pandemonium."

Merit Aluminum buys the metal to make products like window frames and car parts. Mr. Rapport said suppliers have canceled deliveries, raising the prospect that he won't be able to meet his own customers' demands. He is now weighing whether to cancel an expansion to his factory.

Aluminum isn't the only metal affected by the Trump administration's moves. Steel prices in the U.S. have climbed as much as 30% this year because of the tariffs, though they have fallen back somewhat more recently. Nickel and palladium were swept up in the turmoil because of their ties to Russia as a supply source.

Executives at some of the world's biggest multinationals are fretting that all the disruption could hit their bottom lines. In recent weeks, executives at Whirlpool Corp., Harley-Davidson Inc. and Caterpillar Inc. all pointed to rising metals costs as potential headwinds. Boeing Co. and Ford Motor Co. said they are monitoring prices though they aren't seeing any material effects.

The threat of higher costs has weighed on metal-intensive companies. Industrial stocks in the **S&P 500** have fallen in nine of the past 13 trading sessions. The group has slumped 8.9% since the start of February, compared with a 5.4% drop by the broader index.

Whirlpool shares have slid 18% from their Jan. 26 peak of $185.97. While the home-appliances giant has benefited from favorable tax changes and tariffs on foreign-made washing machines, **volatile** steel and aluminum prices kept executives from raising their full-year earnings guidance.

"Raw material weighs pretty heavily in all parts of our global businesses," Whirlpool Chief Executive Marc Bitzer told analysts on a call late last month. "That's the prime reason why we still see" risk, he said.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
U.S. Stocks Rise, Lifted by Tech Shares; Investors balance solid corporate earnings against global political instability

By Gunjan Banerji and Nathan Allen
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U.S. stocks climbed Monday, led by shares of technology companies.

The gains extend the **Dow Jones Industrial Average**'s winning streak to three sessions, as generally strong quarterly earnings reports and Friday's employment data have boosted sentiment in recent sessions. April's jobs report showed unemployment in the U.S. fell to one of the lowest levels of the post-World War II era, reaffirming some investors' confidence in solid and continuing economic growth.

After having climbed more than 300 points Friday, the blue-chip index surged roughly 216 points in early trading Monday after U.S. crude oil topped $70 a barrel for the first time since 2014. But stocks trimmed those gains as President Donald Trumptweeted that he would announce his decision Tuesday on whether to withdraw from the Iran nuclear deal, which he has repeatedly criticized.

Oil prices have risen more than 10% in the past month ahead of his decision, which analysts say could stifle Iranian exports and reduce global supply.

"We still remain pretty **bullish** and favorable to higher equity prices this year," said Jim Lubin, chief executive officer of Beacon Hill Private Wealth Management.

Mr. Lubin said he has used recent pullbacks in the **stock market** as buying opportunities and remains optimistic about sectors like tech. Still, he said he is closely watching earnings releases and **oil prices**.

The Dow industrials ended the day up 94.81 points, or 0.4%, to 24357.32. The **S&P 500** rose 9.21 points, or 0.3%, to 2672.63, and the **Nasdaq Composite** added 55.60 points, or 0.8% to 7265.21.

Technology shares in the **S&P 500** rose for the third straight day, adding 0.8%.

Apple shares gained $1.33, or 0.7%, to 185.16, another record. Shares have rallied after the company last week unveiled a $100 billion buyback of stock and after Warren Buffett told CNBC that Berkshire Hathawayincreased its large stake in the company by 75 million shares in the first quarter.

Shares of Amazon.com also ticked higher, rising 1.2%, or 19.19 to 1600.14, a record.

Higher commodity prices initially gave the **stock market** a lift. Shares of energy companies rallied and then whittled gains.

A measure of stock swings, the Cboe **Volatility** Index, also slumped for the third consecutive day. But climbing commodity prices could push measures of inflation higher, preventing market turbulence from receding, analysts said.

"It creates a little more **volatility**," said Omar Aguilar, chief investment officer of equities at Charles Schwab Investment Management, of higher **oil prices**.

Jitters surrounding higher inflation and Treasury yields, which rise as **bond prices** fall, had helped send the **stock market** into correction territory in early February. Higher yields can make it more attractive for investors to park cash in bonds rather than stocks, and can also lure investors world-wide to the greenback.

The yield on the **10**-**year Treasury** has breached 3% in recent weeks, and investors will be watching a key measure of inflation via the consumer-price index figure released Thursday.

As earnings season winds down, analysts are also focused on progress in trade negotiations between China and the U.S.

"The market is caught between the opposing forces of good economic fundamentals and geopolitical uncertainty," said Philippe Gijsels, chief strategy officer at BNP Paribas Fortis.

"The situation is not likely to last for a long time, we are likely to see a breakout either way sometime this week," he said.

Elsewhere, the Stoxx Europe 600 rose 0.6%. The Shanghai Composite added 1.5% and the Hang Seng gained 0.2%. South Korea's markets were closed for a holiday.

Joanne Chiu contributed to this article

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Investing In Funds & ETFs: A Monthly Analysis --- Q&A: A Star Bond-Fund Manager Avoids the Shortcuts --- 'We're not masqueraders' with derivatives, says Baird's Mary Ellen Stanek

By Chuck Jaffe
1,019 words
7 May 2018
The Wall Street Journal
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Corrections & Amplifications

Baird Core Plus Bond Fund had a total return of minus 2.3% for the year to date, through May 3, and Baird Aggregate Bond was minus 2.39%. An Investing in Funds & ETFs report article on Monday about Baird manager Mary Ellen Stanek incorrectly reported both figures as positives.

(WSJ May 8, 2018)

(END)

Mary Ellen Stanek thinks a lot about sleep.

Where other bond-fund managers are looking for ways to wake up the somnolent, dozy parts of the investment world by using derivatives and exotic products to goose returns, Ms. Stanek and her team at Baird Funds are happy to avoid that excitement.

Ms. Stanek gets her buzz from hearing shareholders say that they think of her bond funds as "sleep insurance," something they own so that they can rest easy at night.

A nearly 40-year veteran of the industry, Ms. Stanek is president of Baird Funds, which has more than $45 billion in assets under management, in stock funds as well as bond funds, and is part of Baird, a large financial-services firm. Also chief investment officer at Baird Advisors in Milwaukee, Ms. Stanek has built her reputation the same way she has built the track records of her bond funds -- slowly and by avoiding big missteps. The team she runs has been largely intact since the first Baird Funds opened in 2000, and its results have been as consistent and constant as the personnel.

Indeed, long-term results for her bond funds, both started in September 2000, have been above average and without any lengthy periods of below-par results. Baird Core Plus Bond (BCOSX), which has a five-star rating from Morningstar Inc. and ranks in the top 10% of its peer group in the 10- and 15-year periods, has a return of about 2.3% year to date. The four-star Baird Aggregate Bond (BAGSX), which has been in the top third of its asset class for most of its existence, had a year-to-date return of 2.39% through May 3.

Here are edited excerpts from a recent interview:

WSJ: Lots of people think bond investing is boring. Why don't you feel that way?

MS. STANEK: We're not here to be exciting. We don't believe any investor can consistently forecast interest rates correctly and add value to a bond portfolio by jumping around the average maturity or duration of the portfolio. For investors, the better route is to pick where along the risk spectrum or the duration curve is best going to meet your objectives and risk tolerance and then stay there.

We try to hit a lot of singles and have high batting averages and then compound that consistency for our investors, coupled with very competitive fees.

WSJ: A lot of popular bond-fund managers have gravitated toward derivatives and other alternative strategies, but not Baird. Why not?

MS. STANEK: We're a "What-you-see-is-what-you-get" style of bond manager. We're not masqueraders, acting more like stock managers while we talk about consistency and compounding.

Being called "sleep insurance" is a badge of honor to a core investment-grade bond manager. That's why you own bonds in the first place, for income, for lower **volatility**, for more predictability. And that's why, in the bond portfolio of your asset allocation, you don't want to amplify the risk [by using derivatives] or become overly complex and counterproductive to the long-term wealth of shareholders.

WSJ: The **10**-**year Treasury** recently hit 3%, a point at which many observers say trouble could start brewing for bonds. What's your take on it?

MS. STANEK: Three percent on the Treasury is just a number and a single point. It's still quite low on a nominal basis and all part of the normalization process, reflecting an economy that has a better tone to it.

Investors and a lot of the press are hyping the negatives of this rising-interest-rate environment. We think investors need to put it in a balanced perspective, because there are benefits to rising rates for income-oriented investors.

WSJ: So what do you want investors to be focused on?

MS. STANEK: Let's acknowledge that as rates rise, the value of your bonds goes down; that is the lemon as opposed to the lemonade. But the lemonade part of it is that as yields go up, the income generated off the portfolios is higher, so any type of investor is better off. You have been yield-starved for the past couple of years, so this will be quite welcome, and will likely draw investors and money toward the bond market.

WSJ: There aren't many women running bond funds. How were you able to break through?

MS. STANEK: I personally believe that diverse teams are better constructed and manage risk in a broader way, which is critically important for a bond-fund manager.

There was no magic formula for breaking through; the asset-management industry is very opportunistic and objectively measured. But if you can put portfolio results up for investors and business results for your shareholders, it proves that you belong.

At the end of the day, I was meeting our investors' objectives. That's hard to deny.

WSJ: Your mother invests in your funds. When you think of the typical investor, do you think of mom?

MS. STANEK: It's really important to never lose sight of who our investors are. It isn't just my mother. My husband is a dentist and his retirement plan is in the funds, but we also have endowments and big corporate retirement plans, and schoolteachers in small towns, and guys on the plant floor and nurses in big hospitals, and what they all have in common is that they need us to perform as expected. We come to win for those investors every single day; they want consistency, predictability and lower **volatility**.

Obviously, I don't want to disappoint my 90-year-old mother, but I don't want to disappoint any of the other shareholders either.

Mr. Jaffe is a writer in Boston. He can be reached at reports@wsj.com.

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WSJ PRO FINANCIAL REGULATION

Economy

Fed Paper Ties Launch of Futures Contracts to Bitcoin's Fall; The introduction of futures allowed 'pessimists' to make money from declines in the cryptocurrency, a San Francisco Fed paper says

By Michael S. Derby
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English
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The steep drop in bitcoin prices from their 2017 highs is likely tied to the launch of futures contracts that finally allowed investors to profit from falling prices in the cryptocurrency, according to a new Federal Reserve Bank of San Francisco paper.

The launch of Chicago Mercantile Exchange bitcoin futures contracts links up closely with the peak value for the currency, which surpassed $19,000 in mid-December, the paper says.

The futures contacts gave investors a vehicle to make money from declining bitcoin prices, which they hadn't been able to do up to that point. Bitcoin went on to lose more than half of its value before rebounding modestly. On Monday, CoinDesk data showed bitcoin trading at around $9,350.

"The rapid run-up and subsequent fall in the price after the introduction of futures does not appear to be a coincidence," the paper says. "Rather, it is consistent with trading behavior that typically accompanies the introduction of futures markets for an asset."

Before December 2017, "speculative demand for bitcoin came only from optimists, investors who were willing to bet money that the price was going to go up," the paper says.

The launch of futures contracts gave "pessimists" their own say, the researchers wrote. The entrance of these investors started an accelerating downward spiral for bitcoin: "With falling prices, pessimists started to make money on their bets, fueling further short selling and further downward pressure on prices."

The researchers say that trying to find a fundamental value for bitcoin remains elusive. The value of the dollar is tied to the performance of the U.S. economy, as well as the conduct of Federal Reserve policy, and in that environment it has enjoyed a long period of relative stability. As for bitcoin, the San Francisco Fed paper said value will depend on the supply of the currency and its ability to gain acceptance as a broadly accepted method of exchange.

The paper was written by San Francisco Fed researchers Galina Hale, Marianna Kudlyak and Patrick Shultz, with Arvind Krishnamurthy of the Stanford Graduate School of Business.

Federal Reserve officials have been dismissive of bitcoin and other cryptocurrencies, largely because they so far fail to meet the basic test of money, which can be easily used to buy and sell goods and services and store value. Officials have said that while some of the technologies that make things like bitcoin possible may have valuable applications, the current crop of private digital money is simply too **volatile** to rival the dollar.

There's a "speculative mania around cryptocurrencies in terms of their valuations, which I view as pretty dangerous," Federal Reserve Bank of New York President William Dudley said in late February.

He renewed that criticism on Friday, saying: "Bitcoin is not a very good currency because it's not a stable store of value, it's not legal tender, and it's actually not even a very good payments medium."

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Heard on the Street
Turkey Faces Intensifying Storm

By Richard Barley
443 words
7 May 2018
The Wall Street Journal
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[Financial Analysis and Commentary]

Turkey's troubles are deepening.

First came a warning from the International Monetary Fund that the Turkish economy is showing "clear signs of overheating" after expanding 7.4% in 2017 versus potential growth pegged at 3.5% to 4%. Last Tuesday, Standard and Poor's handed Turkey a surprise downgrade to double-B-minus, saying there is a risk of a hard landing. On Wednesday, the Turkish manufacturing purchasing managers' index fell below 50, indicating contraction, and on Thursday data showed inflation accelerating to 10.8% in April.

That has all been piled on worries about the rise in authoritarianism under President Recep Tayyip Erdogan, Turkey's reliance on potentially fickle foreign funding and the credibility of the country's central bank.

With growth humming, Mr. Erdogan has called an early election for June that would, if he wins, grant him greatly expanded powers after last year's constitutional referendum. But the growth policies he has pursued have been fueled by credit and rising economic imbalances.

Turkey's key indicator of vulnerability, its current-account deficit, expanded to 5.5% of gross domestic product in 2017, according to the IMF. Rising **oil prices** will weigh on that indicator further, as Turkey is an energy importer, notes S&P.

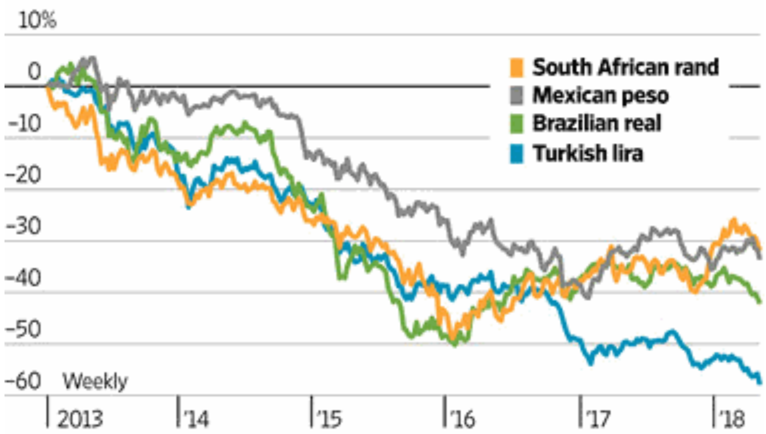
The Turkish lira has been hit hard as a result, falling nearly 5% last week alone to a record low against the dollar. The MSCI Turkey index is down 21.7% in dollar terms this year, hugely underperforming the wider Emerging Markets index, which is down 1.8%.

The traditional response to a sharp fall in the lira has been for the Central Bank of Turkey to raise rates -- although only by enough to stabilize the currency and not enough to convince investors it is serious about getting inflation down. In late April it raised the key liquidity rate that deter-mines the effective cost of funding for banks to 13.5%. But that bought only brief respite. Without a decisive action by the central bank, the circle seems unlikely to be broken. But that risks a clash with Mr. Erdogan, who opposes higher interest rates.

The problem now is that higher U.S. Treasury yields and a stronger dollar have dented appetite for emerging markets more broadly. Some pressures have reached the boiling point: Argentina has now raised rates by 12.75 percentage points to a staggering 40% in an attempt to defend the peso. In a less-friendly environment, the risk is that Turkey's slow-burning crisis gets a lot hotter.

Lira Low

Performance of currencies against the U.S. dollar



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THE WALL STREET JOURNAL.

Markets

Why Stocks Can't Wait for the Midterms to Be Over; A stock-market pattern that not too many investors talk about could explain why gains are a struggle now—but will be easier after the election

By Mark Hulbert
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The **stock market** is likely to struggle between now and the Nov. 6 midterm elections.

And it isn't because stocks favor one party or the other.

It's because investors hate uncertainty, and these elections create a healthy dose of just that. If anything, this year's election season appears to be creating an above-average amount of uncertainty, given the particularly large number of Republicans who have already announced that they won't run for re-election—most prominently House Speaker Paul Ryan. There currently is a 67% probability that the Democrats will win back control of the House in this fall's elections, for example, according to PredictIt, an online betting website.

There is a silver lining, however, for investors: The **stock market** should perform especially well in the six months following the elections, regardless of the outcome. That's because, no matter the results, this pre-election uncertainty will at least be resolved.

These are the findings of a recent study conducted by Terry Marsh, an emeritus finance professor at the University of California, Berkeley, and chief executive officer of Quantal International, a risk-management firm for institutional investors, and Kam Fong Chan, a senior lecturer in finance at the University of Queensland in Australia.

They found that ever since the **Dow Jones Industrial Average** was created in the late 1890s, it has produced an annualized gain of just 1.4% in the six months before midterm elections, in contrast to a 21.8% annualized return in the six months thereafter.

Their research holds other potentially significant findings. For one thing, this six-months-down and six-months-up pattern isn't as pronounced before and after presidential elections. And the midterm pattern can't be explained by the conventional wisdom about how the November-through-April period is generally better for investors than the May-through-October period. In fact, the researchers found, the six-month down-and-up cycle holds true only in midterm-election years.

Measuring uncertainty

Why are the midterms so significant? The professors point to an economic-policy uncertainty index created by three finance professors: Scott Baker of Northwestern University, Nick Bloom of Stanford University and Steven Davis of the University of Chicago.

The index, which was calculated back to 1900, measures the extent of economic uncertainty driven by politics. It was constructed from article searches in six key newspapers for any instances in which the words "uncertain" or "uncertainty" were coupled with the words "economic," "economy," "business," "commerce," "industry" or "industrial" and one or more of the following terms: "Congress," "legislation," "White House," "regulation," "Federal Reserve," "deficit," "tariff" or "war." The more sentences in these six newspapers that satisfied these criteria, the higher the index.

Profs. Marsh and Chan found that this uncertainty index tends to rise significantly in the six months before midterm elections and then fall just as much in the six months thereafter, and that higher uncertainty correlates with lower stock returns and vice versa. That's because, Prof. Marsh says, it's entirely rational for investors as a group to pay less for stocks as uncertainty increases and vice versa.

To explain why, he asks us to imagine two different market scenarios. The first pays you back at least $99 but no more than $101, while the second pays you anywhere between $50 and $150. Even though their average payout is the same, you would still pay a lot more to invest in the first scenario (close to $99, for example), since its payout is far less uncertain. The same principle applies in the **stock market**, he says.

Dead 'presidential pattern'

If the ups and downs are driven by political uncertainty, you might expect the pattern to be even more pronounced before and after presidential elections. However, the professors found that isn't the case: Those increases and dips aren't as sharp as they are for midterms.

That contradicts what many experts have contended over the years. According to their old theory, the **stock market** should perform better as a presidential election day approaches, because an incumbent of either party will do anything to win re-election. And that means striving to make the economy be strongest as voters go to the polls.

However, the data just don't show that, and Profs. Marsh and Chan invite political scientists to explore why that is. Regardless, they found that the only statistically significant pattern related to a presidential cycle is the one before and after the midterm election. The fourth year of the presidential term, which should be the strongest of the four if that old theory was correct, is actually no better than the average of all years.

No Halloween party

But what about another piece of traditional wisdom: "Sell in May and go away," also known as the "Halloween indicator"? These old saws say that the **stock market** is far stronger over the six months between Halloween and May Day than it is over the other half of the year.

But Profs. Marsh and Chan found that this six-months-off, six-months-on pattern exists only before and after midterms. In the other three years of the presidential term, there on average is no significant performance difference between these two six-month periods. Other than in midterm years, uncertainty doesn't rise and fall in predictable ways.

In other words, the Halloween indicator wouldn't exist but for midterm-election years.

Fortunately for investors who were looking forward to selling in May and going away, history says the next six months are likely to be a rough period for stocks, and that the **stock market** over the subsequent six months, from Halloween to May Day of 2019, is likely rise significantly. But if the future is like the past, you won't get another chance to exploit this seasonal pattern until 2022.

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WSJ PRO CENTRAL BANKING

Economy

Transcript: Fed's Bostic on Monetary Policy and Reform in Practice; Atlanta Fed president addresses policy from an implementation perspective

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Atlanta Fed President Raphael Bostic spoke Friday May 4, 2018, at the Hoover Institution's "Currencies, Capital, And Central Bank Balances" policy conference. His topic was "Monetary Policy and Reform in Practice." Here is a transcript of his presentation, lightly edited for length and clarity.

RAPHAEL BOSTIC: (In progress) I'm the new guy in the Fed on this panel, and so I let them talk about what they want to…and thought that I would fill in a bit. And then talk about doing policy from an implementation perspective. So let me respond a little bit to what (Kansas City Fed President) Esther (George) and (Dallas Fed President Robert Kaplan) said, just to provide some thoughts on that.

First, I totally agree with Esther…that we should be thinking about a strategic framework is quite important. She mentioned price-level targeting. Rob mentioned nominal (gross domestic product) targeting. We have also jumped into this conversation. We have a(n) econ blog, and we have a four-part series trying to talk to the public about why we might think about changing the strategic framework. We use price-level targeting as an example.

The whole point of this, I think, is that you're going to hear consistent voices from, I think from just about all of us, that periodically there is value in re-examining strategy to make sure that it is delivering the goods that we hope. And this is a time that I think is particularly ripe for that.

A second thing I would say is, in terms of the regulatory environment, there's a lot of stuff put on top of that in terms of Dodd-Frank. To me, the two things that are most important are capital and the stress test. The capital is critical because we learned very quickly that there wasn't enough capital in the system to withstand the turmoil. And then the stress test, for me, is actually quite important because that's really more about a culture of risk management that was absent at many of our largest institutions. And having the stress test in place is a signal that institutions need to be thinking about these things in advance continuously. And my hope would be that institutions don't just use the scenarios that we come up with, but rather run through a whole host of other scenarios so that they are prepared and are as resilient as they possibly can be. And so that message, I think, is an important one, and one that we have to preserve.

I want to also say that, for me, the most important aspect of our ability as the Federal Reserve to do our policy is the preservation of independence. And anything that might risk that independence needs to be considered seriously. And I talk with our folks all the time—I think I've had a conversation with Esther and Rob and (San Francisco Fed President) John (Williams); (Fed Vice Chairman for Supervision Randal Quarles), who's coming—about what things we can do to make sure that we are not giving any perceptions that we are moving beyond our mandate or our authorities, because it's those scenarios and situations that I think pose the greatest risk. And so we should be having conversations on this in a serious and urgent way because Washington, when it moves, moves fast. And so we want to make sure we understand the implications of our actions as we take them.

And then I wanted to talk a little bit about the economy just briefly in the sense that, you know, Rob talked about the medium term is where there's uncertainty and his projections show growth less than—less than 2 percent. My projections for the medium term show basically the same. I'm exactly where he is. In some sense, it's because of the four things he highlighted. But I would also say that part of the issue that we face in this economy—(inaudible)—U.S., but this is a dynamic world-wide—is that disruption is happening, and it's happening at an accelerated pace, and it's happening in a broader scope of industries or sectors. And so the scale of the problem and our response to the disruption is something that has real implications for how productive the economy can be moving forward.

And it is my view that we don't have the institutions in place to help facilitate a seamless and low-cost response to that disruption, and in fact we have not really talked with the workforce—with our workforce—about what skills they're going to need to be successful in tomorrow's economy. And without that conversation, it's hard for me to imagine how we get to a higher trajectory in terms of economic performance.

And so we're having a conversation on that. We just started a new workforce development center which is really focused on those issues because this is something that will require participation from institutions far beyond the Fed. You know, these are not things that we have tools to really affect directly, but they do have direct implications for our mandate. And so I feel it's important that we talk about these things.

OK. So let me now talk about the things that I thought I would talk about. I'll try to be brief.

When I was working in Washington in the Obama administration at the Department of Housing and Urban Development, it was during the housing crisis. And we designed a whole lot of programs that we thought were addressing very specific issues that were underlying some of the distress that was happening in the economy. And many of them didn't work, to be—to be completely honest.

But in many instances, the failures had less to do with the design of the program and more to do with the implementation of the program, and making sure that institutions that were charged with delivering policy actually had the capability, the capacity, the resources, and the authority to do those policies. And in that crisis time, in many instances that wasn't the case.

So I came out of that really with a focus. The lesson was I need to be making sure I'm paying attention to implementation issues. And I think that implementation issues are underappreciated as challenges for the execution of policy, and it's something that I think all of us would do well to think about more in terms of the integration to our thinking about policy design.

In that regard, I wanted to just talk about one implementation issue that hit me almost immediately once I arrived in Atlanta, and that was the question of how should we execute policy when the data isn't enough. And in this regard, I think the data isn't enough, really, there are two aspects to this.

One is that the signals that they provide are ambiguous. And that's been happening pretty consistently—(inaudible)—an issue for a long, long time. And how should we—how should we deal with that?

And then a second is what happens if the data that we look at is not the data that's going to move the market tomorrow, next month, or the month after or the year after? In this regard, I think about the Great Recession, right, and all the stress that was happening in terms of housing markets—there was a lot of stuff going on there—in **financial markets** and the extreme leverage that were being taken. And these are not things that were customarily in our box of things to look at and study in determining what appropriate policy should look like.

And so I'm worried about that, right, that, you know, people tell me all the time tomorrow's crisis, one thing you know, it won't look like yesterday's crisis; it's going to look different. So how do we get our eyes to be focusing on that wide range of things? And that's a question that I think we've been thinking about at the Atlanta Fed.

And I want to say that, for me, I got lucky in the sense that we're trying something to try to make sure that we get on-the-ground intelligence on a regular basis. And we're using this approach to get that intelligence and inform our thinking about a host of the questions that we don't have answer for because, ultimately, if we have data that's not enough, then we've got to find nontraditional sources of information and find ways to integrate that into our policy making. And that's what we're trying to do.

So we have something called our Regional Economic Information Network, or our REIN network, where we have—my district has six states. We divide it into six subdistricts. And we've deployed staff in each of the subdistricts, and their job is to drive around and talk to people and just ask questions—CEOs, community groups, families, you know, what are you seeing? What are the challenges that you're facing? What are the opportunities that you have? What things are you experiencing that you're not seeing in the newspaper?—to try to gather a collection of information that allows us to get a sense of whether things are happening or not.

With these sorts of approaches, there's always a risk that what we hear is just ad hoc, it's one person's story. How should we think about—how should we make sure that our policy is not dependent or driven by anecdotal experiences that are really just one-offs?

We try to accomplish that and respond to that with a context of scale. So, because we have so many people out there, we can talk to dozens of leaders, and then we bring all that information back. So this last cycle, we talked

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to about a hundred leaders from across the region and across sectors and in different parts of our district and see if there are similarities, see if we have common themes that come out.

I think this has been quite useful and there have been a number of benefits associated with this. The first is that it allows for a more organic flow of information so that we're not predetermining what's interesting or useful, but we're allowing interaction to guide us in that regard.

The second is it allows us to focus on what we need to know. And so if we hear stories that are coalescing, we then can go and see, well, what data are there that's available to allow us to get a deeper insight into those spaces?

Third, I think it increases the likelihood of finding out something that's not —that hasn't—is happening but hasn't shown up in the data. And you guys know our policies don't operate instantaneously, so the more timely we can be in learning things, the more timely we can deploy our policy and have it hit in the right way.

And then the third thing is—and then the fourth thing I would say is it guides our future strategy. So we have often figured out what our conundrums are. As we send our REIN executives out, we arm them with the questions that we really want answers for, so that in addition to letting them tell us we can guide our conversation and get to a deeper type of information.

The last thing I want to say on this is that it has changed how we approach information-gathering more broadly. So now we've engaged with a bunch of partners to do surveys, and the surveys have questions—we're doing one with the University of Chicago and folks here at Stanford—about business activity, about how consumers are interpreting their realities and changes in the marketplace.

In this regard, I just wanted to tell one story because I think it's instructive for me. You know, Rob talked about the productivity situation with our labor force and how our productivity is quite low. What we've actually seen—you know, we see this in the data. But the thing that has always struck me is that whenever I talk to CEOs, when I talk to CFOs, when I talk to businesses, they all tell me they're investing tremendously in technology. They are trying to increase the efficiency of their workforce, and that should translate into more productivity.

So are they wrong? Are we just missing something? I don't think they're wrong. And in conversations—and this is a conjecture, so I want to say that right off the bat—but it is—it is—it's indicative of the type of information that we get from our on-the-ground, nontraditional engagements that could shape future research and exploration.

One thing that we also hear all the time from businesses is they are spending a whole lot of money in a new area, which is cybersecurity, and the expenditures in that regard have gone up tremendously. And in many ways, cybersecurity is like hiring accountants or hiring compliance officers for regulation in that they're a cost that doesn't translate necessarily into any kind of additional upward productivity. And so we're going to look into this, all right, and try to see if there are ways to identify—you might call it a cyber-adjusted productivity rate for labor—to see if these new line items are changing the reality of business. And maybe our current measure of productivity has really turned into something about apples versus oranges.

So, Rob, hope may not be lost, all lost at least, and we may be seeing progress in this regard.

All right. I'm going to close this with a last point, which is there is a lot of wrestling that we're having right now. A lot of the discussions today were really focused on the question of, to what extent do our models really work? Do they apply in today's environment? I think this is a real important question. And it's one that we wrestle with because sometimes they're not working so well. They're not matching up as closely as we'd like. We've got to figure out what to do with that. It is really—I don't know that I have an answer for this question, but I think this is another area where you guys can help us, and I think that can be quite useful.

Let me just say one other thing, which is—this always happens. When I was teaching a class, I always had one more thing before the bell. (Laughter.) We have—I've really come to appreciate the power and the value of surveys of regular people, businesses or whatever. So as we start wrestling—as you are wrestling with your questions, talk to the folks here at Hoover. See if they might find or support a survey to try to get some new information that allows us to get a deeper insight as to what's really happening on the ground on some of the pressing challenges that we're facing. Because I think that what I've heard consistently here is that there's a lot we still don't know, and I think that we're going to have to use some different approaches to get information to try to inform us better so we can make better policy.

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Investing In Funds & ETFs: A Monthly Analysis --- They Told You So: Stock-Fund Gains Remain Disappointing

By William Power
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Back in January when the **stock market** was rallying, many analysts cautioned that it likely wouldn't last.

The ensuing three months have proved them right. Those strong earnings reports that powered the **stock market** early in the year aren't having the same effect now. Instead, there are concerns about inflation and how the Federal Reserve will orchestrate interest-rate increases to battle it.

For stock-fund investors, it was another month of puny gains. The average diversified U.S.-stock fund's total return was 0.3%, according to Thomson Reuters Lipper data -- leaving the funds virtually unchanged for 2018. At the end of January, U.S-stock funds were sitting pretty with a 4.4% gain -- before February's burst of **volatility** wiped out most of the gains.

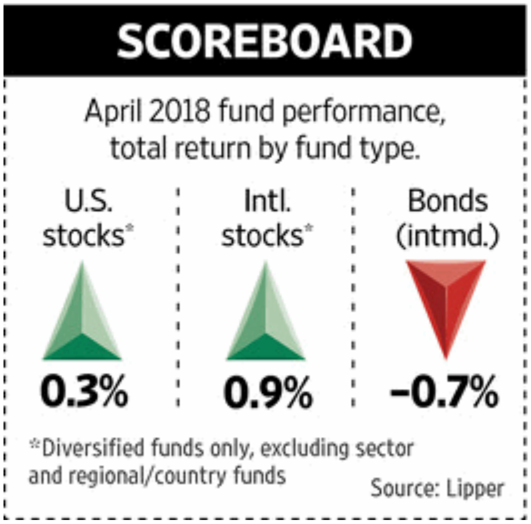
Interest-rate concerns weighed on real-estate investment trusts (whose trusty dividends look less attractive when rates rise). Lipper's real-estate fund category was down nearly 1% for April and is off 6% for 2018.

That REIT selloff is overdone, says Mark Esposito, chief executive officer of Esposito Securities in Dallas, an institutional trading firm particularly active in exchange-traded funds. That said, "a little inflation's good. I think that's OK for the market."

International-stock funds did only slightly better than their U.S. counterparts in April. They were up 0.9%, and 0.3% for 2018. Many analysts continue to advise investors to have international exposure as the nine-year **bull market** in the U.S. ages.

"Right now, Europe is probably in the second inning of a **bull market**," says Mr. Esposito, who also favors Asia -- as well as emerging markets, "since they're in the first inning and valuations are very compelling."

Bond funds were down in April. Funds focused on intermediate-maturity, investment-grade debt (the most common type of bond fund) had a negative total return of 0.7%, leaving them with a 2.1% decline for 2018 so far.



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THE WALL STREET JOURNAL.
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Investing In Funds & ETFs: A Monthly Analysis --- Portfolio Strategy: Active Managers Smile at the Robots --- Rather than being bitter at index funds, they say they look for mispricings

By Simon Constable
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Since the financial crisis there has been a consistent mantra around investing: Low-cost index funds makes the most sense because they are generally cheaper and perform better over long periods than mutual funds managed by stock pickers.

But now, some active managers are taking a new tack in making the case for their approach: They say the popularity of indexing, along with other changes in the market, is making it easier for them to find mispriced securities, resulting in a more fertile environment for stock picking than they've had in years.

"When markets [were] moving up like a rocket ship, it paid to have the cheapest exposure," says Joe Amato, chief investment officer at money-management company Neuberger Berman, acknowledging that in recent years the investing planets were aligned better for passive low-cost funds. During that period, the easy availability of credit ushered in by the Federal Reserve meant that many highly indebted companies could stay in business, he says. Buying high-quality companies didn't matter as much, and there was little price dispersion between individual stocks, he adds.

Then things changed. The Fed started to unwind its bond-buying program and began raising the benchmark federal-funds rate. The interest rate on the **10**-**year Treasury** note has jumped.

Amid higher borrowing costs, price differences between lagging stocks and the top-performing ones have widened, Mr. Amato says, creating more opportunities for portfolio managers to find bargains.

Although it has been five years since even half of actively managed U.S. stock funds outperformed their benchmarks, their performance is improving. According to data from Morningstar Inc., 53% of such funds beat their benchmarks in the first four months of this year, up from 49% last year and 29% in 2016.

And while investors continued to pull money from actively managed U.S. stock funds in the 12 months through February, the outflows slowed by 15% compared with the year-earlier period, the Morningstar data show.

More active managers are beating their benchmarks; typically it is done by veering outside the index, says Ben Johnson, director of global ETF research at Morningstar.

Other money managers agree there are more bargains to be had now, especially among smaller stocks that aren't included in the major indexes tracked by large ETFs. Last year, 63% of active small-cap growth funds and 54% of active small-cap value funds beat their benchmarks, up from 29% and 18%, respectively, in 2016, according to Morningstar data.

"The money that goes into the passive indexes tends to gravitate toward the **S&P 500**," says George Young, a portfolio manager at Villere Balanced Fund in New Orleans.

SPDR **S&P 500** ETF, for example, is the largest and most actively traded security in the world. The result is that large-cap stocks get bid up in price because of the massive flows into such ETFs, while smaller stocks often stay cheaper, Mr. Young says.

"We own Howard Hughes [Corp.]," he says. The $5 billion real-estate firm trades at less than twice book value, he says, compared with 13 times book value for the $50 billion Simon Property Group Inc.

Of course, plenty of experts aren't buying the argument that stock pickers are making.

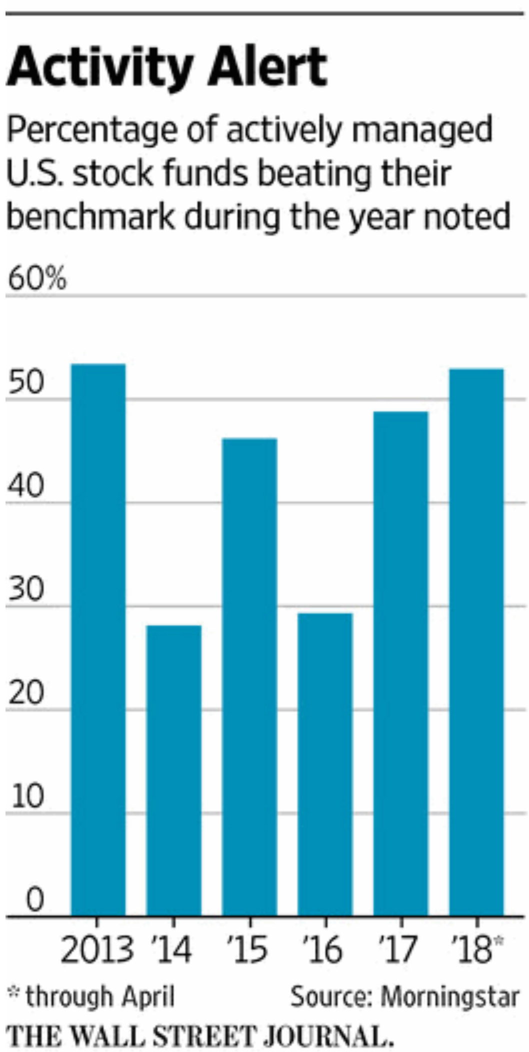
"I hear people say that now is a good time for active management, but I believe it is becoming extinct," says Mitch Tuchman, managing director at Rebalance IRA in Palo Alto, Calif. Compared with the stock-picking heyday before the 2007-09 recession, it is now devilishly tricky to succeed in active fund management, he says.

"Today when you find something mispriced, others find out the same things very quickly," he says. "The time frames are shortened," in part due to technology. The speed of the market means managers often don't have long enough to build positions of sufficient size to make a meaningful difference in their fund's performance, he says.

Still, Mr. Amato says bets on mispriced securities have paid off for his firm in recent years, including one on Goldman Sachs Group in 2016. Goldman shares had slumped around 20% in June 2016 after a decline in commodities prices to a multiyear low earlier in the year dragged down stocks and bonds.

"We saw an outstanding team, with the willingness to right-size the operation," says Mr. Amato. "We also had confidence in their investment-banking franchise." In short, he says his team thought the bank would eventually out-compete its second-tier competitors. As of May 1, the stock had rebounded around 70% from its June 2016 low.

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



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U.S. News --- THE OUTLOOK: Fed Faces a Goldilocks Conundrum

By Harriet Torry
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Stable inflation and low unemployment suggest the U.S. economy is enjoying a Goldilocks moment, running neither too hot nor too cold to cause much hardship for households. But how low can joblessness fall, and for how long, before a boon for the economy turns into a burden for everyone?

Since the end of the most recent recession, U.S. unemployment has fallen from nearly 10% to 3.9% in April. If unemployment runs too low for too long, inflation or dangerous financial bubbles could build. The last three times the jobless rate has moved below 4% -- in the 1950s, 1960s and late 1990s -- the U.S. got one of those outcomes and recession eventually followed.

Economists and central bankers have long tried to put numbers to the Goldilocks fable. They pay close attention to a theoretical threshold at which the economy is in balance and inflation pressures are neither rising nor falling, called the "nonaccelerating inflation rate of unemployment," or Nairu. Go much above or below Nairu, the theory holds, and you've got trouble.

The difficulty officials face in assessing Nairu is that it's a moving target. In 2000, the jobless rate went below 4% for just five months before problems ensued -- a tech bubble burst that led to recession. In the late 1960s, on the other hand, it stayed below 4% for nearly four years, leading to inflation and a decade of economic malaise.

Ryan Sweet, an economist at Moody's Analytics, says Nairu is the economics profession's Loch Ness monster: You might think you've seen it, but it's always hard to know.

Over the past seven decades, Nairu has ranged from about 4.6% to just over 6%, according to the Congressional Budget Office's economic projections.

Complicating matters, Nairu estimates rely on a contentious theory that falling unemployment pushes up prices and wages. That relationship appears to have broken down in recent years, when inflation remained below the Federal Reserve's 2% target even as the jobless rate steadily declined.

There are several explanations for why. Nairu itself might not be a useful guide. Or the U.S. might not be at full employment yet. The White House's chief economist, Kevin Hassett, said last month that full employment "could be in the threes now."

A broader measure of unemployment that includes workers stuck in part-time jobs or too discouraged to search for work remains high, suggesting slack remains in the labor market. The measure fell to 7.8% in April from 8% in March, whereas in December 2000 it stood at 6.9%.

Former Fed Vice Chairman Alan Blinder points to his "traumatized worker" theory. "Workers still remember the bad old days and they're more interested in job security than they are in seeking out a raise," he said.

This time around, some economists worry that low inflation, low unemployment and historically low short-term interest rates could be a recipe for a different problem, potentially disastrous financial bubbles. The past two recessions were ushered in by a rise and subsequent collapse in asset prices. In both cases, the unemployment rate dropped to low levels as asset prices soared, hitting 3.8% in April 2000 and 4.4% in October 2006.

Signs of financial excess are building now. Net wealth of American households -- driven by their stock, bond and real-estate investments -- was nearly seven times their income in the fourth quarter of 2017, above levels seen during the **Nasdaq** bubble and the housing boom.

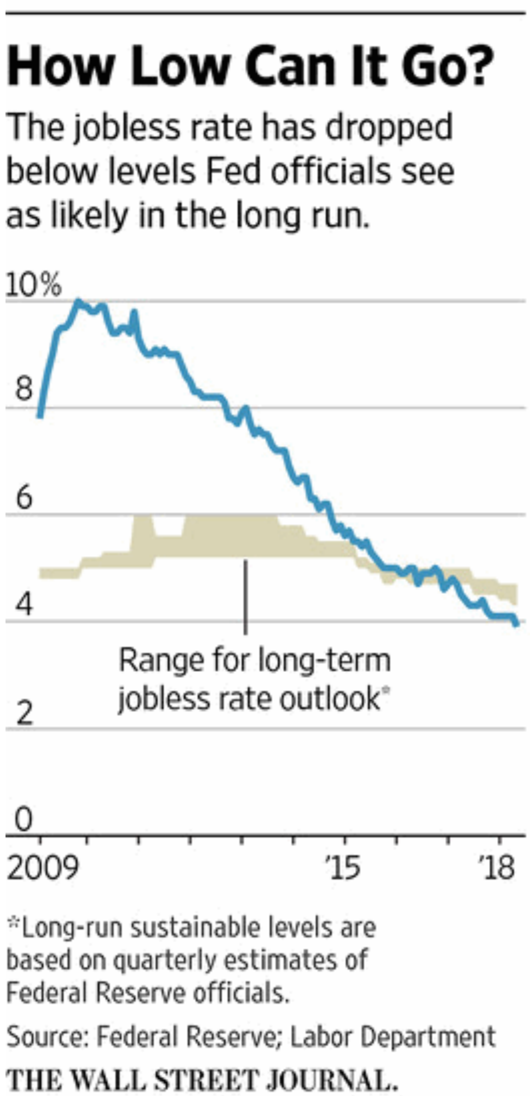
The Federal Reserve pushes interest rates down when it wants to spur economic growth by encouraging businesses and households to invest and spend more. It pushes rates up when it wants to cool investing, spending and growth.

The Fed's rough estimate for Nairu is now around 4.5%. Officials project the actual jobless rate will drop to 3.8% by end of 2018 and reach 3.6%in 2019 and 2020. That suggests the Fed is prepared to let unemployment fall to a level not seen since the late 1960s before considering more aggressive rate moves.

One big risk faced by the Fed: Once it lets the economy go too far in one direction, it is hard to turn it around. When the unemployment rate gets very low and then starts rising, it tends to rise a lot.

The Fed expects it will raise short-term interest rates two more times this year, in quarter-percentage-point increments. If the unemployment rate steams lower, the Fed might find itself moving more aggressively than planned.

Eric Morath contributed to this article.



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Revenue Surge Boosts State Coffers

By Jon Kamp and Joseph De Avila
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State budget officials from Utah to Connecticut are reporting higher tax revenue and a brighter fiscal outlook, thanks to an improved national economy and robust job growth.

"Unlike last year, we're seeing broad-based strength," said Matthew Knittel, who directs Pennsylvania's state Independent Fiscal Office. Taxes on income and sales are both coming in higher than expected, reflecting factors such as rising employment, he said.

The effects of the new federal tax law also boosted state revenue, though analysts caution it will prove temporary for many states that are benefiting from sped-up tax payments. But state officials say they see evidence of underlying improvement too.

In Pennsylvania, this marks a turnabout from 2017, when state lawmakers struggled through a lengthy showdown over a $2.3 billion budget gap that spanned two fiscal years. Estimates are still preliminary, but Mr. Knittel said the current shortfall is much smaller.

The National Association of State Budget Officers chronicled widespread problems in the past two years from revenue falling short of estimates due to a variety of factors. All but four states end their fiscal years on June 30, and 33 of them have to write new budgets in time for the next fiscal year.

This fiscal year, "we're not seeing retrenchment" in state spending figures, said John Hicks, the group's executive director. "We're either seeing them left alone or slightly bumped up."

States reporting stronger-than-expected revenue include Minnesota and Utah, where officials say strong economies have fattened government coffers. Minnesota is on pace to have a $329 million surplus for the current fiscal year and the year ending June 2019 combined, while Utah is projected to pull in $500 million in additional cash for the year ending June 2019, up from a combined $184 million for the current and last fiscal years.

"Good job growth, good wage growth" drove the state's favorable tax-revenue figures, said Phil Dean, Utah's budget director. Minnesota budget officials expect the state's income and job growth will continue through 2019, further padding tax revenue.

In general, the new federal tax code limited some tax breaks but didn't touch state tax rates. As a result, existing state taxes on personal and corporate income in many cases are being applied to a broader tax base and thus yielding more money. That is because most state tax systems start with federal definitions of income, so when deductions on that are limited, existing state tax rates apply to more income.

Some of those state revenue increases are temporary and some states have moved to give back at least some of that revenue to their residents.

For example, Georgia reduced its top individual and corporate income-tax rates to 5.75% from 6%. Idaho also lowered individual and corporate rates.

In Connecticut, which has been dogged by fiscal weakness for years, state budget officials in late April projected a $1.34 billion income-tax revenue surge above what was originally expected.

The windfall in Connecticut, home to many hedge funds, comes with caveats: about half is coming from one-time payments from hedge-fund managers racing to beat a federal tax deadline on some past offshore earnings, said Ben Barnes, the state's budget chief. The numbers also could have been boosted by residents cashing in stock in late 2017 to pay taxes on capital gains to take full advantage of the state and local tax deduction, which the new federal tax law capped, he said.

Connecticut has been repeatedly burned by overly optimistic revenue predictions that fueled prolonged budget fights, but this time may be different.

"I firmly believe there are some underlying tailwinds here, and that there are well-off folks who are doing well because they are making money and they are paying taxes on the money they are making," Mr. Barnes said.

The sped-up tax payments seemed to boost state revenue numbers far beyond Connecticut. In a report last week, the Rockefeller Institute of Government found that states' personal income-tax revenue rose 15.1% during the fourth quarter of 2017 compared with the same period a year earlier.

The states' windfall "should be treated with caution, and they shouldn't count on the windfall revenues next year," said Lucy Dadayan, a senior research scientist at Rockefeller.

Standard & Poor's raised other caution flags, noting that market **volatility** raises threats for states, and that widening federal deficits could weaken the federal government's ability to aid states during the next recession. The ratings firm forecasts that economic growth will decelerate in 2019 and beyond.

In the short run, the states' improved outlooks should make for a "more timely and less acrimonious" budget-making process for the coming fiscal year, the ratings firm said. Many states endured long budget battles last year.

A smooth budget process has been elusive for Louisiana, which is dealing with a unique problem: the expiration of about $1 billion in temporary tax measures on June 30. Lawmakers there have yet to find a fix that would stave off steep budget cuts.

The federal tax law helps, since Louisiana is among a small number of states where state-level deductions shrink when taxpayers pay less in federal income taxes. The state's Legislative Fiscal Office estimates a $44 million benefit in the current fiscal year, and about $300 million next year.

Richard Rubin contributed to this article.

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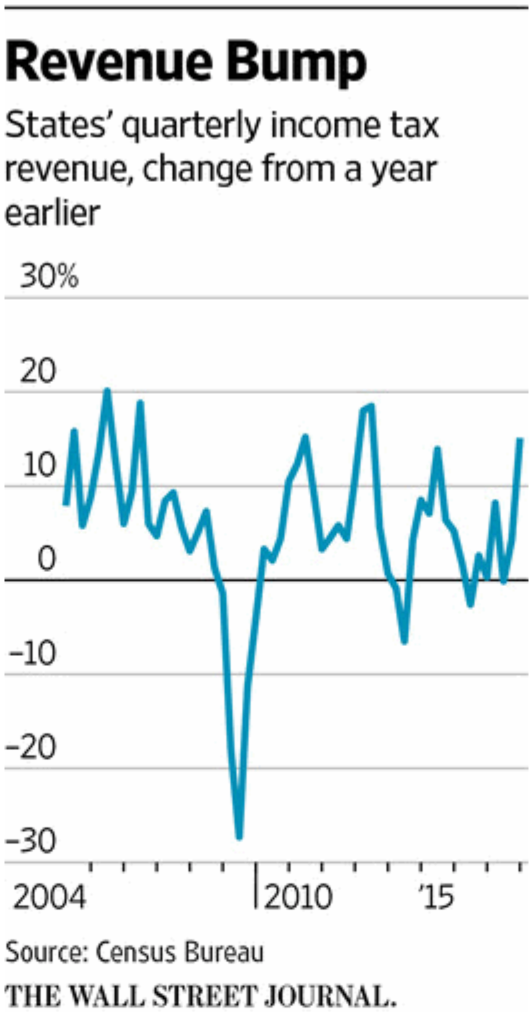

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Markets Run Fast Only to Stay in Place

By Akane Otani and Michael Wursthorn
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U.S. stocks and bonds appear deadlocked despite a positive response to Friday's "Goldilocks" jobs report, reflecting the conflicting impulses of a strong economy faced with rising interest rates and creeping fears about inflation.

Lingering concerns over the durability of global growth and the likelihood of tightening monetary policy have left many investors in a rut, neither inspired to pour money into the market nor convinced they should bail out just yet.

The markets' inability to get a meaningful boost from the glut of strong corporate earnings reports over the past few weeks has further sapped investor confidence. Other events that likely would have spurred the markets last year, such as the unemployment rate falling to its lowest level in nearly two decades and Apple Inc. announcing an additional $100 billion in share buybacks, failed to spark a sustained rally.

That has some investors saying they expect to see more **volatility** and weakness in the weeks ahead.

"People are in a bit of a holding pattern," said Jonathan Golub, chief U.S. equity strategist at Credit Suisse, adding that investors, from big institutional money managers to mom-and-pop shareholders, are finding it difficult to pick industries to buy into in this environment.

The **stock market** has fluctuated in a relatively narrow range for much of the past month -- neither breaking out to fresh records nor slumping to the lows it hit in February, when major indexes fell more than 10% from their all-time highs. After hitting records to start the year, the **Dow Jones Industrial Average** has gone 68 trading days since its last high, the longest drought since the 288 days spanning May 2015 to July 2016.

Government bond yields, meanwhile, surged to start the year but appeared to stall when the yield on the 10-year note approached 3% for the first time since 2014. It topped that mark in late April before pulling back again.

"There's a lot of positive signs, but there's not that one big sign that says, 'This is how we're going to get to the next stage of gains and growth,'" said Tom Stringfellow, chief investment officer at Frost Investment Advisors.

The Dow ended Friday's session at 24262.51, down 1.8% for 2018 and 8.8% from its Jan. 26 high, while the yield on the 10-year U.S. Treasury note settled at 2.946%, down from April 25's high of 3.026%.

To many, the market's lethargy reflects investor wariness over cracks that have begun to appear in the global economic expansion, which had helped power stocks, bonds and commodities last year. The pace of growth across most of the U.S. economy slowed in April, as did growth in the eurozone, data last week showed.

April's U.S. employment report on Friday left investors with mixed messages: The economy added fewer jobs than expected for the second month in a row, even as the jobless rate fell to its lowest level in nearly 18 years.

Still, few believe the economy has topped out. First-quarter corporate earnings were impressive, with a record share of **S&P 500** companies posting stronger-than-expected results, thanks in part to federal tax cuts, according to FactSet data going back to 2008.

Yet strong earnings have done little to lift markets, something analysts say reflects questions over whether the gains were already largely priced in by investors -- as well as fears that earnings growth could be close to peaking.

Caterpillar Inc. shares tumbled 6.2% on April 24 after executives warned on an earnings call that first-quarter results could constitute the "high-water mark for the year," while industrial giant 3M Co. shed 6.8% after trimming the top of its earnings guidance for the year, pointing to higher costs.

Others have been disappointed by the pace of business investment and wage growth, which many expected would accelerate due to the U.S. tax cuts.

Instead, wage growth has largely extended a sluggish stretch, while companies have said uncertainty over global trade policies has made it more difficult to plan investments.

Meantime, stock valuations remain at levels that some investors consider stretched, with the **S&P 500** trading at 16 times expected profit for the next 12 months, according to FactSet, in line with its five-year average of 16.1 but above its 10-year average of 14.3.

Another risk for stocks is the strengthening dollar. The currency notched its biggest monthly gain since 2016 in April and has continued climbing in May. Those gains could pressure earnings of U.S. multinationals.

The dollar's resurgence is upending stocks, bonds and currencies of some emerging-market countries, including Turkey, Argentina and South Africa. The MSCI Emerging Markets Index, which measures stock performance in those countries, is down 2.4% so far in May and is on pace for its biggest decline since February. Those countries risk paying a higher cost to service their dollar-denominated debt.

Emerging-market assets are usually seen as a barometer of risk appetite. Big declines can affect investor sentiment and even damp expectations for global growth, analysts say.

Yet even those who remain optimistic about the economy find it hard to identify what could break the market's lull.

"When people say it can't get any better than this, of course it can't," said Credit Suisse's Mr. Golub. "It's part of the reason why the market is struggling."

Daniel Kruger and Ira Iosebashvili contributed to this article.

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THE WALL STREET JOURNAL.
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Investing In Funds & ETFs: A Monthly Analysis --- Fundamentals of Investing: Caught in the 'Return Gap' --- Investors on average lose 1 to 2 percentage points a year because of their behavior, writes this professor

By Derek Horstmeyer
823 words
7 May 2018
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Most investors think of themselves as rational and immune from the behavioral elements that periodically roil markets. Human factors, however, do continue to affect our personal portfolio decisions -- usually to the detriment of our long-run returns.

One way to measure the damage is what is known as the "return gap," or "investor gap." This gap captures the difference between the average return for a fund and what the average investor actually experiences in returns within that fund. Why might these two numbers not match up exactly? A mutual fund's stated return will reflect the average return of its stock or bond holdings over a period of time. But because investors on average pull their money at the exact wrong time (panicking when the market has already hit a bottom and putting in more when at the top), they often don't experience this stated return in full.

Thus, what investors on average are actually experiencing in the fund is better captured by an asset-weighted return for the fund (an internal rate of return that factors in fund inflows and outflows).

Indeed, even though the average **S&P 500** indexed mutual fund delivered 26% returns in 2009, many investors saw lower returns because they had sold out at the bottom after experiencing the full weight of the 35% drop in the markets in 2008. So, while the average stated return for mutual funds over this two-year period was somewhere near minus 4.5% (minus 35% plus 26% divided by 2), many investors had an average annual return much closer to minus 17.5% (minus 35% plus 0% divided by 2). This would yield a return gap equal to 13 percentage points.

In what types of funds do investors suffer the biggest return gaps? A look at a variety of U.S.-based stock funds from 2008 to 2018 shows mutual funds that particularly target value stocks produced the biggest annual return gap for investors, 2.16 percentage points, followed closely by funds that target growth stocks, with 1.93 percentage points.

By contrast, investors in **S&P 500 index** funds and those in impact/sustainable funds -- or funds with an ethical bent -- have the lowest return gaps (0.77 and 0.93 percentage point, respectively). This might be surprising, since passive investing and ethical investing seem to be polar opposites (one pretty much ignores the content of the investments; the other is completely predicated on it). But the common link, according to Jina Penn-Tracy, a financial adviser focused on sustainable investing at wealth manager Centered Wealth -- who noticed this phenomenon with her clients, and is producing a series of white papers on the topic -- is that both types of investors resist the urge to try to time the market, which damages so many portfolios.

Fund flows for **S&P 500 index** funds have been less **volatile** at critical times as well, compared with other types of funds. While **S&P 500 index** funds as a group saw an inflow of $4.2 billion in 2008 (a 1.3% jump as a percentage of assets under management at the start of the year), investors in value funds pulled $15.1 billion (a 2.6% decrease as a percentage of assets) and investors in growth funds pulled $45.4 billion (a 4.5% decrease).

While we've shown that investment-style preference can be an important factor in determining return gaps, there is also a difference between individual and institutional investors. A comparison of the return gaps for U.S. stock mutual funds exclusively for institutional investors with the gaps for all other U.S.-based stock mutual funds shows that funds for the institutional investors had an annualized return gap that was 0.65 percentage point smaller than the gap for retail investors over a 10-year period.

The institutional investors saved more than half a percentage point a year compared with individuals -- because the big money is less likely to get caught up in the exuberance of market cycles and can ride out market storms.

With market **volatility**, as measured by the VIX, recently at a three-year high, it is important to resist the urge to panic when things turn south. The trick to this may lie in the behavior of index and/or impact investors -- either through being passive or through sticking with a moral/ethical attachment to holdings. This behavioral restraint could save you 1 to 2 percentage points a year by closing the return gap.

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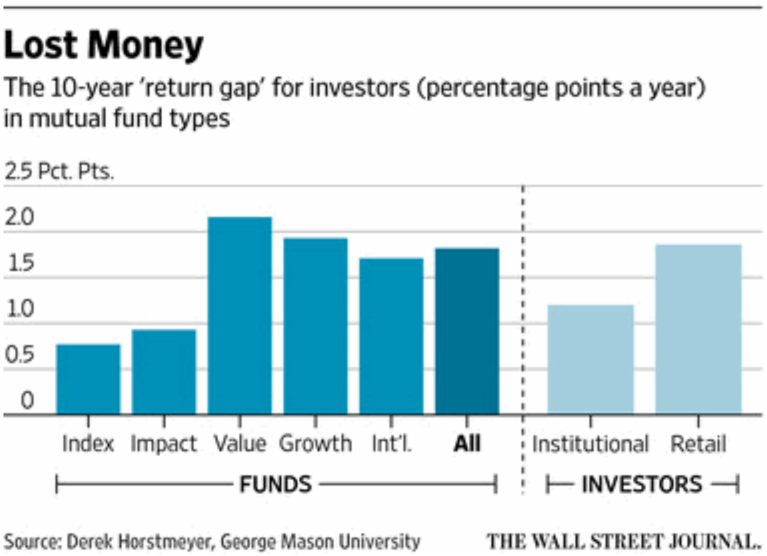

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THE WEEK AHEAD
Business/Financial Desk; SECTB
Nafta Talks Near the End; Fate of a Disney-Fox Deal

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Here's what to expect in the week ahead:

TRADE

A final push begins in the talks over Nafta.

Negotiators from the United States, Canada and Mexico will gather again in Washington on Monday to begin what government officials and industry leaders hope is the final leg of negotiations over the North American Free Trade Agreement.

Although the countries continue to have significant differences of opinion about the deal, the Trump administration is pushing to have talks finalized soon to meet all the necessary deadlines to submit the deal for a vote in the current Republican-controlled Congress. Robert Lighthizer, the United States trade representative charged with negotiating the deal, said last week that he aimed to wrap up talks in the next week or two. Ana Swanson

MEDIA

Disney reports earnings, but the big issue is Fox.

Disney is expected to report strong results for its fiscal second quarter on Tuesday. ESPN is sound (for the moment). The theme park business is going up, up, up. And Walt Disney Studios, which released "Black Panther" in the quarter, is the envy of Hollywood. Analysts expect per-share profit to increase about 12 percent, and revenue to climb about 6 percent.

But Disney's near-term performance is not what Wall Street cares about most right now -- not with Comcast positioning itself to upend Disney's pending $52.4 billion acquisition of 21st Century Fox assets. If Comcast does make a renewed push for Fox, is Disney willing to go to war? What happens if Fox slips out of Disney's grip? Does Disney have a Plan B?

Robert A. Iger, Disney's chief executive, will probably sidestep direct questions about the Fox acquisition on Disney's earnings conference call. But some tea leaves may emerge. Brooks Barnes

TECHNOLOGY

Google conference is expected heavily emphasize artificial intelligence.

Google is holding its annual conference for developers near its Mountain View, Calif., headquarters this week. The event open on Tuesday with a keynote speech by Sundar Pichai, Google's chief executive, who is expected to talk about its latest efforts around artificial intelligence -- a technology that the company believes will be instrumental to its future.

The conference comes as Google faces a growing backlash against its vast data collection practices in the wake of Facebook's scandal involving Cambridge Analytica. Dai Wakabayashi

Microsoft is expected to show off new initiatives at its Build conference.

One of the other centers of gravity in the technology industry, Microsoft, will hold its own technical conference for developers, Build, in Seattle through Wednesday.

There was a time no company was better at rallying developers to write software for its underlying technologies -- the Windows operating system, in Microsoft's case. But over the past decade, a lot of developer activity has shifted to mobile technologies from Apple and Google.

Build is expected to showcase a variety of Microsoft initiatives that have helped the company maintain its influence in the tech industry, including its Azure cloud computing service and tools for adding artificial intelligence to software. Nick Wingfield

ECONOMY

Bank of England seen as unlikely to increase rates.

The Bank of England, Britain's central bank, faces a tricky balancing act when its rate-setting committee meets on Thursday. With inflation still sharply above the bank's target, traders had been betting that policymakers would raise the benchmark interest rate.

But a recent run of poor economic data -- including disappointing growth figures and worse-than-anticipated results in the manufacturing sector -- has prompted traders to revise those expectations. Mark J. Carney, the bank's governor, has also played down the possibility of a rate increase. Prashant Rao

Inflation probably rose in April.

Friday's jobs report showed that the unemployment rate fell below 4 percent for the first time since 2000. That's good news for workers, but it may add to fears that the tightening labor market will lead to faster inflation. Data that is to be released by the Labor Department on Thursday could add more fuel to the fire.

Economists expect the report to show that consumer prices rose 0.3 percent in April and were up 2.5 percent from a year earlier, which would mark the fastest growth in more than a year. That acceleration would partly reflect higher **oil prices**, but inflation most likely picked up even setting aside **volatile** food and energy prices.

The Federal Reserve has already factored somewhat faster inflation into its forecasts, but an unexpected spike could force the central bank to raise interest rates more quickly than planned. Ben Casselman

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

Robert Lighthizer, the United States trade representative. (PHOTOGRAPH BY EVAN VUCCI/ASSOCIATED PRESS); Awaiting a "Black Panther" screening in Riyadh, Saudi Arabia. (PHOTOGRAPH BY AMR NABIL/ASSOCIATED PRESS)

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THE WALL STREET JOURNAL.

Markets

Test Your Smarts on...Stock-Market Cycles; How much do you know about bull and bear markets? Take this WSJ quiz

By Rob Curran
1,864 words
6 May 2018
10:11 PM
The Wall Street Journal Online
WSJO
English
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It has been a while since the last U.S. recession and a **bear market** in stocks, so investors can be forgiven for forgetting what tough times look like.

High time for a refresher.

Stock-market volatility is back with a vengeance, credit costs are rising steadily, and the prospects of a trade war are casting a shadow on economic forecasts. For years, economists talked about the "missing pieces" in the economic recovery—accelerating job growth, inflation and higher wages. Well, the global economic recovery has now ticked all the boxes, and the new parlor game on Wall Street is predicting the top of the **bull market** and the peak of the economic cycle.

For those with vague memories of the last economic downturn, here is a quiz on some of the terms and concepts that could soon be on investors' minds:

1. When does a **bull market** officially become a **bear market**?

A. When a broad U.S. **stock market** index, usually the **S&P 500**, drops 20% from a closing peak.

B. When a broad U.S. **stock market** index falls 20% in a single day.

C. When the chairman of the Federal Reserve declares it officially.

D. When a groundhog named Charles Dow emerges from its hole in Punxsutawney, Pa., and claws downward instead of upward.

ANSWER: A. The **S&P 500** is currently about 7% below its record close of 2872.87 on Jan. 26. Should it close below 2298, the broad index would be 20% below the record, resulting in the first U.S. **bear market** in almost a decade.

The bull and bear imagery derives from an old idea about investment styles. Bulls crouch down low to pick things up and toss them at a height. Bears swipe downward from a height and toss their acquisitions behind them on the following upswing.

2. What's the difference between a **bear market** and a correction?

A. Nothing. They are different terms for the same phenomenon.

B. Trick question. There's no agreed definition for a **stock-market** correction.

C. A **bear market** is a decline of 20% in the **S&P 500** from a recent peak; a correction is a decline of 10% in the **S&P 500** from a recent peak.

D. A correction means a **bear market** has extended it losses an additional 20%.

ANSWER: C. On Feb. 8, the **S&P 500** closed at 2581.00, more than 10% below its Jan. 26 high. That was the fourth time during the current **bull market** that the index had been in official correction territory. The most severe correction—considered by some to be a **bear market**—was a 19.9% retreat in April 2011 as fears about Greece and the eurozone reached fever pitch.

3. When did the current **bull market** begin, and why is it dated back to that moment?

A. Oct. 20, 1987. Bull markets start the day after a stock crash.

B. March 9, 2009. That's the day the Federal Reserve cut rates to zero.

C. Dec. 15, 1989. Coincidentally, when the "Charging Bull" bronze statue was installed on Wall Street.

D. March 9, 2009. That's when the **S&P 500** reached the low point of the last **bear market**, closing at 676.53.

ANSWER: D. A **bull market** happens when a major index sustains a 20% advance from a **bear-market** low. On March 9, 2009, the **stock market** didn't feel very **bullish**. The despair was almost as palpable as it was on the day that Lehman Brothers failed. The Atlantic's website ran an item on March 8 titled: "Ask the editors: What Happens if Citigroup Fails." It's this kind of "capitulation"—unfettered anguish throughout the **stock market**—that often turns out to be the painful birth of a new **bull market**. Nobody knows at the time whether the bounce will grow into something more lasting. Only in hindsight can chartists date the **bull market** back to the low point of the **bear market**. By August 2009, the **S&P 500** had risen by roughly 50%, and strategists from Goldman Sachs Group and elsewhere were hanging garlands on the new bull.

4. Where does the current **bull market** rank in terms of longevity among the longest bull markets?

A. It's the shortest **bull market** since 1937.

B. It's the longest **bull market** in history.

C. It's the second-longest, trailing only the **bull market** of 1987 to 2000.

D. It's the third-longest, trailing the **bull market** of 1987 to 2000 and the "What Great Depression?" **bull market** that ran from 1929 to 1945.

ANSWER: C. The **bull market** turned 9 in March. At its most recent peak, in January, the **S&P 500** had more than quadrupled from its low. Stock bulls claim there is a "new **bull market**" because the economic and financial policies of the current administration are so different from those of the last administration. The bears like to remind investors that "new paradigm" is a dangerous phrase that was popular before crashes in 2000 and again in 2009. One market saw says that bull markets "do not die of old age." Medical science suggests the same may be true of humans. However, it's also true that the older you get, the more likely you are to die.

If you look outside the **stock market**, however, this **bull market** may not seem that superannuated. By some measures, the **bull market** in Treasury bonds has lasted for more than 30 years.

5. What's the difference between a cyclical **bull market** and a secular **bull market**?

A. Cyclical bull markets end as soon as a **bear-market** decline (a 20% decline from a closing peak) occurs. A secular **bull market**, on the other hand, continues as long as stocks reach "higher highs" in the aftermath of a **bear market** where stocks didn't breach the previous **bear market**'s lows.

B. A cyclical **bull market** happens every four years.

C. A secular **bull market** doesn't include stocks associated with religious matters, while a cyclical **bull market** consists only of economically cyclical stocks.

D. A cyclical **bull market** refers to a pattern on stock charts that looks like a bicycle.

ANSWER: A. On March 9, 2009, the **S&P 500** closed at 676.53, far below the trough of 776 during the prior **bear market** in 2002. As a result, the charts showed that the secular **bull market** that began in 1982 had officially ended in 2007, the pre-financial-crisis peak. During those 25 years, there had been several corrections, a couple of bear markets and even a couple of crashes by some definitions (the most common of which is a 20% drop in a short period). Some portion of the gains amassed during each cyclical **bull market** had always been retained during those selloffs, however. In the brutal 2007-09 **bear market**, the work of not one but two cyclical bull markets was undone.

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6. What is a recession?

A. A recession is loosely defined as two consecutive quarters of negative economic growth. In the U.S., this indicator is confirmed by a finding from the National Bureau of Economic Research.

B. A recession is defined as four consecutive quarters of negative economic growth.

C. A recession is when the **stock market** falls 20% from a recent peak at the same time that the unemployment rate rises above 5%.

D. A recession is when the unemployment rate rises above 5%.

ANSWER: A. As a rule of thumb, a recession is happening in the U.S. when the Commerce Department's gross-domestic-product report shows that the economy has contracted for two quarters in a row. There are occasions, however, when nations register slowdowns (or big gains) for technical rather than fundamental reasons. To avoid misleading reads of raw economic data, a committee convened by economists' nonprofit guild, the National Bureau of Economic Research, confirms the statistics by publishing a declaration that the U.S. is in recession.

7. Does a **bear market** mean that a recession is on its way?

A. In theory, no. But in practice, almost always yes.

B. No. The **stock market** has no link to the real economy.

C. Yes, the Federal Reserve will officially declare a recession when a **bear market** occurs.

D. Yes. An increase in the bear population, particularly grizzlies, is bad for the economy.

ANSWER: A. While there is no direct connection between the price of individual securities and the rate of GDP growth, there are plenty of indirect connections. Over time, the pace of earnings growth—a key component of pricing stocks—has a loose correlation with the pace of economic growth. Changes in Federal Reserve policy, which has a direct effect on the economy, also can cause drastic reactions in the **stock market**. Whatever dynamics are at work, there is a very strong correlation between bear markets and recessions. "Since 1929 there have been 16 bear markets that in all but one period coincided with a recession," say analysts at brokerage Janney Montgomery Scott in a research note.

8. What are the odds of a recession in the next 12 months?

A. 1 in 2.

B. 1 in 5.

C. Impossible to gauge.

D. Low, but rising.

ANSWER: D. If the current **stock-market** correction (a correction is in force until the previous peak is surpassed or a 20% drop occurs) turns out to be a **bear market**, the odds would certainly rise. Right now, there is no sign of a recession in economic data. The new Federal Reserve chairman, Jerome Powell, said the central bank's impression is that economic growth is strengthening. At the same time, Mr. Powell conceded that the Fed's rate-setting committee is watching the impact of trade disputes on the economic outlook. And Mr. Powell was speaking before President Donald Trump threatened to impose tariffs on up to $150 billion of Chinese imports, and before China fired back.

One strategist said the Trump administration's decision to cut taxes and regulations at a time when the economy was already booming could, counterintuitively, heighten recession odds.

"It's like throwing gasoline on an already roaring fire," said Michael Arone, chief investment strategist at the U.S. SPDR unit of State Street Global Advisors. "This approach may result in insufficient resources when the inevitable economic rough patch occurs. What's more, this poorly timed fiscal policy may temporarily and artificially boost economic growth which is likely to increase inflation."

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THE WALL STREET JOURNAL.

Markets

David Bach's Best and Worst Investments; The author of 'Smart Women Finish Rich' talks about getting rich in Tribeca, but not with Tykoon.

By Chris Kornelis
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The first month that David Bach went to work with his father at Morgan Stanley in the San Francisco Bay Area in 1993, he sat in meetings with the widows of clients. He remembers two of these women didn't know the basics of money management because their husbands had handled all of the family's financial affairs. He watched his dad walk them through things such as writing checks, reading a brokerage statement and understanding from where their income was coming.

It gave Mr. Bach an idea.

He invited all of their female clients to a financial workshop, which ended up being more popular than the company's Christmas party. That presentation led to a book, "Smart Women Finish Rich," and that book lead to a best-selling publishing empire that has seven million copies of a dozen titles in print, including the inescapable wedding gift, "Smart Couples Finish Rich."

"My mission went from, 'How can I help my clients and my clients' kids?' " he says, to "How can I go out and inspire one million women to take charge of their financial security so that they can teach their kids how to do this?"

Today, Mr. Bach continues to write books and update his best sellers. He also is the co-founder of AE Wealth Management LLC in Topeka, Kan., a firm focused on helping retirees get the most "return on their retirement." Among other things, he creates training seminars for the company's financial advisers to give to clients.

"People retire in their 60s, and in most cases they die in their 80s, if they're lucky," he says. "Their 60s is their best decade," he says. "It is their go-go decade. And the 70s is the slower-go decade. And the 80s is often the no-go decade." As such, he says, one of his missions is "to really inspire retirees to get their financial plan done, so they can figure out how to get most out of their first decade of retirement."

Here, Mr. Bach talks about which of his investments gave him the most—and which gave him the least—and what he learned from those experiences.

Best Bet: A Tribeca loft

Investment: $2 million

Gain: $1.5 million

Mr. Bach says that when he first became a financial adviser, he was given one of the most important pieces of advice he has ever received: "If you do for yourself what you do for your clients, if you're good in this business, you'll be wealthy for life. So, I have always made it a goal to manage my money the way I would manage it for a client."

He says one of the most foundational pieces of advice he used to give clients when he was an adviser was to own the home they live in. "I'm just a fundamental believer that you can't get rich renting," he says, although he says he does suggest renting first.

So, when he moved to New York from San Francisco in 2002, he rented a home for a year before deciding to buy a Tribeca loft in a building that was being converted into condos. He and his wife were certain they had picked one of the best units, and spent $800 a square foot, a figure that generated laughter from a potential mortgage broker. But they were smitten, so they spent $2 million on the home.

When they decamped for Battery Park City in 2007 so that their children could live across the street from a park, they listed and sold their home in a day—for $3.65 million. After commissions, they netted around $1.5 million.

The takeaway: Mr. Bach says the deal didn't always sound as sweet as it ended. After they agreed to pay $2 million for the loft, the market experienced a correction, and the price of units in the building dropped 25%.

On paper, they had lost all of the equity they had in the home. But rather than panic, they stuck with it. He says they felt confident holding on to the home because they loved the location, they knew they could afford the mortgage and they weren't thinking of it as a short-term investment.

"The lessons, I think are: Real estate comes down to location, real estate comes down to financing and it also comes down to time," he says. "There's never been a real-estate market that's gone down that hasn't recovered and gone higher. And it's the same lesson with the **stock market**. Things go down in the short term, but they always come back and go higher."

Worst Bet: Tykoon

Investment: $100,000

Loss: $100,000

In 2010, a friend introduced Mr. Bach to a startup called Tykoon, which wanted to develop an app and website that could help parents teach their children about money using their allowances. As a father and financial professional, he was interested. As an investor, he was excited about the prospect of going into business with the company's founder, Doug Lebda, the chief executive officer and founder of LendingTree.

At the time, Tykoon didn't have a website or an app. Mr. Bach wrote a $100,000 check based solely on a PowerPoint presentation. It didn't go well.

"The company went nowhere and did nothing," he says.

Perhaps worse, it was a bust with his target audience. "I showed the product to my kids and was so excited to show it to them, because they knew I had been working on it," he says. "They looked at it for like six minutes and then never looked at it again."

Mr. Bach lost his entire investment. Losing the $100,000 was painful, he says, but it was worse thinking what might have happened had he invested in LendingTree instead. LendingTree was trading at $3 around that time; this year it traded in the $400s before cooling off more recently.

For his part, Mr. Lebda says he believes Tykoon could still be a success, but trying to launch it in the wake of the financial crisis set him back. "The timing wasn't right," he says.

The takeaway: Mr. Bach decided that as a conservative investor he doesn't want to invest in companies before they have a product. So he no longer looks at startups that are in a seed round with no product or team yet built.

"I want to come in after it has been built for two years, there's a team, they've made mistakes, they've learned from those mistakes," he says. "I want to come in after I've seen something getting off the ground."

Mr. Bach says it isn't that he believes it is foolish to invest in companies without a product, but he realizes that it is the wrong kind of investment for him.

"I don't need a 100x return on my money," he says. "I'm a more conservative investor. I want to have singles and doubles. I don't need to have a grand slam."

Mr. Kornelis is a writer in Seattle. He can be reached at reports@wsj.com.

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THE WALL STREET JOURNAL.

Markets

Bull Markets Die of Old Age. But Is That Conventional Wisdom Wrong? One analysis says the S&P 500 tends to keep going after five years of gains

By Simon Constable
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Is anxiety over how long this bull market will last overdone? Possibly, according to new research that suggests the life expectancy of bull markets not only doesn't decline with age—it may actually grow.

"Once a bull market is five years old, its remaining life expectancy doesn't diminish. If anything, it increases," financial research firm HCWE & Co. said in a recent report.

The idea that "bull markets die of old age" comes from the popular belief that elderly people use up a year of life expectancy with every passing birthday. While that may be true for younger age groups, differences in life expectancy become much less pronounced with advancing age, especially among the oldest segment of the population. After examining historical market data, the researchers suggest the same may be true of bull markets.

HCWE looked at the performance of the S&P 500 index from 1925 to the present, identifying 14 bull markets in addition to the current one that started in 2009. The analysis defined the end of a bull market as a selloff of more than 10% in the preceding 12 months, based on month-end total-return data.

The results show that the mean lifetime of a bull market is about 55 months. However, a bull market's life expectancy doesn't drop linearly as the duration of the rally increases, the analysis found. When a bull market is two years old, its mean residual life expectancy is 46 months. At five years of age, that declines to 41 months. Once a rally gets beyond five years old, however, its life expectancy is 44 months, on average, according to the researchers.

"Empirically, the longevity of bull markets is roughly age-independent," the report states.

Vincent Catalano, managing member of private-equity firm Adriatic Capital Partners and a past president of the CFA Society of New York, agrees that you can't predict when a bull market will end simply based on its length. "Even if a bull market is old and feeble, that doesn't mean that its death is imminent," he says.

So what does end bull markets? David Ranson, director of research at HCWE and author of the report, says it is the same things that typically push an economy into a slowdown—when investors see a rise in uncertainty about the future. "It's the uncertainty that is the poison that brings down the market and probably the economy as well," he says.

One obvious criticism of the analysis is that many people don't mark the end of a bull market the way HCWE does. "I've never heard that one," says Sam Stovall, chief investment strategist at financial research company CFRA in New York. "For me, a bear market starts with an end-of-day price decline of 20% or more from a prior closing high."

Mr. Ranson, however, says using other definitions likely wouldn't make much difference to the key takeaway from the analysis.

Still, the report acknowledges that the sample size, or number of bull-market events, is relatively small, which makes drawing hard statistical conclusions trickier.

Others are skeptical that there's much wind left in the sails of this bull market. "I do believe investors should be taking less risk in the current market because valuations are high, sentiment has generally been overly optimistic—especially last year—and monetary conditions are less accommodating," says Jason Browne, chief investment strategist at FundX Investment Group.

Mr. Browne says stocks might avoid a **bear market** if there is a sideways move in equity prices for a few years so that earnings can catch up with prices.

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

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THE WALL STREET JOURNAL.

World

The Riddle of the Eurozone's Missing Inflation; Eleven charts illuminate the problem; financial crisis casts long shadow over region

By Tom Fairless
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Unlike the U.S. and the U.K., where inflation has started to pick up, consumer-price growth in the 19-nation eurozone remains stubbornly low despite years of strong economic expansion.

That is a problem for the European Central Bank, which has spent €2.4 trillion($2.9 trillion) buying eurozone bonds since early 2015 in a bid to drive inflation toward its target rate of 2%. Despite that giant stimulus, underlying inflation—which excludes **volatile** food and energy prices—hasn't changed at all over the period, coming in at 0.7% in April. Unless inflation picks up soon, the ECB will struggle to raise interest rates to more normal levels in time for the next downturn, when it likely would need maneuvering room to lower rates to support the economy.

Cautious Employers

What distinguishes the eurozone is poor wage growth. Eurozone wages are rising by about 1.5% per year, roughly half the rate in the U.S. and Britain.

Normally, businesses would be expected to bid up wages as unemployment falls to attract scarce workers. That should push up consumer prices as business owners raise prices to protect their profits. The eurozone has created 7.5 million jobs over the past five years, fully erasing the job losses recorded during the crisis. And yet both wage growth and inflation remain relatively weak.

Here are the most plausible explanations—and why they might fade in importance.

Postcrisis Shadow

The shock of the financial crisis had a lingering impact on animal spirits. Unlike other regions, the currency union sank into a second recession in 2011-13 triggered by over-indebted governments. Eurozone companies and households are still much more reluctant to take on new loans today than they were before the 2008 crisis. That reduces the demand for goods and services and restricts price growth.

Cautious workers may be wary of seizing on the current economic boom to demand higher wages, which could push up inflation. Cautious companies also appear reluctant to offer permanent jobs, hiring many workers on part-time contracts that give employees a weaker hand in wage negotiations. Part-time work has accounted for about one-quarter of net employment growth during the eurozone's economic recovery, according to the ECB.

A Changing Workforce

New entrants—particularly older people and women—are joining the eurozone workforce, which increases the supply of labor and keeps a lid on wage inflation. Three-quarters of job growth over the recovery has come from older workers and more than half from women, partly due to recent labor-market reforms, such as increasing the age at which workers qualify for pensions, according to ECB President Mario Draghi.

In Germany, the region's largest economy, 3.1 million people 60 to 65 years old were working in 2016, more than double the number from 2006.

Today's workers don't just want more money. Especially in Germany, which has the region's lowest unemployment rate, unions are focusing on non-wage perks, such as more leisure time, or the funding of corporate pension plans. German metal workers in February pushed through the introduction of a 28-hour workweek.

At the same time, unions in most countries in the eurozone are growing weaker. In Spain, union membership fell by almost a third to 2 million in 2015 from 2.9 million in 2008, according to the Organization for Economic Cooperation and Development. In France, new laws introduced by President Emmanuel Macron allow managers and employees to negotiate workplace rules company-by-company, bypassing national unions. Recent labor-market changes in France, Spain and other countries make it easier for companies to hire and fire.

Past Performance

Workers and unions take into account recent inflation rates when deciding how much compensation to demand. Inflation's near-absence in recent years therefore has weighed on wage growth. Increases in productivity—another reason to demand higher wages—also have been weak. Since the early 1990s, the euro area has gone from being one of the regions of fastest-growing labor productivity, to one of the slowest, the data show.

The German Enigma

Low inflation is particularly mysterious in Germany, which accounts for about 30% of the eurozone economy. German joblessness has fallen to a 38-year low of 3.6%, and there are a record 1.2 million job openings. But Germany's inflation rate is hovering around 1.5%, compared with 2.4% in the U.S., where unemployment is higher.

The ImmigrationEffect

But the jobless rate masks the relative ease with which German companies can fill some vacancies because they can tap into a pool of more than 240 million workers across the EU.

Germany's economic strength has made it a magnet for workers from the struggling Southand poorer East. Eastern European workers in particular have poured into Germany since temporary restrictions expired in 2011: The number of Poles, Romanians and Bulgarians in Germany has more than quadrupled since 2000, to 1.8 million, according to the nation's statistics agency. Most recent immigrants took up lower-paid work, helping to reduce average German wages, according to the Bundesbank.

Just a Delay?

As in the U.S., however, inflation may be about to return to the eurozone as memories of the crisis fade. Immigration to Germany from Eastern Europe has slowed, and those already in Germany should see their wages pick up as their skills increase, according to the Bundesbank.

Signs suggest that businesses are swapping workers for machines at a slower pace, potentially giving employees more bargaining power. Some economists worry that inflation could jump suddenly—posing a problem for the ECB, which would need to move quickly to phase out its large monetary stimulus and start raising interest rates.

Leaving easy-money policies in place despite growth that is well above the region's long-term trend rate and full employment in the economy "gives a good chance of an inflation-upward surprise," said Paul Mortimer-Lee, an economist with BNP Paribas in New York.

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Investing In Funds & ETFs: A Monthly Analysis --- Spotlight / Nasdaq NexGen Economy: Blockchain ETF Asks for Patience

By Gerrard Cowan
363 words
7 May 2018
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The term "blockchain" conjures up, for most, thoughts about cryptocurrencies. However, the technology has far wider implications for investors, says the founder of an exchange-traded fund that tracks the technology.

Reality Shares' Nasdaq NexGen Economy ETF (BLCN), launched in January, invests in companies involved, to varying degrees, with blockchain, the decentralized information ledger that records transactions as encrypted blocks of numbers. Blockchains are maintained and updated simultaneously by multiple parties, providing a secure -- in theory -- and low-cost way of proving authentication.

The $125 million BLCN is one of the new ETFs in the area with eye-catching tickers like KOIN, BLOK and LEGR.

BLCN has had a rocky ride, with a total return of about minus 5% through April, according to Morningstar. Eric Ervin, CEO of Reality Shares, says this is due to bumpy markets in general. Blockchain, he says, is a theme that will grow in importance, particularly in financial services.

"You're investing in a 10- to 15-year theme here," he says.

BLCN tracks the Reality Shares Nasdaq Blockchain Economy Index, which consists of companies weighted according to their "Blockchain Score"; for example, how much the company spends on blockchain R&D, or its role in the blockchain ecosystem, and other criteria.

It's tough sledding for now. Funds in this area must struggle "to capture a growing and poorly defined space, in which blockchain is often but a small part of a company's business," says Elisabeth Kashner, director of ETF research at FactSet. Indeed, BLCN's top 10 holdings include names not often associated with blockchain, such as Intel Corp., International Business Machines Corp., Microsoft Corp. and Barclays PLC.

Mr. Ervin says blockchain is likely to play a substantially increased role in these companies' businesses in the coming years. He points to a new collaboration between Microsoft and Intel.

Mr. Ervin also says the companies that make up the index are likely to have more obvious blockchain connections in the future, as more specialist companies go public or are acquired.

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US
State Budgets Get Lift From Economy, Tax Bill; Federal tax law has helped, but analysts caution the boost is temporary

By Jon Kamp and Joseph De Avila
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An improved national economy is easing pressure on state budgets.

Budget officials from Utah to Connecticut are reporting better tax revenues and say their fiscal outlook has brightened, thanks to an expanding economy and job growth. The effects of the new federal tax law also increased revenue figures, but analysts caution that lift will be temporary for many states.

"Unlike last year, we're seeing broad-based strength," said Matthew Knittel, who directs Pennsylvania's Independent Fiscal Office. Taxes on income and sales are both coming in higher than expected, reflecting factors like rising employment and wages, he said.

This marks a turnabout from 2017, when Pennsylvania lawmakers struggled through a lengthy showdown over a $2.3 billion budget gap that spanned two fiscal years. Estimates are still preliminary, but Mr. Knittel said the current shortfall is much smaller.

The National Association of State Budget Officers has chronicled widespread problems in the past two years from states' revenue falling short of estimates because of a variety of factors. All but four states end their fiscal years on June 30, and 33 of them have to write brand-new budgets in time for the next fiscal year.

This time around, "we're not seeing retrenchment of those figures," John Hicks, Nasbo's executive director. "We're either seeing them left alone or slightly bumped up."

States reporting stronger-than-expected revenue include Minnesota and Utah, where officials say strong economies have fattened government coffers. Minnesota is on pace to have a $329 million surplus, while Utah will pull in $500 million in additional cash for the coming fiscal year.

"Good job growth, good wage growth" drove the state's favorable tax-revenue figures, said Phil Dean, Utah's budget director. Minnesota budget officials expect the state's income and job growth will continue through 2019, further padding tax revenues.

In general, the federal tax law limited some tax breaks but couldn't touch state tax rates. As a result, in many cases, existing state taxes on personal and corporate income are applying to a broader tax base and yielding more money. Some of those revenue increases are temporary and some states have moved to give back at least some of that revenue to their residents.

In Connecticut, which has been dogged by fiscal weakness for years, state budget officials in late April projected a $1.34 billion surge in excess income-tax revenue.

Connecticut's windfall comes with major caveats: about half is coming from one-time payments from hedge-fund managers racing to beat a tax deadline on some past offshore earnings, said Ben Barnes, the state's budget chief. Also, the numbers could have been boosted by residents cashing in stock at the end of 2017 to pay taxes on capital gains to take full advantage of the state and local tax deduction, which the new federal tax law capped, he said.

Connecticut has been repeatedly burned by overly optimistic revenue predictions that fueled prolonged budget fights, but this time may be different.

"I firmly believe there are some underlying tailwinds here, and that there are well-off folks who are doing well because they are making money and they are paying taxes on the money they are making," Mr. Barnes said. "There is definitely some solid economic news."

The sped-up tax payments seemed to boost state revenue numbers far beyond Connecticut. In a report last week, the Rockefeller Institute of Government found that states' personal income-tax revenue rose 15.1% during the fourth quarter of 2017 compared with the same period a year earlier.

The states' windfall "should be treated with caution, and they shouldn't count on the windfall revenues next year," said Lucy Dadayan, a senior research scientist at Rockefeller.

Standard & Poor's raised other caution flags, noting that more **volatility** in **financial markets** raises threats for states, and that widening federal deficits could weaken the federal government's ability to aid states during the next recession. The ratings firm forecasts that economic growth will decelerate in 2019 and beyond.

In the short run, the states' improved outlooks should make for a "more timely and less acrimonious" budget-making process for the coming fiscal year, the ratings firm said. Many states endured long budget battles last year.

A smooth budget process has been elusive for Louisiana, which is dealing with a unique problem: the expiration of about $1 billion in temporary tax measures on June 30. Lawmakers there have yet to find a fix that would stave off steep budget cuts.

The federal tax law helps, since Louisiana is among a small number of states where state-level deductions shrink when taxpayers pay less in federal-income taxes. The state's Legislative Fiscal Office estimates a $44 million benefit in the current fiscal year, and about $300 million next year.

"That's big bucks for us," said Greg Albrecht, the fiscal office's chief economist.

Richard Rubin contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Oil Costs How Much? How the Oil Rally Took Forecasters by Surprise; A sensitivity to geopolitics and the opaque workings of OPEC make it difficult to predict oil prices

By Alison Sider and Georgi Kantchev
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No one is more surprised by $75 oil prices than Wall Street's oil experts.

The price of crude has climbed nearly 12% this year and has reached its highest levels since 2014—a rally that has caught most big banks flat-footed. Last December, analysts surveyed by The Wall Street Journal predicted that Brent crude, the international benchmark, would average around $57 a barrel in the first quarter. Instead, prices averaged $67. On Friday, Brent prices rose to $74.87 a barrel.

Analysts often get it wrong across financial markets. Last year, they wildly underestimated gains on the S&P 500. Gold hasn't followed the script of the almost yearly predictions for higher prices. And U.S. bond yields have persistently undershot the estimates of many large firms for years.

But oil is seen as particularly tricky given its sensitivity to hard-to-gauge geopolitics and the opaque workings of the Organization of Petroleum Exporting Countries.

Recent years have been particularly challenging. The rise of the U.S. shale industry confounded all expectations, OPEC has shocked the market with its policy decisions, and the rapid collapse of Venezuela and other geopolitical shifts have jolted prices higher faster than many expected.

"Predicting oil prices is a mug's game," said Craig Pirrong, a professor of finance at the University of Houston. "The inelasticity of supply and demand mean that the price is very sensitive to random shocks that are themselves hard to predict."

But those predictions are important, as they're scrutinized by producers deciding whether to drill new wells, airlines looking to hedge their fuel costs and governments planning state budgets.

Analysts scrambled to downgrade their outlooks last spring, when oil prices tumbled amid rising U.S. output and concerns that a deal by OPEC's and its allies to cut production would fall apart.

But they were too slow to adjust again when prices started to climb months later. In September, analysts thought oil prices would average $52.83 in the final quarter of last year—about 14% below the actual average for the period.

"Forecasts can be upended by unexpected events—it's your best call at a point in time," said Harry Tchilinguirian, global head of commodity markets strategy at BNP Paribas. "Sometimes you get all the variables right, but your interpretation is not always the same as that of the market, so the forecast is off the mark."

Nonbank forecasters haven't fared much better. Oil forecasts made by the U.S. Energy Information Administration, for instance, have often missed the mark. The agency's prediction for the first quarter of this year was off by 15%.

Jonathan Cogan, a spokesman for the EIA, said that a range of factors such as unanticipated supply disruptions, OPEC policy decisions and weather, as well as the lack of accurate data outside the U.S., can lead to oil prices missing expectations.

In explaining the recent miss, analysts point to a confluence of unexpectedly bullish factors that has kept oil supply lower than expected. In particular, OPEC and its allies defied predictions and stuck close to their 2016 deal, while lower production from cartel members like Venezuela and Angola helped the entire group hit the overall target.

Demand also played a part, as a rare burst of synchronized global growth stoked appetite for oil.

Worries about an escalation of the Syrian conflict or a U.S. exit from the nuclear deal with Iran have added a so-called geopolitical premium to prices. Those events have become more important in determining prices as the oil glut has dwindled, reducing the cushion that insulated the market from the impact of surprise disruptions.

In general, limited data don't help, either. In the past, prices were more reliably correlated with inventory levels in the developed world, said Antoine Halff, senior research scholar at Columbia University's Center on Global Energy Policy. But developing countries that are becoming more important to the oil market are some of the most opaque when it comes to publicly available information.

To be sure, most forecasters anticipated that **oil prices** would climb, even if the magnitude of the move has been a surprise.

"Albeit higher than consensus, this was one of the most telegraphed rises in **oil prices**," said Jeffrey Currie, global head of commodities research at Goldman Sachs. And a decade ago when supplies were more uncertain, forecasts were much more spread out—a range of expectations from $40 a barrel to $180 a barrel in a given year wouldn't have been unusual, he said.

"Is $75 to $80 or even $85 really that shocking? The answer is no. We are within the range of possible outcomes given that shale is now the dominant technology," Mr. Currie said.

Many investors said they ignore price forecasts and focus on market trends.

"I don't look at them at all; most of them are conservative and backward looking," said Doug King, chief investment officer of the Merchant Commodity hedge fund. Others have developed their own yardsticks to gauge **oil prices**.

Bob Minter, who covers commodities at asset manager Aberdeen Standard Investments, said he reads bank reports "religiously"—but not for the numbers.

"I don't look at the price forecasts but rather at the underlying analysis," Mr. Minter said.

But others even see banks' forecasts as a contrarian indicator.

"Banks have been terrible at forecasting the **oil price**, which has given investors a great opportunity to be contrarian," said Geir Lode, head of global equities at asset manager Hermes, who said he's more **bullish** than the consensus on oil given a strong demand outlook and a lack of new large fields going online.

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THE WALL STREET JOURNAL.

Markets

Warren Buffett Lays Out a Berkshire Hathaway Future Without Him; Two new vice chairmen oversee business units as CEO touts company's reputation as 'buyer of choice'

By Nicole Friedman
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Corrections & Amplifications

Greg Abel and Ajit Jain were named as vice chairmen at Berkshire Hathaway Inc. in January. An earlier online summary and subhead incorrectly stated the men were named as vice chairmen at Saturday's annual meeting. (May 6, 2018)

OMAHA, Neb.—Warren Buffett tried to reassure shareholders at the Berkshire Hathaway Inc. annual meeting Saturday that the company's success would continue once he is no longer at the helm.

Berkshire promoted Mr. Buffett's two potential successors, Greg Abel and Ajit Jain, to vice chairmen in January and gave them bigger responsibilities overseeing the company's business units. The managers of Berkshire's 60-plus business units now report to either Mr. Abel or Mr. Jain, rather than to Mr. Buffett.

Their ascensions, and Mr. Buffett's eventual exit from the company, have raised some concern about one of the hallmarks of Berkshire's success: its reputation as buyer of choice for well-run companies. Part of the appeal to those companies is Mr. Buffett's seal of approval, and some shareholders question whether Berkshire will have the same success acquiring businesses under Mr. Abel or Mr. Jain.

"The reputation belongs to Berkshire now," Mr. Buffett said. "For somebody that cares about a business. we absolutely are the first call and will continue to be the first call."

Mr. Buffett said repeatedly at the meeting that Berkshire's success in acquiring companies and finding attractive investments is because of the company's balance sheet and track record, not his personal fame. While Mr. Buffett's lieutenants are well-known to followers of the company, Messrs. Jain and Abel rarely speak publicly.

As for the day-to-day of running Berkshire, the new leadership is so far status quo, Mr. Buffett said.

"Nothing's really changed that much," he said, joking that he has been semiretired for decades. Berkshire allows its managers to run their businesses relatively independently.

Mr. Buffett still oversees the firm's capital allocation. His portfolio managers, Ted Weschler and Todd Combs, manage about $25 billion in stock investments, and Mr. Buffett manages the rest of the company's stock and bondholdings, and its cash holdings.

Messrs. Combs and Weschler have arranged some deals for Berkshire, Mr. Buffett said, and the heads of Berkshire subsidiaries have long sought out "bolt-on acquisitions" on their own.

The succession questions were a key component Saturday as Mr. Buffett and his business partner, Berkshire Vice Chairman Charles Munger, answered questions from shareholders, analysts and journalists for hours.

The conglomerate runs a large insurance operation as well as a railroad, utilities, industrial manufacturers and retailers. Its holdings include Dairy Queen, Duracell, Fruit of the Loom, Geico and See's Candies. This year, more than 40,000 people were expected to travel to Omaha for the annual meeting.

In addition, Mr. Buffett again defended Wells Fargo & Co., one of Berkshire's largest equity holdings, despite a string of scandals at the bank. Some of Berkshire's best investments have experienced scandals in the past, including American Express Co. and car insurer Geico, he said.

"All the big banks have had troubles of one sort or another," he said. "And I see no reason why Wells Fargo as a company, from both an investor standpoint and a moral standpoint going forward, is in any way inferior to the other big banks with which it competes."

Berkshire said Saturday that it swung to a rare loss in the first quarter, hurt by the impact of an accounting rule change on unrealized investment losses. It was the firm's first quarterly net loss in nine years.

Berkshire reported a first-quarter net loss of $1.14 billion, or $692 per Class A share equivalent, from $4.06 billion, or $2,469 a share, profit in the year-earlier period. Operating earnings, which exclude some investment results, rose to $5.29 billion from $3.56 billion in the year prior.

Mr. Buffett cautioned shareholders in his annual letter, which was released in February, that Berkshire's earnings would appear more **volatile** starting in 2018 because of the new accounting rule that companies include unrealized investment gains or losses in their net income. Berkshire reported a $6.2 billion drop in investment income in the first quarter.

Berkshire also holds large investments, especially in the **stock market**. Mr. Buffett told CNBC on Thursday that Berkshire increased its large stake in Apple Inc. by 75 million shares in the first quarter.

Berkshire's Class A shares closed Friday at $292,600, down 1.7% for the year.

The 87-year-old Mr. Buffett, whose shrewd investments have earned him the nickname "the Oracle of Omaha," still has plenty of cash on hand for future acquisitions as a way to drive profit. Berkshire held $108.6 billion in cash at the end of the first quarter, down from $116 billion at the end of 2017.

Despite its burgeoning cash pile, Messrs. Buffett and Munger continued to argue against paying a dividend to shareholders. Berkshire hasn't paid a dividend in decades. Mr. Buffett said even a one-time special dividend would be "very unlikely," but he noted that if the firm decided it couldn't use its capital effectively, it would figure out the best way to return it to shareholders.

Mr. Buffett also said that Berkshire's project with Amazon.com Inc. and JPMorgan Chase & Co. to lower health-care costs for their employees is making progress, and he hopes a chief executive will be announced within months.

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Saudis Push for Oil at $80 A Barrel

By Summer Said and Michael Amon
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DUBAI -- Saudi Arabia is maneuvering to push **oil prices** up to at least $80 a barrel this year, shifting away from its longtime role as a stabilizing force in global energy markets.

Crown Prince Mohammed bin Salman, the country's day-to-day ruler, is behind the move, aimed at raising revenue as his government seeks to carry out a wide-ranging economic overhaul, senior Saudi officials said.

The Saudis already have helped drive **oil prices** up nearly 50% in the past year -- to nearly $74 a barrel on Friday for Brent crude -- by engineering a large output cut with the Organization of the Petroleum Exporting Countries and Russia.

By aiming to force prices even higher, Prince Mohammed is stepping away from a compact that has defined the kingdom's foreign relations for decades -- offering stability in **oil prices** in exchange for security assistance from the U.S. and other big energy consumers.

That equation has been changing with the rise of American shale-oil producers, a diminished U.S. appetite for Middle East military action and the ambitious, expensive agenda of the 32-year-old crown prince to modernize his kingdom.

The strategy isn't without risks, as higher prices could test the Saudi monarchy's warm relations with the Trump administration, and oil heavyweights such as Russia and Iran have already expressed worries about pushing up prices much higher.

"There is no intention whatsoever from Saudi Arabia to do anything to stop the rally" in **oil prices**, said a senior Saudi government official, who cited the minium $80 estimate. "It is exactly what the kingdom wants."

For every dollar that **oil prices** rise, Saudi Arabia gets about $3.1 billion a year in extra revenue, according to Rapidan Energy Group, a Washington consultancy. That cash infusion comes as the Saudi economy goes through a rough patch that shows just how dependent it remains on oil.

An austerity plan imposed when **oil prices** were lower levied new taxes on and stripped government support from regular Saudis, depressing consumer spending. The Saudi economy contracted in 2017 and is forecast to be an anemic 1.7% in 2018, largely because it has cut oil output with OPEC, according to the International Monetary Fund. Rising **oil prices** are driving a gradual economic recovery. Saudi crude exports have risen in recent months but are down significantly from 2016.

More oil revenue would also give Prince Mohammed some time and money to proceed at a slower pace with other economic reforms. The government has delayed the centerpiece of his plans, the initial public offering of state-energy giant, Saudi Arabian Oil Co., or Aramco, which had been expected to raise tens of billions of dollars this year for the kingdom to invest in non-oil sectors.

"It gives everyone time to breathe," a second senior Saudi official said of higher **oil prices**.

Saudi officials are prepared to drive **oil prices** higher in June when they push for a continuation of OPEC's output limits with Russia. They have also proposed scrapping the nuclear deal with Iran and reimposing sanctions on its oil, which could drive prices up further.

Officially, the Saudi government says it is agnostic about the price of crude. But energy minister Khalid al-Falih signaled the kingdom's posture last month at an OPEC gathering, where he said higher prices wouldn't affect oil demand yet.

"I don't see any impact on demand with current prices. We have seen prices significantly higher in the past. Twice as much as where we are today," he said.

That stance has rattled some countries, including the U.S., where President Donald Trump recently weighed in on Twitter with a warning that **oil prices** were "artificially very high." Average U.S. gasoline prices in April neared $3 a gallon, their highest levels in three years.

Brent, a North Sea crude against which internationally traded crude is priced, has breached $75 a barrel this year for the first time in over three years. West Texas Intermediate, a crude used to price American oil, has flirted with the $70 a barrel mark.

In the past, the Saudis have worked to cool off **oil prices** as they heated up in 2008 and 2011, knowing that moderately priced oil kept demand high and helped blunt a drive toward renewable energy. The Saudis often argued with OPEC members like Iran and Venezuela, which pushed for higher prices.

Back then, though, Saudi government spending was lower. From 2000 to 2014, Saudi Arabia needed an average **oil price** of about $75 a barrel to cover its government spending, according to the IMF.

In 2018, the IMF says, Saudi Arabia needs **oil prices** at over $87 a barrel to balance its budget. Prince Mohammed unveiled a record $260 billion budget last year, as the kingdom fights a costly war on its southern border with Yemeni rebels and supports growth in non-oil industries with subsidies.

The Saudi alliance with the U.S. remains strong as both move to contain Iran in the Middle East. The U.S. imported about 667,000 barrels of Saudi oil a day in February, among the lowest levels since the 1980s.

To be clear, Saudi Arabian officials say, they would step in with more production if prices suddenly soared. That would likely include increasing production should Mr. Trump end the nuclear deal and reimpose sanctions on Tehran's oil industry. Prices of $100 a barrel remain a psychological barrier the Saudis don't want to hit, people close to the kingdom say.

Saudi Arabia could face some resistance from fellow oil producers to pushing prices up too high, too fast.

Iranian oil minister Bijan Zanganeh told The Wall Street Journal in March that **oil prices** around $60 a barrel were ideal, setting up Tehran on the opposite side of a crude-market debate with its regional political rival, Riyadh.

Russia, which isn't an OPEC member, has also been more cautious about pushing for higher prices.

Some oil-industry analysts close to the Saudis say the kingdom is trying to stave off a future **oil-price** rise by nudging prices higher today to encourage more investment in the energy industry.

"They want more investment," said Bob McNally, the president of Rapidan Energy, who speaks with Saudi government officials.

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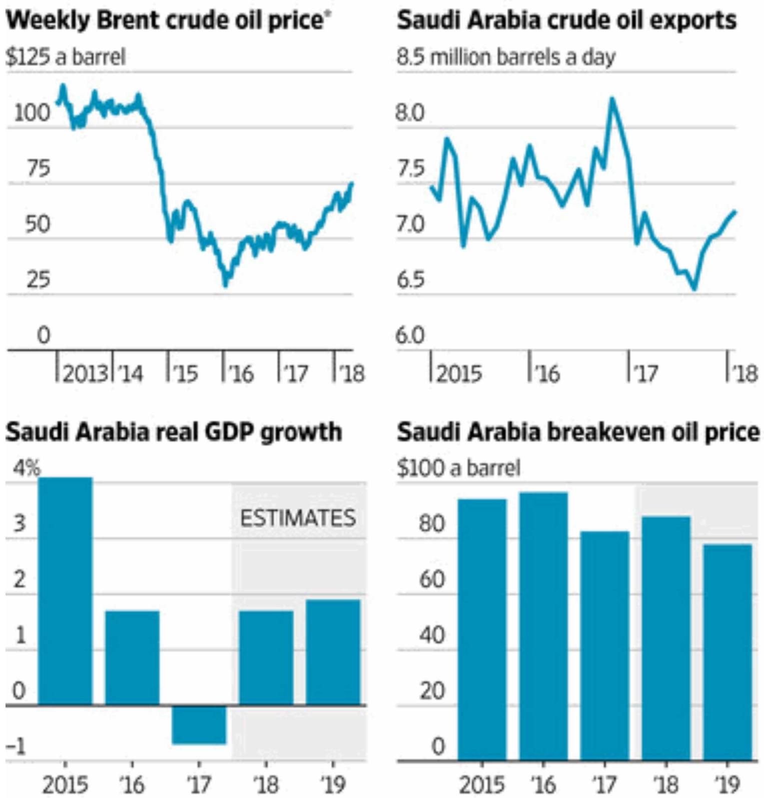
Energy Puzzle

Oil prices began rising after Saudi Arabia started to reduce crude exports, helping to boost the kingdom's gross domestic product and fund its budget amid a costly economic overhaul.



*Front-month contract

Sources: SIX Financial (Brent); Joint Organizations Data Initiative (exports); International Monetary Fund (GDP, breakeven price)

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What's News
Business & Finance

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U.S. unemployment fell to 3.9% in April, the lowest level since December 2000, the result of a historically long jobs expansion.

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A Walmart-led group is paying about $15 billion for a roughly 75% stake in Indian e-commerce firm Flipkart.

Xerox was thrown into turmoil after the collapse of a pact with two activists that would have fired its CEO.

The Dow rebounded, climbing 332.36 points Friday to close at 24262.51, but ended down for the week.

Argentina's central bank raised rates for a third time in eight days in a bid to stem the peso's depreciation.

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CBS News and Charlie Rose were sued over alleged sexual harassment.

AmTrust disclosed that it has been under investigation by the SEC for nearly five years over its accounting.

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The New York Times

Business/Financial Desk; SECTB
Indexes Jump as Apple Reaches a Record High

By THE ASSOCIATED PRESS
547 words
5 May 2018
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NYTF
Late Edition - Final
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U.S. stocks made up for a shaky week with a strong finish on Friday as Apple led a rally in technology companies. The tech giant hit a record high after Warren Buffett said he had made another big investment.

Stocks got off to a mixed start after trade talks between the United States and China ended with few signs of progress. The April jobs report showed that hiring continued at a solid clip and wages continued to grow at a slow pace. Apple surged after Mr. Buffett said Berkshire Hathaway bought 75 million shares during the first quarter.

Alphabet, Cisco Systems and other technology companies rose, and retailers, banks, and household goods makers also rallied. Investors also cheered strong first-quarter results from companies including Shake Shack and Activision Blizzard.

"We went into this earnings season with very high expectations," said Quincy Krosby, chief markets strategist for Prudential Financial. "When you go in with such high expectations, you expect near perfection."

The **Standard & Poor's 500**-**stockindex** climbed 33.69 points, or 1.3 percent, to 2,663.42. The **Dow Jonesindustrial average** rose 332.36 points, or 1.4 percent, to 24,262.51. The **Nasdaq composite** jumped 121.47 points, or 1.7 percent, to 7,209.62. The Russell 2000 index of smaller-company stocks gained 19.05 points, or 1.2 percent, to 1,565.60.

Overall, stocks have taken small losses in choppy trading over the past two weeks. But for Apple, this was the best week in six and a half years.

Apple rose 3.9 percent to $183.83 after Mr. Buffett told CNBC his company boosted its investment in Apple to more than 240 million shares altogether. Mr. Buffett told CNBC about the purchase ahead of Berkshire Hathaway's annual meeting this weekend. Berkshire stock rose 2.1 percent to $195.64.

Apple climbed 13.3 percent for the week after it reported solid quarterly results and investors were pleased with its forecast of solid iPhone sales. It also raised its dividend and announced a big stock repurchase.

Companies have done well in the first quarter, but stocks have not necessarily followed suit as investors worried about the United States-China trade spat, rising interest rates and other issues. But on Friday investors responded.

American employers stepped up hiring modestly in April, and the hiring estimate from March was revised higher. While many employers say it is difficult to find qualified workers, they have yet to significantly boost pay in most industries.

Bond prices rose early, but later gave up that gain. The yield on the 2-year Treasury note rose to 2.49 percent from 2.48 percent. The yield on the **10**-**year Treasury** note remained at 2.95 percent.

Benchmark U.S. crude rose 1.9 percent to $69.72 per barrel in New York.

Gold gained 0.2 percent to $1,314.70 an ounce.

The dollar fell to 109.11 yen from 109.73 yen. The euro fell to $1.1962 from $1.1993.

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

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THE WALL STREET JOURNAL.

Page One
What's News: Business & Finance

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THE WALL STREET JOURNAL.
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Banking & Finance: U.S. Investors Head Abroad

By Mike Bird
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4 May 2018
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Corrections & Amplifications

U.S. holdings of European Union and Japanese stocks rose by $1.124 trillion during the year to January. A Banking & Finance article May 4 about Americans' overseas investing incorrectly referred to U.S. holdings of eurozone and Japanese stocks.

(WSJ May 23, 2018)

U.S. holdings of European and Japanese stocks rose by $1.124 trillion during the year to January. A Banking & Finance article May 4 about Americans' overseas investing incorrectly referred to U.S. holdings of eurozone and Japanese stocks, and a correction published Wednesday incorrectly said European Union and Japanese stocks.

(WSJ May 25, 2018)

(END)

Rising interest rates were supposed to suck money back into U.S. markets. In reality, they are driving Americans to invest overseas.

One key reason is because the gulf between increasing U.S. interest rates and negative rates in Europe and Japan, a common technique of using currency forwards to hedge foreign-exchange risk is basically paying investors to take risk abroad. A currency forward contract locks in an exchange rate for the purchase or sale of a currency on a future date.

"If you look at a U.S.-based investor, they actually get a significant yield pickup going into Japan and Europe; it's very interesting from a flow perspective," said Jamie Fahy, global macro strategist at Citigroup, who added that the boost to returns could be one reason that European stock markets are outperforming the U.S. this year. The total return this year for the Stoxx Europe 600 is 0.3%, while the **S&P 500** has declined 1.1%, according to FactSet.

U.S. investors have poured $78 billion into Japanese and eurozone stock mutual funds and exchange-traded funds in the past year, according to figures provided by data firm EPFR.

By contrast, the move in currency forwards has made the cost to hedge dollar investments exorbitant for European and Japanese investors. Over the same period, eurozone and Japanese investors pulled $160.8 billion more than they invested from U.S. stock funds.

In the past year, big U.S. ETFs tracking Japanese and eurozone stock markets have increased significantly. Assets held by the iShares MSCI Japan and iShares MSCI Eurozone ETFs have risen 35% and 34%, to $14 billion and $21.3 billion, respectively.

Data from the U.S. Treasury International Capital System surveys, which cover a broader group of investments, are more striking. During the year to January, U.S. holdings of eurozone and Japanese stocks increased at the fastest rate in at least five years, rising by $1.124 trillion.

The mechanics of the currency forwards mean that a U.S. investor can use $120.80 to buy 100 euros today, and then use a forward contract to sell that 100 euros for $124.60 in 12 months, a 3.14% return on the initial expenditure, the highest amount since the common currency was launched in 1999.

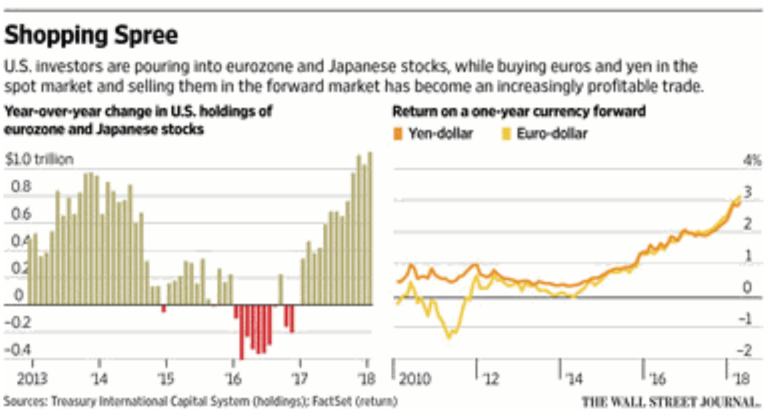
In the interim, the investor can use the euros purchased to buy European stocks. The Euro Stoxx index has a dividend yield of about 3.4%. Combined with the return from the currency forward, that investment would return roughly 6.5% if the price of the stock stays the same.

The return to a U.S. investor buying Japanese yen in the spot market and selling it in forward markets is roughly the same. "You're getting paid not to take that risk, basically. It's an unusual scenario," said Thushka Maharaj, global multiasset strategist at JPMorgan Asset Management.

There are other reasons for U.S. investors to be optimistic about European and Japanese shares. In both markets, valuation metrics like price/earnings ratios suggest stocks are less expensive than in the U.S.

The phenomenon is the same reason that higher U.S. bond yields aren't encouraging international investors to buy U.S. debt. Unless a buyer wants to take additional risk in the foreign-exchange market, U.S. Treasury bonds provide little to no additional return compared with domestic government bonds for Japanese and European investors.

On the flip side, it may make sense for U.S. investors to go abroad. "If you want to buy a 10-year German bond from the U.S., you can get about 3.5%. They've got no issuance issues, probably a supportive central bank, no inflation issues," said Jon Day, fixed-income portfolio manager at Newton Investment Management.



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The New York Times

STRATEGIES
Your Money

Who Runs Mutual Funds? Very Few Women

By Jeff Sommer
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4 May 2018
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Few reports on investing prominently feature female fund managers. There is a simple reason for that: The vast majority of investment professionals are men.

In fact, "vast majority" understates the case.

It turns out that less than 10 percent of United States portfolio managers at mutual funds and exchange-traded funds are women, according to Morningstar.

"We've been looking at this for years," said Laura Pavlenko Lutton, head of fund research for North America Morningstar. "Women are just stuck at that number."

Representation of women in the investing business is low by any measure — abysmally low when compared with other fields. For example, in 2015, Morningstar found that 37 percent of doctors, 33 percent of lawyers and 63 percent of accountants and auditors were women. The numbers suggest that the investment management business is in another league entirely.

How bad are the numbers for specific fund companies? With help from Morningstar and from Flowspring, an independent asset manager research firm, I tried to find out. We came up with a report card for the 25 largest mutual fund companies in the United States.

The numbers speak for themselves. As far as gender diversity goes, every company gets a failing grade.

These numbers look simple but they weren't easy to extract and, in some cases, they are only an approximation. That's because American companies aren't required to disclose the gender composition of their work forces. Without such a requirement, Morningstar and Flowspring used ingenious workarounds, which I double-checked the old-fashioned way, by directly contacting all 25 companies. I bear responsibility for the final result.

(A report on racial and ethnic diversity in these work forces would be worthwhile, too. But I have been unable to find reliable numbers on those criteria.)

Morningstar compiled data on all portfolio managers of mutual funds and exchange-traded funds for American companies. The list includes anyone designated as a portfolio manager on a fund prospectus, whether employed directly by a fund company or indirectly as a so-called subadviser.

The researchers used an algorithm to extract obvious female names, and did biographical research to determine gender when the names weren't clear. Warren Miller, the founder of Flowspring, filtered the data for the 25 biggest companies. He refined his data with help from Emily Laermer of Ignites, an industry news service.

I then called and emailed the companies and gave them ample opportunity to correct the numbers. Most confirmed the initial findings.

In some cases, I adjusted the numbers upward when companies demonstrated persuasively that there had been a miscount. A few companies questioned the final details — which could alter their own grades by a percentage point or two — but they didn't contest the overall results.

This exercise produced a troubling finding: Anywhere from 94 percent to 70 percent of the portfolio managers for American-registered funds at the biggest companies are men.

At the company with the best record, Dodge & Cox, women represent just 30 percent of portfolio managers. The company declined to comment about its record.

It seems fair to say that none of these companies has a particularly praiseworthy record, as far as this specific gender equity metric goes. (Pay in the industry is another issue: I don't have reliable numbers but have my suspicions.)

No fund company said that it was comfortable with its gender diversity record. The biggest fund managers — including BlackRock, Vanguard, Fidelity, American Funds, T. Rowe Price and State Street Global Advisors — all said they were committed to improving their gender diversity records, and were making efforts to recruit and train women who will eventually become portfolio managers.

Marie Chandoha, chief executive of Charles Schwab Investment Management, said: "I think it is clear that our industry is in great need of a makeover. While progress has been made in recent years, we need a serious and concerted effort to bring more women and greater diversity into the asset management industry."

Ms. Chandoha pointed out that Schwab has made progress in metrics aside from the percentage of female portfolio mangers. "While 28 percent of our portfolio managers are women, I am proud that they are managing 64 percent of our funds," she said. And, she added, "Looking at it another way, 53 percent of our mutual fund and E.T.F. assets are managed by a woman."

MFS, which stood at the bottom of the list, with a mere 6 percent of female portfolio managers in its American-registered funds, said that it, too, was committed to improving that record.

Daniel Flaherty, an MFS spokesman, said in an email: "Beginning in 2010, MFS put in place a program to improve the diversity within its investment division, focused on recruitment, engagement and professional development. We believe we are making progress, as 25 percent of the investment division today are women, up from 12 percent in 2010; 50 percent of new hires in 2017 were women; and one-third of new hires over the last five years have been women."

With women making up 10 percent of its portfolio managers, Fidelity falls right at the industry average, though it ranks in the bottom half of the biggest managers' list. For the last six months, the company, headed by Abigail Johnson, a granddaughter of Fidelity's founder, has been responding to allegations of sexual harassment, originally reported in The Wall Street Journal.

Fidelity "is very committed to gender diversity, not only among its portfolio managers, but across the entire business," Vincent G. Loporchio, a Fidelity spokesman, said in an email. He added, "We continue building our female talent pipeline with hiring programs through undergraduate and graduate school."

In addition to Ms. Johnson, he said, "women leaders include Kathy Murphy, who heads our personal investing business, which serves individual investors, and oversees $2 trillion in customer assets under administration, and a range of other senior-level executives."

Vanguard pointed out that women manage some of its biggest funds, including its **Standard & Poor**'**s500 stockindex** fund, and it said that it is committed to improving its gender diversity.

Just about all of the other companies had similar comments.

So why are so few women running funds? It is clearly not because women are bad at managing money. To the contrary, in a recent, rigorous study, Morningstar demonstrated that women are every bit as good at this job as men.

Even asking this question may seem odd in 2018, but Madison Sargis, senior quantitative analyst at Morningstar, said: "In case anyone thinks we aren't good at this, well, we wanted to put that to rest, and I think we did. We women do just fine as fund managers, when we get to run funds. The numbers demonstrate it."

There are many possible explanations for why so few women work as fund managers. We've explored those questions before — my colleague M.P. Dunleavey did an extensive report on the problem last year — and will do so again in the future. But at least now, with some numbers to look at, investors can begin to make choices.

It’s certainly possible to add gender diversity to criteria like fees, returns and risk. Some people, after all, have begun to avoid funds with holdings in companies they find objectionable, like those that make guns or engage in environmentally unsustainable or unethical practices.

Are you comfortable keeping your money in the hands of a company with exceedingly few female portfolio managers? Money talks. If investors pay attention to these statistics, we may at last see signs of progress in these gender diversity numbers a year from now.

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THE WALL STREET JOURNAL.

Markets

Oil Hits Three-Year High as Market Awaits Iran Decision; Production from OPEC fell to a one-year low in April

By Stephanie Yang and Christopher Alessi
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03:37 PM
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English
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Oil prices rose to a three-year high on Friday, lifted by falling OPEC production and concerns that fresh sanctions on Iran could further stifle crude output.

Light, sweet crude for June delivery gained $1.29, or 1.9%, to $69.72 a barrel on the New York Mercantile Exchange, the highest settle value since November 2014. Brent, the global benchmark, increased $1.08, or 1.5%, to $74.87.

Geopolitical tensions have been a key supporter of crude prices in recent weeks, as traders await a decision by President Donald Trump on whether the U.S. will pull out of the 2015 nuclear deal and reimpose sanctions on the oil-exporting country.

"This will be the main issue preoccupying the oil market, with fundamental factors such as stock levels and production data taking a back seat until this has been resolved," according to analysts at Commerzbank.

Meanwhile, production from the Organization of the Petroleum Exporting Countries fell to a one-year low in April, according to S&P Global Platts.

The global oil cartel, along with several other oil-producing nations including Russia, agreed in 2016 to limit output in hopes of eliminating a world-wide glut. Those efforts have been further aided by a decline in Venezuelan production amid deteriorating economic conditions in the country.

"It's really juicing the OPEC compliance rates and helping to support the market more than anything else," said John Kilduff, founding partner of Again Capital.

In the U.S., government data suggest the economy is on stable footing. Friday, the Labor Department said the unemployment rate fell to 3.9% in April, the lowest rate in 17 years. The U.S. economy added 164,000 jobs last month, falling short of economist expectations for an increase of 195,000.

Strong fuel demand has helped boost **oil prices** this year as increasing global consumption has helped whittle away excess crude.

"That demand strength is coming from this near-full employment," Mr. Kilduff said. "It's evidence of the strong gasoline demand that we're seeing."

Gasoline futures rose 1.3% to $2.1140 a gallon, and diesel futures increased 2% to $2.1540 a gallon.

Write to Stephanie Yang at stephanie.yang@wsj.com and Christopher Alessi at christopher.alessi@wsj.com

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THE WALL STREET JOURNAL.

World

Saudis Move to Push Oil Prices Higher, in Break From Past Policy; Crown Prince Mohammed is behind the move, which aims to raise revenue as his government seeks to carry out a wide-ranging economic overhaul

By Summer Said and Michael Amon
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DUBAI—Saudi Arabia is maneuvering to push **oil prices** up to at least $80 a barrel this year, shifting away for now from its long-time role as a stabilizing force in global energy markets.

Crown Prince Mohammed bin Salman, the country's day-to-day ruler, is behind the move, aimed at raising revenue as his government seeks to carry out a wide-ranging economic overhaul, senior Saudi officials said.

The Saudis already have helped drive **oil prices** up nearly 50% in the past year—to nearly $74 a barrel on Friday for Brent crude—by engineering a large output cut with the Organization of the Petroleum Exporting Countriesand Russia.

By aiming to force prices even higher, Prince Mohammed is stepping away from a compact that has defined the kingdom's foreign relations for decades—offering stability in **oil prices** in exchange for security assistance from the U.S. and other big energy consumers.

That equation has been changing with the rise of American shale-oil producers, a diminished U.S. appetite for Middle East military action and the ambitious, expensive agenda of the 32-year-old crown prince to modernize his kingdom.

"There is no intention whatsoever from Saudi Arabia to do anything to stop the rally" in **oil prices**, said a senior Saudi government official, who cited the minium $80 estimate. "It is exactly what the kingdom wants."

For every dollar that **oil prices** rise, Saudi Arabia gets about $3.1 billion a year in extra revenue, according to Rapidan Energy Group, a Washington consultancy. That cash infusion comes as the Saudi economy goes through a rough patch that shows just how dependent it remains on oil.

An austerity plan imposed when **oil prices** were lower levied new taxes on and stripped government support from regular Saudis, depressing consumer spending. The Saudi economy contracted in 2017 and is forecast to be an anemic 1.7% in 2018, largely because it has cut oil output with OPEC, according to the International Monetary Fund. Rising **oil prices** are driving a gradual economic recovery. Saudi crude exports have risen in recent months but down significantly from 2016.

More oil revenue would also give Prince Mohammed some time and money to proceed at a slower pace with other economic reforms. The government has delayed the centerpiece of his plans, the initial public offering of state-energy giant, Saudi Arabian Oil Co., or Aramco, which had been expected to raise tens of billions of dollars this year for the kingdom to invest in non-oil sectors.

"It gives everyone time to breathe," a second senior Saudi official said of higher **oil prices**.

Saudi officials are prepared to drive **oil prices** higher in June when they push for a continuation of OPEC's output limits with Russia. They have also proposed scrapping the nuclear deal with Iran and reimposing sanctions on its oil, which could drive prices up further. And Saudi officials have privately floated their desire for higher prices in the media, which helps push prices up.

Officially, the Saudi government says it is agnostic about the price of crude. But Saudi energy minister Khalid al-Falih signaled the kingdom's posture last month at an OPEC gathering in Jeddah, where he said higher prices wouldn't affect oil demand yet.

"I don't see any impact on demand with current prices. We have seen prices significantly higher in the past. Twice as much as where we are today," he said.

That stance has rattled some oil-consuming countries, including the U.S., where President Donald Trump recently weighed in on Twitter with a warning that **oil prices** were "artificially very high." Average U.S. gasoline prices in April neared $3 a gallon, their highest levels in three years.

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In 2018, the IMF says, Saudi Arabia needs **oil prices** at over $87 a barrel to balance its budget. Prince Mohammed unveiled a record $260 billion budget last year, as the kingdom fights a costly war on its southern border with Yemeni rebels and supports growth in non-oil industries with subsidies.

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To be clear, Saudi Arabian officials say, they would step in with more production if prices suddenly soared. That would likely include increasing production and replacing Iranian output should Mr. Trump end the nuclear deal and re-impose sanctions on Tehran's oil industry. Prices of $100 a barrel remain a psychological barrier the Saudis don't want to hit, people close to the kingdom say.

Saudi Arabia could face some resistance from fellow oil producers to pushing prices up too high, too fast.

Iranian oil minister Bijan Zanganeh told The Wall Street Journal in March that **oil prices** around $60 a barrel were ideal, setting up Tehran on the opposite side of a crude-market debate with its regional political rival, Riyadh.

Russia, which isn't an OPEC member, has also been more cautious about pushing for higher prices.

Some oil-industry analysts close to the Saudis say the kingdom is trying to stave off a future **oil-price** rise by nudging prices higher today to encourage more investment in the energy industry.

Mr. Falih has warned that oil supply could fall short of demand in the near future if companies don't invest in more drilling projects. Despite a 50% surge in prices since last year, drilling budgets at the largest global oil-and-gas companies are up only about 7%, according to consultancy Wood Mackenzie.

"They want more investment," said Bob McNally, the president of Rapidan Energy, who speaks with Saudi government officials. "The consequences of Saudi policy now is higher prices, but if you could have more investment at $65 a barrel, they would want $65."

There are risks for the Saudis in higher **oil prices**. The government peeled back energy subsidies this year, exposing regular Saudis to the higher gasoline prices that come with rising **oil prices**.

"I'm not just hurt by these price hikes, I'm going mad over them," said Abdulaziz Mohammed, a 29-year-old event-management employee as he bought gasoline at a fuel station in Riyadh. Filling up the tank of his Infiniti sport-utility vehicle costs the equivalent of between $30 and $40 for a tank now, about twice as much as last year.

The IMF warned this week that strong **oil prices** could cause the Saudi government to slow down its economic reforms. And there is the prospect that Mr. Trump will put the pocketbooks of American drivers ahead of his strong alliance with the Saudis, should prices rise too high.

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Jim Krane, an oil and geopolitics fellow at Rice University's Baker Institute in Houston, said the Saudi push for higher **oil prices** is a short-term shift designed to help Prince Mohammed through some challenging times.

"Saudi wants high **oil prices** for short-term goals like the Aramco IPO, budget deficits, fighting wars, and subsidizing citizens in ways that keep them satisfied with autocratic rule," Mr. Krane said. "Over the long term, however, the Saudis' interests align with cheaper oil."

Donna Abdulaziz in Riyadh and Nicolas Parasie in Dubai contributed to this article.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
U.S. Stocks Rise, Lifted by Late, Broad-Based Rally; Jobs report offers investors a mixed view of the labor market; Apple shares jump

By Akane Otani and Jon Sindreu
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* **S&P 500**, **Dow Jones Industrial Average** post small weekly declines

* Jobs report offers investors mixed view of labor market

* Apple shares rally on Berkshire investment

U.S. stocks rebounded Friday, shaving away much of the **S&P 500** and **Dow Jones Industrial Average**'s midweek losses but leaving both indexes down for a second consecutive week.

Friday's moves allowed the **stock market** to end on a high note following a rocky stretch that included lukewarm earnings reports and economic data.

Recent reports have pointed to a slowdown in growth across much of the U.S. economy in April, smaller-than-expected job creation and still-sluggish wage growth, which has renewed questions among investors about whether the economy's momentum is slowing.

Still, many investors say they remain relatively optimistic about stocks, citing broadly strong earnings results, as well as signs that central banks will stick to a slow and steady course of interest-rate increases.

"There are no alarm bells ringing on the inflation front, the [Federal Reserve] is saying it's going to be patient and earnings are strong," said Katie Nixon, chief investment officer at Northern Trust Wealth Management. "We don't think we're close to peak earnings."

The **Dow Jones Industrial Average** rose 332.36 points, or 1.4%, to 24262.51, erasing declines after falling as many as 151 points earlier in the session. The **S&P 500** added 33.69 points, or 1.3%, to 2663.42, while the **Nasdaq Composite** climbed 121.47 points, or 1.7%, to 7209.62, lifted by a rally in Apple shares.

The **Nasdaq** rose 1.3% for the week, while both the **S&P 500** and Dow industrials ended down 0.2%.

Technology shares led major indexes higher Friday, with Apple jumping $6.94, or 3.9%, to a fresh closing high of $183.83 after Berkshire Hathaway Chief Executive Warren Buffettsaid to CNBC that the firm had bought 75 million Apple shares in the first quarter.

Berkshire's class A shares rose $5,549.00, or 1.9%, to $292,600.00 ahead of the firm's annual meeting in Omaha, Neb.

Friday afternoon's broad market rally marked a reversal from earlier in the session, when stocks wobbled following an employment report that offered investors a mixed view of the labor market.

On one hand, the fact that wage growth remained sluggish helped ease investors' fears of a faster-than-expected pickup in inflation. Yet the fact that the report showed the U.S. economy added just 164,000 jobs in April—marking the second straight month of below-consensus job creation—also raised some questions among analysts.

"Today's report underscores the tug-of-war in the market: is the weaker headline number and slight contraction in wages an indication of economic growth slowing, or is it another sign of the labor market reaching full employment," said Quincy Krosby, chief market strategist at Prudential Financial, in an email.

Treasury yields, which initially fell following Friday's report, later erased their declines, with the yield on the benchmark 10-year note settling at 2.946%, unchanged from Thursday but down from 2.959% Friday a week ago. Yields fall as **bond prices** rise.

After **10**-**year Treasury** yields briefly crossed 3% last month, investors had worried that rising interest rates could start to make stocks look less attractive relative to bonds.

Yet Friday's wage growth figures helped reassure investors that inflation is still rising at a moderate pace, something that should keep the Federal Reserve on a slow and steady path for interest-rate increases.

Another factor that has helped ease some investors' fears: weak inflation data from the eurozone, which analysts say suggests central banks there also will remain cautious in raising interest rates.

"I would think that the Fed would let inflation bottle up a little bit more, just because it's been below their target for so long," said Sean Clark, chief investment officer at Clark Capital Management. "If the rest of the world is not seeing inflation and it's a global economy, what's the likelihood we'll have a surprise in inflation? I'd say minimal."

Elsewhere, the Stoxx Europe 600 rose 0.6%, led higher by shares of energy and technology firms.

Japan's Nikkei Stock Average was closed for a holiday, while Hong Kong's Hang Seng Index fell 1.3% and logged its third consecutive weekly decline.

Ese Erheriene contributed to this article.

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WSJ PRO FINANCIAL REGULATION

Markets

Wells Fargo Settles Securities Fraud Class Action for $480 Million; Suit relates to 'misstatements and omissions' in disclosures related to bank's sales practices

By Emily Glazer
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Wells Fargo & Co. said Friday it reached a $480 million preliminary settlement agreement in a securities fraud class-action suit.

The settlement comes at a difficult time for Wells Fargo, which is dealing with multiple investigations and settlements. The problems kicked off in September 2016 when its sales-practices scandal erupted, and the bank later disclosed it opened up to 3.5 million sham retail banking customer accounts.

Wells Fargo said the amount was fully accrued for as of March 31.

Last month, Wells Fargosettled with two of its key regulators for $1 billion over its failure to manage risk, particularly in its auto-lending and mortgage businesses. That caused it to adjust its first-quarter earnings down $800 million. And in February the Federal Reserve capped the bank's assets in an unprecedented enforcement action, also relating to its inability to manage risk.

The $480 million settlement is to resolve a class-action in federal court in the Northern District of California. It is subject to final approval by the court.

Union Investment, a European asset-management firm and the court-appointed lead plaintiff in the lawsuit, alleged that Wells Fargo and certain current and former officers and directors of the bank made false statements and "artificially inflated" Wells Fargo's **stock price** from February 2014 through September 2016.

The bank said Friday that it "denies the claims and allegations in the action and entered into the agreement in principle to avoid the cost and disruption of further litigation."

Wells Fargo CEO Timothy Sloan said in the statement that the San Francisco-based bank believes "that moving to put this case behind us is in the best interest of our team members, customers, investors and other stakeholders."

Union executive board member Dr. Andreas Zubrod released a statement saying: "We take action to rectify misconduct that raises significant public policy concerns and severely harms public **stock market** investors."

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WSJ PRO CENTRAL BANKING

Economy
Transcript: CNBC Interview With Dallas Fed's Robert Kaplan; Central banker talks about the April jobs report and his outlook for interest rates

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Federal Reserve Bank of Dallas President Robert Kaplan was interviewed by CNBC's Steve Liesman in Stanford, Calif., on Friday, May 4, 2018. Mr. Kaplan discussed the April jobs report, the yield curve and his outlook for interest rates. Here is a transcript of the exchange, lightly edited for length and clarity.

STEVE LIESMAN:…President Kaplan, thanks for joining us.

ROBERT KAPLAN: Good to be here, Steve.

MR. LIESMAN: Let's talk about this jobs report, which is something of a puzzle: 164,000 jobs created, but wages up only 0.1 percent, while the unemployment rate hits a low we haven't seen – it's in the 3s. Why aren't wages rising?

MR. KAPLAN: So I'm always careful not to overreact to one-month data. My guess is if we look over three, six months, we'll see some wage pressure. This month didn't show it. It showed every other element of tightening in the numbers, but it didn't show it in wage pressure. But I think it will. I think this may be just a one-month aberration. I still – everything I see tells me there's more wage pressure out there.

MR. LIESMAN: But the labor-force participation rate fell. Does that tell you that there – there's slack out there or there isn't slack out there?

MR. KAPLAN: It tells you – everything I saw here tells me there's a little less slack. U-6, which are unemployed plus discouraged workers –

MR. LIESMAN: Right.

MR. KAPLAN: – plus people who work part-time who want to work full-time, that's now 7.8 [percent]. That's below the prerecession low. That dipped down, unemployment rate dipped down, the 62.8 [percent] on participation. And our own work at the Dallas Fed suggests participation is inexorably going to dip below, down to 61 percent over the next 10 years because of aging. You can't get away from demographics. And so I think this labor force is getting tighter.

MR. LIESMAN: What does that say about whether or not the Fed needs to be tighter?

MR. KAPLAN: For me, I think that the Fed should continue to gradually remove accommodation, certainly until we get to inflation and until we get to neutral. And for me, neutral is somewhere between 2½, 2¾ [percent]. That would be my best estimate of neutral. Where we go from there I'm a little less sure.

MR. LIESMAN: Pretty close to neutral right now. You're like a year and a half or so away from it.

MR. KAPLAN: I think that the next couple or three moves, for me, are clear. We're at 150 to 175 [basis points]. I think once we get in the mid-2s I think the going gets a lot tougher. We have to be very, very careful, and here's why. Out-year growth, because of demographics, sluggish productivity, high levels of debt to [gross domestic product] – I think out-year growth is going to moderate down to 1¾ to 2 [percent].

MR. LIESMAN: Does the Fed need to go restrictive or tighten to keep the – to slow the economy? Is that the next step after neutral?

MR. KAPLAN: I'm not ready to make that judgment yet. The SEP, our projections, would suggest yes, but I think that's a judgment I'd rather make over the next year. And it's going to take into account a lot of factors, including where the **10**-**year Treasury** is.

MR. LIESMAN: Well, you mentioned it, and you're a former guy in the business. What is the yield curve, a flatter yield curve, telling you now? And I have this question: If you are faced with this decision to raise the fed- funds rate and that would cause the yield curve to invert, would that stop you?

MR. KAPLAN: It would give me great pause. I –

MR. LIESMAN: You would not vote to increase the funds rate to –

MR. KAPLAN: I'm not going to predict what I will or won't do. But I can tell you as I sit here now I – right now, as I sit here, I don't want to knowingly invert the yield curve.

And so what's the yield curve telling me? The flatness says we're late cycle. It also tells me that expectations of medium-term growth are very sluggish. So we're going to have a good year in '18. Got a lot of stimulus right now. I think by '19 we'll grow a little more slowly. And by '20 our own projections at the Dallas Fed suggest we're going to get back down to potential, which is more like 1¾ to 2. And I think that's what the yield curve is telling us. It's telling us out-year growth looks sluggish.

MR. LIESMAN: Robert, unfortunately, because of the president, we have to leave it there.

MR. KAPLAN: (Laughs.) OK.

MR. LIESMAN: Really appreciate you coming on today.

MR. KAPLAN: Good to talk to you, Steve.

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World News: Trump's Trade Policies Weigh on 'Euroboom'

By Emre Peker
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BRUSSELS -- The European Union unveiled an upbeat economic outlook for the eurozone, but warned of rising risks from President Donald Trump's protectionist trade policies and of the U.S. economy overheating.

As the currency union enjoys its strongest growth in a decade after years of crisis, the EU's potential trade war with the U.S. over steel and aluminum tariffs is weighing on what some officials and analysts have called the "euroboom."

U.S. trade policies pose an "unambiguously negative risk" to the global economy that threaten the eurozone's five-year expansion, the EU's executive -- the European Commission -- said on Thursday. EU officials are racing against a June 1 deadline to clinch permanent exemptions from Mr. Trump's tariffs of 25% on steel and 10% on aluminum imports, with no quick and clear path for an agreement.

Gross domestic product in the 19-member eurozone is set to grow by 2.3% in 2018, easing to 2% expansion next year, the EU said in its quarterly report, in line with earlier forecasts. The economy grew by 2.4% in 2017.

"The biggest risk to this rosy outlook is protectionism, which must not become the new normal," said Pierre Moscovici, EU commissioner for economic and financial affairs, taxation and customs.

Another threat stems from the president's stimulus measures, including tax cuts, which could result in a faster pace of interest-rate increases by the Federal Reserve if the U.S. economy overheats, the EU said.

Fed Chairman Jerome Powell said in April that gradual rate increases will help the U.S. economy grow without overheating, as some of his deputies warned of the risk.

That, along with Mr. Trump's trade measures, could contribute to **financial-market volatility**, which is "likely to become a more permanent feature," Mr. Moscovici said.

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WSJ PRO CENTRAL BANKING

Economy
Transcript: Interview With New York Fed President William Dudley; Official discusses the economy and his views on the financial markets

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New York Fed President William Dudley took questions from Matthew Winkler, Bloomberg's former editor in chief, on Friday, May 4, 2018. Mr. Dudley discussed the economy, his soon-to-end tenure at the New York Fed, and his views on the **financial markets**, among other topics. Here is a transcript of the exchange, lightly edited for length and clarity.

MATTHEW A. WINKLER: The (Federal Reserve) has introduced something that is very significant, as you well know, and it was because banks got into trouble with something called LIBOR (the London interbank offered rate), and as an alternative to LIBOR…So you introduced this secured overnight financing rate as an alternative, and I think a lot of people in this room and around the world would like to know right now just how committed is the Fed to seeing the secured overnight financing rate adopted, and will it replace LIBOR, which has $200 trillion notional outstanding, and especially in the context of Andrew Bailey, who is the chief executive (officer of the U.K.'s Financial Conduct Authority). He insisted that there is no compulsion to publish LIBOR beyond 2021.

So welcome to Bloomberg. Thank you very much for being here, and would you please answer the question?

MR. DUDLEY: OK, sure. We're absolutely committed to the secured overnight funding rate for a variety of reasons: one, we needed a rate that's… based on actual transactions. The secured overnight funding rate represents the Treasury repo market, which is a really deep and liquid market, and so that we know that the rate actually reflects transactions in the marketplace; unlike LIBOR, where a lot of the transactions are – there are very few transactions, especially in the longer tenors, like three-month LIBOR, which is actually used for basis for many financial contracts.

So there's two problems with LIBOR: number one, not always rooted in transactions; it depends on expert judgment. And as we saw during the LIBOR scandal, that expert judgment creates incentives to manipulate, to cheat, to try to distort the submitted rate. We think the secured overnight funding rate, since it's based on transactions, much less risk of that.

And the second thing is what you noted, LIBOR is going away. Banks are basically being compelled to continue to submit LIBOR by the Bank of England, but that's not something that they want to do because they recognize that there are flaws with LIBOR as a reference rate.

And so probably at the end of 2021, LIBOR will go away, and we need a rate that all these, you know, hundreds of trillions of dollars of contracts can migrate to. And so SOFR is the rate that the (inaudible), which is a private sector committee thinking about what reference rate can we actually migrate these contracts to, has selected.

So I think what we're – you know, we're in the middle of the process, so we now have a very viable reference rate, SOFR. We now have futures on SOFR that just opened up very recently. I think eventually we will get a term curve for SOFR. And then the heavy lifting will occur, which is actually to move the existing set of contracts that we have today that reference LIBOR onto SOFR.

But I think that, you know, our job at the Federal Reserve is to do two things: one, produce an (International Organisation of Securities Commissions)-compliant reference rate, which we are doing; and two, to make sure that this transition happens in a timely way. Because if LIBOR were just to stop, it would be a disaster because most of these contracts actually don't have anything as a fallback rate. They basically say, if LIBOR doesn't exist, call your bank for your rate. Well, that's not very feasible. So this is something that's going to be, you know, very much on the agenda of (Fed) Chairman (Jerome) Powell at the (Fed board of governors), (Fed Vice Chairman for

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Supervision Randal) Quarles at the board and my (designated) successor, (San Francisco Fed President) John Williams, at the New York Fed.

MR. WINKLER: So there still is this anxiety, you're probably aware of it, that capital requirements could be increased. And if capital requirements were increased, so it is perceived, that could torpedo the participation in this SOFR. So what assurances would you give the market?

MR. DUDLEY: Well, we know that the Treasury is still going to have to issue a lot of Treasury securities over the next 10 years. And in fact, the supply of Treasurys is actually going up, so I'm pretty confident there is still going to be a very deep and liquid Treasury repo market as those Treasurys need to be finances. So I think there is virtually, you know, no risk of that market going away, unlike LIBOR, so I think that's – this is a market – you know, we – this is the rate that was selected precisely because of the high degree of confidence that this rate will continue for a very, very long period of time.

MR. WINKLER: So we just shared a brief survey of data showing steady growth, low inflation, lowest unemployment since 2000, today, low debt ratios, healthy banks, economists see (gross domestic product) growth about 2 percent through 2020 according to economists surveyed by Bloomberg. So do you think we're poised to break the record for the longest expansion?

MR. DUDLEY: I wouldn't want to jinx it by making any presumptions. But I think the outlook over the next couple of years is pretty good. I mean, the economy is growing at above-trend pace. Businesses, as you noted, seem to be in good shape financially. The household sector is in good shape financially. Household debt has been growing quite slowly during this cycle. We saw today another good, healthy gain in payroll employment. So I'd be surprised if the expansion were to end in the next year or two.

Now, there are some clouds that I see over the longer term. One cloud is what's going to happen on trade policy. Are we going to continue with an open trade system or are we going to – or are we going to raise trade barriers and get into a trade war? You know, if we go down the bad path, then that would obviously create quite a bit of risk for the U.S. economy.

And the second thing is fiscal sustainability. You know, the corporate tax reform probably was overdue, but this is a lot of fiscal stimulus late in the cycle, number one. And number two, if you look at the fiscal – the deficit projections from the Congressional Budget Office, there are budget deficits of 4 ½ to 5 ½ percent of GDP over the next decade. That means the debt-to-GDP ratio in the U.S., which is already high, is going to keep climbing. So I think there are some real fiscal sustainability issues that may ultimately become quite relevant to the U.S. economic outlook down the road.

MR. WINKLER: Since you mentioned it, the stimulus, otherwise known as a very big tax cut –

MR. DUDLEY: Well, there's two pieces. There's the tax cut and then there's the increase in the spending caps.

MR. WINKLER: So are you seeing any signs yet of major investment by companies?

MR. DUDLEY: Well, I think investment spending has been doing, you know, reasonably well. I mean, it's been growing 6 percent-plus each of the last two quarters. Are we seeing signs of an acceleration from that pace? Not yet, but I wasn't expecting to be seeing that quite yet. You know, it takes time for businesses to decide to increase their investment. They have to actually have projects to invest in. So I think the jury's out.

I mean, I think we're – I think most people are pretty confident that the tax legislation will encourage investment, because it basically reduces the statutory corporate tax rate. So corporations will have higher profits because of a lower corporate tax rate, at least – at least for the short term. And it also reduces the user cost of capital significantly because it has 100 percent expensing for new investment. So it would be – it would be shocking if that didn't lead to stronger investment. I think they key question is how much. You know, investment spending is a couple percent stronger. That probably doesn't have huge implications for, you know, the growth rate of the economy, its potential growth rate over time. But if you get something more powerful than that, then that has implications for how fast the economy can grow over the longer term.

MR. WINKLER: Well, the sponsors of the tax cut equated it with rocket fuel for companies investing. Is that –

MR. DUDLEY: Well, we'll see. I mean, you know, my own view is if you look at it historically, investment spending has really not been that sensitive to the cost of capital. So I think there's definitely going to be a positive effect on investment spending. But I guess that I would expect that it'll probably be more modest than really large. So far,

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we haven't seen really any sign of an acceleration. But, you know, it's early days. So I wouldn't take much evidence from that.

MR. WINKLER: So something that you did achieve in the past six years, and especially the last four years, is the Fed came closest to meeting this inflation target of 2 percent. I mean, people could say better lucky than smart, but the fact is you go back all the way to Arthur Burns as chairman of the Fed, which is going back a long way. I think you were just beginning to think about being an economist at Goldman Sachs (Group Inc.) and I was just beginning to write stories for The Wall Street Journal. So that's a long time ago. So what did the Fed do the past four years that, you know, made the difference?

MR. DUDLEY: I think what is important in terms of what the Fed did was twofold. One, we were in the middle of the financial crisis. The Fed basically pulled out all the stops to keep the financial system from collapsing, because if the financial system had collapsed we probably would have had a great depression. And number two, postcrisis, as we're starting to have a recovery, the Federal Reserve pursued a very stimulative monetary policy to try to get the economy back to full employment quickly rather than slowly. And so as a consequence of that, inflation in the U.S. – the amount of disinflation that we had in the U.S. was less than in places like Europe or Japan.

I mean, the lesson of the Japanese experience, when the Japanese bubble burst, was that they didn't respond forcefully enough in a timely enough way. And so what happened is inflation expectations got unanchored to the downside, and then they had a great difficulty of pushing inflation back up to their objective. I think we responded more aggressively. You know, you mentioned the controversial quantitative easing programs. We also did forward guidance. And I think those things were helpful in keeping inflation expectations from falling a lot. And that made it easier to get back to – close to our 2 percent objective.

Now, I wouldn't quite declare victory yet. I mean, the inflation data goes up and down month to month. But we've made some progress. And, you know, I'm certainly happy with where we are today.

MR. WINKLER: Which is 1.9 percent.

So quantitative easing. So far, so good. It proved successful. It became the template for rescuing Europe from its own recession. Yet, the critics, who we referenced earlier, haven't really acknowledged any regrets about assailing the Fed for pursuing this monetary policy. None of them, as far as we know, have said they were wrong. Do you think enough time has passed for history to judge QE an unqualified success?

MR. DUDLEY: I'd say it's still a little premature. Let's get – let's fully normalize the balance sheet and then maybe we can say we've actually accomplished our mission. Look, I think the confusion about quantitative easing was that people didn't fully appreciate that the Fed was in a different regime. In the old regime, we basically put just a small amount of reserves in the system necessary to keep the federal funds rate well balanced. But in the fall of 2008, with the (Troubled Asset Relief Program) legislation, the Federal Reserve got the authority to pay interest on reserves. And the ability to pay interest on reserves allowed you to basically ration the demand and supply of credit, but through the level of prices rather than through quantities.

And so people thought, gee, we're buying all these securities. We're adding rapidly to reserves. The monetary base is growing rapidly. But they were ignoring the fact that we actually had interest rate control because of the interest rate we were paying on reserves. And so I was never worried that the quantitative easing was going to create an inflation problem. What I was actually worried about was that people thought it might. And if people thought it might, then maybe inflation expectations would get unanchored to the upside. That was what I was actually worried about.

MR. WINKLER: So what's interesting about what you just said is that coinciding with the QE programs one and two, it turns out that **volatility** in the market, both Treasury market, debt market, and the **equity market**, collapsed from where it had been, dramatically so. You could see a big change from even the Bernanke-led Fed to the Yellen-led Fed, which you were obviously very much part of. What was going on there?

MR. DUDLEY: Well, I think that the economy cooperated. So we actually had a very steady recovery, economy growing at a little bit above trend pace but not a boom. So the unemployment rate was coming down very gradually. And so in that environment, there weren't a lot of surprises to the market. And because there weren't a lot of surprises to the market, there wasn't a lot of **volatility**. Now, did the Fed – did the Fed's actions probably dampen **volatility** a bit? Perhaps. But I think it was – it was the fact that the economy cooperated. So we got an economy that was not that different than what we were anticipating. If the economy had surprised, then I think there would have been a lot more **volatility**.

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MR. WINKLER: But even as late – you could say as late as 2012, you had no less a light than (JPMorgan Chase CEO) Jamie Dimon querying (then-Fed Chairman) Ben Bernanke about, hey, haven't you maybe gone too far, your folks? And so there was a prevailing –

MR. DUDLEY: Well, and then it goes back – you know, that goes back to the Japanese experience. You know, I think – I think Ben Bernanke very much understood that. He understood the lessons of the Great Depression. I had done a lot of reading about the Japanese experience as well. And so I was – you know, I was completely, you know, in line with his views that we have to err on the side of doing enough. Not doing enough would risk inflation expectations falling to well below 2 percent. And then we could end up in a Japanese situation where it's really hard to make monetary policy stimulative, because inflation is so low.

MR. WINKLER: So in the aftermath of the financial crisis, you were probably the most vocal New York Fed president in memory to speak about rooting out bad behavior in the **financial markets**, and creating incentives for integrity in this greater community known as Wall Street. Did you succeed?

MR. DUDLEY: I think we've made progress. I mean, I think it's – you know, it's a work in process. This is not a task that's ever going to end. I mean, I think the – my view is a very simple one. You look at the bad behavior that we saw during the financial crisis and its aftermath. And it was – it wasn't, like, in the gray area. It was, like, way over the line. You know, people colluding to rig Libor, people colluding to rig the foreign exchange rate fixing, some of the issues you saw with that major West Coast bank in terms of how they're selling accounts to their customers. And so that's the first piece.

The second piece is the fines were really large. So the cost of doing this was really going up. And so there really was risk…. And all those things I think were suggesting that, you know, this problem is not one institution or a few bad apples. It's more systemic. That's the first point. The second point, I think, is I came to a decision that, you know, it can't just be about regulation and supervision. That the managements of these organizations have a responsibility to make sure that their people behave well, that they have good cultures in their institutions. Just relying on supervision and regulation isn't sufficient.

And this was driven home to me because we had a number of deans of business schools come in and visit us a couple years ago. And they actually said to me something that was pretty interesting, a number of them. They said that basically people that were graduating from business schools were starting to shy away from going into finance because it was an unethical business from their perspective. Now, that's not a great selection process. If only the – the people who have very high ethical standards are not going into your business, that's not going to help you do better.

So, look, I think we're making progress. The banks are taking it a lot more seriously. Bank leaders are taking it seriously. Board of directors are taking it more seriously. But there's still more to do. Like, one thing I'd love to see happen in the United States is the banking industry, as a group, commit to doing a survey across all their institutions by a third party in terms of evaluating their culture, because I think they would find it very interesting to see, number one, how are they doing relative to their peers? And, two, I think they'd be – find it interesting to see how they're doing when a third party does this survey versus when they do their survey themselves. So I think that'd be something that—that's definitely doable. It's being done in the United Kingdom. And I think it would be great if we could bring that to the U.S.

MR. WINKLER: So you have, for the most part, been a champion of what is known as Dodd-Frank, and think that it has achieved, in the context of –

MR. DUDLEY: It's not perfect, but it beats a lot of alternatives.

MR. WINKLER: So, at this point, your assessment of what should be done, if it isn't done yet, what – what should we make of Dodd-Frank? Especially since there's much enthusiasm for rolling it back right now.

MR. DUDLEY: Well, look, I think Dodd-Frank did a lot of the really important things: number one, more capital and liquidity for the large systemic organizations; two, central clearing of over-the-counter derivatives through, you know – so clear them through (inaudible); three, give the Federal Reserve more supervisory oversight over **financial-market** utilities, the orderly liquidation authority basically, so a way of resolving a large banking institution by converting its debt into equity and recapitalizing it. So a lot of really good things. So, you know, a more good than bad.

Were there some things that probably didn't work as well as you might have liked, like the Volcker Rule? Was the burden maybe a little bit too harsh on smaller banking institutions? Those are things that I think are being – it looks like they're going to be changed. There's a bill in the – in the Senate, that's passed the Senate, that reduces

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the burden on smaller banks, that takes a new look at the Volcker Rule. So I think we're making some changes at the margin that are basically good.

All I've been saying all along is don't throw the baby out with the bathwater. Keep the capital, keep the liquidity, keep some of these fundamental reforms in terms of the derivatives markets, and keep the orderly liquidation authority. If a large bank gets into difficulty, you have to be able to have a way of resolving it over the weekend that's credible. And that means – so that means you have to be able to do something quickly and, two, you need to have a source of liquidity on Monday morning so people in the market know that that organization is going to be viable. And the only way I've seen to do it so far is the orderly liquidation authority that's part of the Dodd-Frank Act.

MR. WINKLER: So there are 12 Fed banks, of course, under the 1913 Act, but there's one bank that really rules them all because of its extraordinary –

MR. DUDLEY: We would not say that, Matt. (Laughter.)

MR. WINKLER: But you do supervise and regulate financial institutions. You do deal with payments, U.S. payments abroad and domestically. And you do execute monetary policy. So those are three big things that the New York Fed does. And you are also in contact with the leaders of the financial industry, routinely in fact. And so I guess the question I would put to you is, do you have a sense that those leaders, when you engage them, want to roll back Dodd-Frank, throw the baby out with the bathwater?

MR. DUDLEY: No, actually, I don't. Now, I think it varies a little bit by institution to institution, and it may be affected a little bit by how much of a near-death experience they had during the financial crisis. But I think generally most people that I talk to in the markets think that this is all working pretty well. The banks have more capital and liquidity, but they still are able to provide credit to households and businesses. Bank stocks, as you've noted, have performed, you know, quite well. You know, the return on equity on banks is quite a bit lower than it was in the pre-crisis years, but that's appropriate. And there's nothing, you know – you know, inappropriate to having a banking industry that's a little bit dull and boring, as long as it's providing the services that American households and businesses need. And I think that's what's actually happening. So I think it's – I think it's all working pretty well right now.

MR. WINKLER: So one of the things that did happen because of the calamity caused by the Lehman bankruptcy and then the essentially credit gridlock that ensued is that Wall Street was sort of transformed forever when Goldman Sachs to name one, and Morgan Stanley to name two, said, OK, time's up, we want to become banks. And the Fed said, OK, you can become a bank. Now, what's the significance of that historically now?

MR. DUDLEY: Well, I think it's recognizing the fact that these are large systemically important firms. I mean, if you go back 30 or 40 years and you look at the size of these investment banks, they were tiny, and then they grew to be very, very large as they were competing with –

MR. WINKLER: And you were at one.

MR. DUDLEY: Yes, I was at one during a lot of that transition. So what happened was these entities that went from not systemic became very systemic. And so it was very important, then, to have them basically two things: number one, be them – be viewed as being supported by the safety net that the Federal Reserve provides to the financial system; but, two, also be subject to much tougher prudential regulation. It's a quid pro quo. You come inside the safety net and you get the lender of last resort support from the Federal Reserve, but in exchange for that you have higher capital, higher liquidity standards, tougher supervision. And I think that was a change that was essentially overdue. It would have been nice if it had happened before the financial crisis. But obviously, you know, banks aren't going to accept regulation if they don't think that they need it, and so you sort of had to have the financial crisis for them to really understand that, given their size, given their dependence on wholesale funding, they needed a little bit better safety net than what they had before.

MR. WINKLER: So it's a decade later. Do you have any sense that there are any regrets about those investment banks becoming essentially deposit-taking institutions in the Fed context?

MR. DUDLEY: I think you'd have – I think you'd have to ask them. But I think, you know, if you go back to that time, I think that there's a good likelihood at least one of those two, maybe both of them, would not have survived without – it was really two things that we did at the time. One was they became bank holding companies. But, two, we also basically said you need to go out and raise capital to demonstrate to the market that you're a viable concern. So if you look – if you go back and look at the history, it wasn't just that they became bank holding

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companies, but it was also they demonstrated to the market that they could actually raise capital. And so those two things in combination, I think, supported confidence.

The last thing that happened, of course, was the – was this – the famous stress test in the spring of 2009. And that was very, very significant because we did a very tough stress test on the banking system. We published a tremendous amount of the results, so they're very transparent. And I remember reading – the next day I came into the office and, you know, the question is, is this going to be viewed as credible or not? And a leading hedge fund who had – who had looked at our analysis said – big headline on their piece – "We Agree." And then I knew that we had actually, you know, turned the corner on confidence.

Because when you're in a bad economic situation and financial situation, confidence is really key. And once you get that confidence back, and firms are willing to engage with each other, and people know that they're going to actually be able to obtain funding, then they can actually return to their normal place in providing financial services to the economy.

MR. WINKLER: If you looked at the data, one could see at least a correlation between the stress tests and the recovery of confidence in the banks as just measured by their performance.

MR. DUDLEY: Yeah, I view that as a key turning point. And what helped, of course, was we had TARP, and the TARP had some money, and that money was available to recapitalize these banks as the banks ultimately were going to – if the banks turned out to ultimately have trouble raising funds. So the TARP legislation provided the backstop equity to ensure the public that the equity was going to go in one way or the other – either the banks were going to go out into the market and raise the equity, or the government was going to put the equity in.

MR. WINKLER: So in the narrative of the recovery from the worst recession since the Great Depression, there was too big to fail and there was also giant vampire squid and Occupy Wall Street. But what you're talking about kind of got lost, didn't it, in understanding. And you were perceived as maybe the enemy, right, because you came from Wall Street too, right?

MR. DUDLEY: Well, I mean, I don't – I don't try to worry too much about what people think of me.

I think the – you know, the problem of the crisis was that the Federal Reserve in extremis was forced to do extraordinary things to keep large financial institutions from failing. We weren't trying to keep them from failing for those firms' sake; we were doing that because if those firms failed that would take down the entire financial system and generate far worse outcomes for households and businesses. But the problem was that these firms were saved; households lost their homes, small businesses failed. And so there was a fundamental unfairness about the financial crisis that, you know, we were perceived as contributing to.

But believe me, I think what we did was the right thing. I think it far beats the alternative of having a Great Depression because, obviously, if that happened, maybe you would have had justice in some sense that, you know, these large firms would have failed, but it would have been far worse for households and businesses as well.

MR. WINKLER: And, in fact, you rescued essentially homeowners from the first housing catastrophe maybe in a century, right?

MR. DUDLEY: Well, I don't think we rescued. I mean, a lot of people – there were a lot of foreclosures and a lot of people lost their homes. So I would say we put a floor under the economy that meant we had a very severe recession rather than a Great Depression, and then we got a subsequent economic recovery.

I mean, what I'm proudest about is where we are today. I mean, I think, you know, I'm going to retire in June, and it's – and it's nice to be able to say you're retiring at a time when the unemployment rate is, as of today, 3.9 percent, which is the lowest it's been in several decades, and inflation is pretty close to our target. So I feel good about this is a good time to step off the stage.

MR. WINKLER: So what are the lessons that you can say you've learned from this recession?

MR. DUDLEY: Well, there's a whole bunch of lessons. I mean, we could be here for quite a while, but I think the most important one is that the Federal Reserve has to be, you know, a little bit more forward looking in terms of thinking about financial stability as a risk to the economy. I mean, so I think we deserve some credit for how we responded post – you know, in the middle of the financial crisis, but we had some culpability for the financial crisis actually occurring, and I think at the time there was this sort of notion that you can't identify bubbles in real time;

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you can only clean up after the fact. I never agreed with that, and I think the crisis showed that that was not a really good template.

So now, much more proactive in trying to look at the economy, identify incipient financial asset bubbles. You know, every other (Federal Open Market Committee) meeting we have a whole session that looks at financial stability risks that face the U.S. economy.

MR. WINKLER: So let's focus on that for a minute or two. People may not remember this, but the calamity sorted of started in housing itself with something called subprime, and that was a boon to housing, actually – the subprime mortgage. And it pretty much surged everywhere, particularly in California, but also coast to coast, north to south, east to west you had subprime mortgages. And then you had Wall Street, in all of its creativity, taking essentially the debt from subprime –

MR. DUDLEY: Yeah, and packaging it –

MR. WINKLER: – mixing it in a cocktail –

MR. DUDLEY: – into securities or –

MR. WINKLER: – with Treasury securities –

MR. DUDLEY: Yeah.

MR. WINKLER: – your favorite securities – and then selling it to the rest of the world with higher yields, and everybody had an appetite for higher yields, and so this stuff was gobbled up. So then you had this American export called a toxic debt, which came out of that. And at the time of subprime, if I recall, lots of very important people said, whatever it is, it will be contained – and that was sort of a favorite word.

MR. DUDLEY: Well, people looked at the actual size of the subprime market and at the time it didn't seem very large. What they didn't recognize is that this was not the real problem. The real problem was a housing boom that was being driven by very lax underwriting standards, and that boom was basically leading to a vast increase in housing supply, which was going to inevitably lead to a price bust on the other side.

So when we got to the other side and prices started to go down, you know, all the bad lending decisions were exposed, all the bad structures in terms of these securities were exposed, and so that was really the down side. A lot of reasons why we had a financial crisis, but I think the housing boom and bust really lies at the core.

MR. WINKLER: So again, what does the Fed know now that you think would prevent it from making the same, maybe, errors or lapses of understanding?

MR. DUDLEY: Well, I think that – you know, I think if, you know, you go back and sort of say, how could it have been different – well, how could it have been different is the Federal Reserve, I think, could have paid a lot more attention to the lax underwriting standards that were basically fueling the housing boom.

Now subprime, I think – you know some people thought that subprime was actually a good innovation because it helped lower- and moderate-income households actually purchase homes. The bad part of the story, though, was when the underwriting practices just became, you know, the so-called ninja loans – no income, no job, but you still could get a mortgage loan. So it was really the very poor underwriting practices for mortgages that I think was something that the Federal Reserves could have probably pushed harder against – (pause) – recognizing that the responsibility for underwriting practices in the United States is incredibly diffuse. You know, there are state mortgages brokers, some of this is done through the securities firms, some of this is done at the banks so, you know, it would have been hard, but I would have felt better if the Federal Reserve had tried harder.

MR. WINKLER: So lots of commentators, both journalistic and economic, have said that cryptocurrencies, bitcoin in particular, is little more than – little more sophisticated than Dutch tulips centuries ago. Having said that, they may have written that when bitcoin was $4,000 and now it's somewhere around $9,000.

So what do you make of this event?

MR. DUDLEY: Well, I think, you know, bitcoin is not a very good currency because it's not a stable store of value, it's not legal tender, and it's actually not even a very good payments medium. I mean, if you try to transact on bitcoin, the transactions take a long time to execute, and the amount of throughput – how many transactions you can put the bitcoin pipes is very, very limited. So I don't think it's a currency. I think it's mostly a speculation at this point. I think people should be very careful in speculating on digital currency.

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Now, the part of bitcoin that is interesting is the distributed-ledger blockchain technology that sort of underpins it. And I think that blockchain technology actually – may actually be quite interesting from a technological perspective in terms of having independent places where you can verify transactions. And therefore, it's not all, you know, centralized in one location. And that gives you—could potentially give you a lot of resilience, again, from a cybersecurity perspective. So a lot of people are working on the blockchain technology, which I think is actually quite interesting. The bitcoin as an asset class, I'd be quite a bit more skeptical about.

MR. WINKLER: So going back to January 1st, 2009, just about everything was going wrong – with the financial system, with the economy, even the developed economy as we know it. What were you thinking back then, in those days when lots of people thought the **stock market** was gone, as we knew it?

MR. DUDLEY: I was thinking about, OK, what's the problem? (Laughs.) And how can we address it with the Fed's – the tools that the Fed has. You know, obviously, you know, the Fed is much more constrained than people think by the Federal Reserve Act in terms of what we can do. So, for example, we can't buy any asset. We can only buy Treasurys and agency mortgage-backed securities. And so within the confines of what the Federal Reserve Act allows us to do, what can we do to actually stabilize the situation?

And, you know, stabilizing the situation is basically about restoring confidence. And so we rolled out a lot of different liquidity facilities, commercial paper funding facility, the term asset-backed lending facility. There were guarantees from the (Federal Deposit Insurance Corp.) So the government, not just the Federal Reserve but the government broad, came forward and tried to essentially backstop the financial system to restore confidence so that lenders and borrowers would reengage. And that reengagement was absolutely essential if we were going to have a viable economic recovery.

MR. WINKLER: And when did you think that you were succeeding?

MR. DUDLEY: As I said before, I think the stress test – the results of the stress test –

MR. WINKLER: So spring of '09.

MR. DUDLEY: Spring of '09. I mean, the economy was starting to show signs of stabilizing prior to the stress test results. But when the stress test results came out and market participants said, I believe them that this is a viable stress test that has the credibility of the market, that's when I felt that we'd actually turned the corner. Now, were we home free? No. Not by a long shot.

The second thing that actually helped was it turned out that the TARP capital that was injected in the major U.S. banks was essentially a little bit – they didn't like the TARP capital because it came with lots of restrictions. And so as we got through the rest of 2009, banks started to go out and aggressively raise equity so they could actually pay off their TARP capital from the government. That was actually a really good thing, because it basically meant that the banks would recapitalize themselves quite quickly.

And so I think one of the reasons why you saw in your slides that you showed earlier, why the U.S. banks came back pretty quickly is that they recapitalized themselves much faster than any other banking system in the world.

MR. WINKLER: So how would you characterize the U.S. banking industry today, precisely in that context?

MR. DUDLEY: I think it's – I think it's healthy. I think it has a much bigger capital cushion, much bigger liquidity cushion. But the banks are making profits. The return on equity is sufficient that the major U.S. banks trade at a book value of well-above one. So that's telling you that they're earning their cost of capital. So I think they're – you know, I think the banking system is heathier than it's been in a long time.

MR. WINKER: Do you hear from some banks that the capital requirements are still too onerous, and that's impairing our profitability?

MR. DUDLEY: You hear a little bit of that. I think what you hear more about is that there's so many different capital requirements. There's a leverage ratio. There's the Basel capital requirements. There's the stress test that the Fed does every year. So I think that what Vice Chair Quarles is looking at, which I support, is how can we make this regime more efficient? In other words, get the same outcome but impose less cost on the banking system. So I don't think anybody's talking about, like, wholesale rolling back of regulations. But we might be able to do the regulations in a more efficient way, so we get the same outcome in terms of safety and soundness, but at lower cost to the banking system.

MR. WINKLER: So you have any regrets about anything that you've done?

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MR. DUDLEY: I'm sure I do. But I'm not going to share them today. (Laughter.) No, look, I've really – you know, being the president of the New York Fed and being the head of the markets group before that, during the early phases of the financial crisis, were remarkable experiences. And I am just so grateful that I had the opportunity to have that chance at those positions, and also to bring to bear some of the expertise that I developed in working on Wall Street for, you know, almost 25 years before that, because I felt like, you know, one of the things that I sort of think that I brought to the table, frankly, is I knew a lot about markets in a central bank that wasn't really that market-oriented. And in the middle of the financial crisis, understanding what was happening in markets I think was pretty important. So I felt that, you know, I had – I had a part to play, and it was – and it was – and it was – it was rewarding to me to be able to contribute.

MR. WINKLER: So there are – there are a lot of people younger than us in this room.

MR. DUDLEY: I'm sure there are. (Laughs.)

MR. WINKLER: When we were as young as they are, you were actually every day talking about the markets for Goldman Sachs and giving a view of where the markets were headed in the context of the economy. In some ways did you – did you think then, in the 1980s, that you might at some point be at the Federal Reserve Bank of New York, making policy?

MR. DUDLEY: No, but I knew that I wanted to get back in policy. I started my career at the Board of Governors in Washington of the Federal Reserve, and I did want to get back into policy for a number of years. My first sort of, you know, close call was when Bob Rubin went to Washington in 1993 as the head of the National Economic Council. But it just took a long while. And Tim Geithner – I retired from Goldman at the end of '05, and (then-New York Fed President) Tim Geithner asked me in 2006 will you be willing to come onboard and be head of the markets group. You know, it was six months of calm followed by several years of chaos. (Laughs.) But, you know, I was really glad that I had the opportunity to do that. And of course, when Tim got kicked upstairs to become the Treasury secretary, I was fortunate to become the president of the Federal Reserve Bank of New York.

MR. WINKLER: So those last five years of the '90s were also tumultuous in the sense that you had great GDP growth –

MR. DUDLEY: We had the technology boom and bust.

MR. WINKLER: You had the dot-com boom, which actually became something of a bust because you had all these companies that had no earnings. They had cash earnings, they called them, at the time.

MR. DUDLEY: Right, but the difference was the damage to the U.S. economy was far less because there wasn't a lot of leverage. There wasn't a lot of dependence on wholesale funding markets. There wasn't a big loss of confidence in the – in the ability of the financial system to function. So, you know, the dot-com boom and bust was a big boom and bust, but the effects on the financial system and how the economy performed were pretty mild.

MR. WINKLER: So did you have any inkling, I guess, by the time you were at the Fed, working for Tim I guess, of what was unfolding?

MR. DUDLEY: Well, I mean, when we were – when I was at Goldman, me and a colleague, Ed McKelvey, wrote a piece called "The Dark Side of the Brave New Business Cycle." And the thesis of this piece was we were going to have long-lived economic expansions for a whole variety of reasons – inventories being less important, more open trade – and all these things were going to mean that the economic expansions were going to tend to last longer and be less **volatile**. The dark side was that people were going to become then complacent because they were going to get used to these very, you know, sort of benign economic expansions. And as a consequence – this was out thesis – that when you actually did have a bad draw in terms of the economy, there was going to be a lot more financial consequence. Now, I had no idea it was going to play out like it did in the – in the great financial crisis, but there were the seeds of the idea there.

And I think I – you know, I think I did have a sense that the whole housing boom could unwind in a very bad way. We had done a lot of work at Goldman Sachs in the run-up to the housing boom, and we were focused very much on how people were using their housing equity as a piggybank to finance consumer spending, and we felt that that was probably not a very sustainable thing.

And the thing that really, really tipped my view of things was – I can't remember exactly when I discovered this, but there was a website called CondoFlip.com. And CondoFlip.com was about how you could get in the queue to buy a Miami Beach condo – not to buy the condo, just to get in line to buy the condo. And there was a whole

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mania about just actually trading places in line on CondoFlip.com. And when I saw that – (laughter) – I was pretty confident that this was going to end badly.

MR. WINKLER: So I think on that note there are probably some questions from our guests here today, and so maybe we can take a few if that's possible. Yeah, I see a hand right here.

Q: Catherine Mann. I'm the chief economist at Citi. So there's a period of complacency now, perhaps slowly coming to an end as the Federal Reserve proceeds on its normalization path. How much **volatility** in **financial markets** do you think your colleagues are going to be willing to accept along that path before they – before they change that path? I'm wondering, are you going to tie yourself to the mast?

MR. DUDLEY: Look, I don't think the Federal Reserve cares about **financial markets**, per se. We care about two goals – maximum sustainable employment and the context of price stability. Now, do **financial markets** and how **financial markets** perform affect the real economy, and therefore affect our abilities to attain those goals? Yes. So the **financial markets** are not completely irrelevant, but our goal isn't a given level of the **stock market** or a given level of **volatility** in **financial markets**.

I'm actually happy that **volatility** in **financial markets** picked up a little bit. I thought that the very low period of **volatility** that we've had over the last few years was potentially dangerous because people were starting to get confident that the markets had very little risk. And so the fact that we've actually had a little bit of an upturn in **volatility** this year, and that's sort of shaken the tree branches a bit, and shaken out some of the sort of weak products like the inverse of VIX exchange-traded products, I think that's actually a good thing.

Now, obviously, you know, if the **stock market** were to go down a lot and interest rates were to go up a lot, that would change the economic outlook. And if it changes the economic outlook would have implications for the path of monetary policy, but only if it changes the economic outlook is it going to actually have implications for how the Federal Reserve conducts monetary policy.

MR. WINKLER: You mentioned by the way earlier that the Fed has been more effective communicating to the market.

MR. DUDLEY: Well, we're trying. We're trying. We're trying.

MR. WINKLER: You mentioned forward guidance and – do you think the reduction in **volatility** is a consequence of the Fed's more effective communication to the market?

MR. DUDLEY: Well, it's funny. When we do the number of rate hikes that we said we would do a year earlier, the market says we're communicating really well. That was last year. When we don't do the number of rate hikes that we said we were going to do that the beginning of the year, 2016, the market says we're not communicating so well. So you know, I think it really – it depends a little bit on, you know, the – how the environment's actually unfolding. Look, we're trying to be a lot more transparent. And the Fed is moving dramatically in the direction of transparency, not just in the last few years, but over several decades.

I mean, prior to 1994, the Federal Reserve wouldn't even announce that it actually made a monetary policy change. You had to actually infer the monetary policy change by whether the Fed did an open market operation or didn't do an open market operation that you would have expected. And from that, you would infer that the Fed had actually changed the level of interest rates. I'm a big proponent of more transparency. I think it's served the Federal Reserve well. If you're transparent and market participants understand how the Fed is going to react to incoming information, that allows markets to anticipate what the Fed's going to do. And that actually makes the linkage between the Fed and financial conditions more robust, because that's what really matters. I mean, at the end of the day, the economy doesn't get drive by the federal funds rate. It gets driven by how the federal funds rate affects financial conditions. And then it's financial conditions that actually drive the economy. More transparency probably tightens that linkage, so that probably makes monetary policy more effective.

Q: So on the **volatility** question, since it comes up again and again and again, one of the things that the Fed has done since you've got started is much more talking about everything the Fed is doing. Is that what you're focused on?

MR. DUDLEY: Well, I mean, I think there's a question about whether the Fed is sort of too predictable. And if the Fed is too predictable, does that lead to complacence in **financial markets**? You know, there was a – you know, there was a criticism of the Fed over the 2004-2006 period, when the Fed literally raised interest rates every meeting a quarter point, you know, year after year, that that basically caused some of the complacency that led to the financial crisis. So there is some people that argue that the Fed should be more unpredictable.

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I don't really agree with that, because at the end of the day we want the markets to be able to think along with the Fed. And deliberately sort of creating noise in the system so that markets are more **volatile**, that doesn't seem, to me, to be a very efficient regime. If the markets understand what the Fed is going to do, then the markets can actually anticipate the Fed's action before the Fed actually acts, so it can actually tighten financial conditions or ease financial conditions even before the Fed acts.

So I'm not a big fan of the idea of the Fed sort of deliberately obscuring what it's going to do or what its goals are. I think it works much better if we're transparent.

Q: It's Henson Orser from Nomura Securities. You mentioned transparency and a better correlation between fed funds and financial conditions. The Fed's (raised rates) now six times (since late 2015), and yet financial conditions haven't tightened that much, certainly not as much as they did when they mentioned taper tantrum and financial conditions tightened a lot. We've started to reduce the balance sheet, and yet there still is no term premium in the markets; in fact, it may be negative. Does that surprise you at all? Do you think there's another shoe to drop?

MR. DUDLEY: Well, I mean, I think term premia are low for a number of reasons. One is quantitative easing, not just in the U.S. but around the world. So we're not the only central bank that, you know, has expanded our balance sheet, and the Bank of Japan and the (European Central Bank) are continuing to expand their balance sheet. So that's number one.

Number two, term premia may also be low for a – for a different reason, because people are less worried about the inflation risk to the upside. So in the – in the old regime, when we had an inflation problem, you had to be compensated for that inflation risk from holding longer-duration assets. But if you – if you now view that the inflation risk is lower because the Federal Reserve has done a better job stabilizing inflation, there is less risk of buying longer-dated securities.

So, you know, I think some of it's the quantitative easing around the world. Some of it is probably a little bit more confidence that inflation's going to stay sustainably low in the future.

MR. WINKLER: Yes, sir.

Q: Michael Hanson. I'm the head of global macro strategy at TD Securities. So when the FOMC gave the most recent statement there was this second mention of symmetric (inflation target) that the market got kind of very interested in, took sort of a dovish interpretation. And so I'm curious. Obviously, you were in the room making the decision, and nothing that goes in the statement isn't, obviously, deliberated quite substantially. Was that, in your mind, a signal of some sort of change in the Fed's reaction function? Was it a way to signal the Fed's willingness to overshoot on the inflation objective?

And in an earlier speech you had mentioned that sort of – it would take some sort of a substantial or meaningful overshooting to change policy. What would that look like, in your view?

MR. DUDLEY: Well, I can't speak for my fellow FOMC participants. I can only speak for myself.

Look, I think I said many times that, you know, being a little bit above 2 percent (inflation) after being below 2 percent for many, many years is not a problem. And I've said many, many times that our inflation objective target is symmetric.

You know, we had this concern that people in the marketplace were sort of viewing that 2 percent was a ceiling. And I've said it repeatedly in speeches for many, many months, maybe probably years now, that target's symmetric. It's not a floor. So I think it's very – that's very consistent with what we now see in the – in the statement.

MR. WINKLER: So when – speaking of the FOMC, when the votes come, is there, in your experience, a special cachet that's attached to the vote from New York?

MR. DUDLEY: (Laughs.) I would – I would not be the right person to judge that.

Look, I think the New York Fed is unique in the sense that most central banks the policy making apparatus and the execution of policy apparatus is in the same location. At the Federal Reserve, it's split. So the FOMC sets policy, but the Federal Reserve Bank of New York actually executes on that policy. That's one reason why, you know, at the Bank for International Settlements, the New York Fed plays a special role. I'm actually headed this evening to Basel, Switzerland, for I think my 51st visit. And, you know, that's – we're there – I think the New York Fed is there because we actually are part of the operational part of the monetary policy-setting process.

You know, also I think the New York Fed, you know, is – you know, we sit in New York City, which is a major financial center. And we're those – we're the bank that actually has all the international engagements. So the BIS is part of that. So I think – you know, I think the New York Fed's authority/responsibility is not just, you know, written into the Federal Reserve Act, but it's also a lot about where we sit and what we – and what we know about.

I mean, **financial markets** are important to understand, especially in the United States, where the capital markets are very large and have quite a bit of impact in how the economy and the financial system perform. And so I think the Federal Reserve brings a lot of expertise to the discussion, and that gives us influence.

MR. WINKLER: So thank you for telling us that you're going to Basel tonight. What are you going to do after June?

MR. DUDLEY: Tim Geithner used to always say plan beats no plan. Well, I'm actually inverting that: no plan beats plan. (Laughter.) At least for – at least for a while.

Related Article

* Dudley Calls Job Gains ‘Healthy,' Remains Upbeat on Economy

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THE WALL STREET JOURNAL.

Economy
Today's Low Unemployment Stands on Firmer Economic Ground Than the Late '90s Boom; Slower growth, modest wage gains suggest overheating could be less likely than it was in 2001

By Eric Morath
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The last time the unemployment rate was as low as it was last month, in 2000, the economy was on the precipice of recession.

But the fundamentals of today's economy—marked by more moderate growth and lower inflation, wage growth and **stock price** gains—suggest this lengthy streak of job creation and economic output growth could persist without tipping into the recession seen in 2001.

In April, the unemployment rate dipped below 4% for the first time since 2000. The last time joblessness in the U.S. hovered near that zone, from late 1999 to late 2000, it was in the midst of the New Economy—the idea that technological innovation could feed never-ending expansion.

The notion proved false. Overinvestment in technology preceded recession.

The unemployment rate was still near a multidecade low when publicly traded internet companies started to fail, among them online pet-supply store Pets.com, which had a Super Bowl-famous Sock Puppet mascot but not yet a working business model. The **Nasdaq**—up more than 900% in the prior decade—ended the year down 39%. Shrinking economic output would soon follow, and unemployment jumped.

"By December 2000 it was clear that tech was a bubble, and we feared it was bursting," Northern Trust Chief Economist Carl Tannenbaum said in a recent interview. He held a similar role at LaSalle Bank in 2000.

In contrast, the percentage increase in the **Nasdaq** index the past nine years is only about a third as large as occurred in the 1990s.

Worker productivity in the late 1990s was advancing at an annual pace between 3% and 4%, about three times faster than last year's gain in worker output per hour. Policy makers, at the time, thought those efficiency gains could support low unemployment, continued hiring and rising profits without inflation.

Annual wage gains of near 4% are high by today's standards, but looked relatively small compared with increases in the 1970s and parts of the 1980s. Price and wage increases pushed the Federal Reserve to raise its benchmark interest rate in 2000 to 6.5%—what was the highest rate in a decade. The current rate is between 1.5% and 1.75%.

By late 2000, it was becoming clear to policy makers the rapid output growth couldn't persist.

"The pace of expansion of economic activity has moderated appreciably," Federal Reserve Chairman Alan Greenspansaid in a December 2000 speech. He noted the economy was at "increased risk of untoward events."

While the unemployment rate was the same, several other broad measures suggest the economy was running hotter then.

U.S. economic output advanced at a 4.4% average annual rate in the three years ended in 2000, compared with a 2.5% improvement in the three most recent years. Consumer prices, as measured by the consumer-price index, had risen 3.4% from a year earlier in December 2000, versus 2.4% in March 2018. And the share of adults working or seeking work was 67% at the end of 2000, versus 62.8% last month.

A smaller share of adults working, even among those under 55, is a prime reason why the labor market isn't showing signs of overheating yet in 2018, Mr. Tannenbaum said. Employers have been able to pull in workers from the sidelines, including those who previously received disability benefits, and enticed older workers to stay in the labor force. That has allowed them to fill jobs without significantly ramping up wages.

"The labor market was on steroids in 2000," he said. "I don't see that today."

Another difference is the country's fiscal position. In 2000, the federal government ran a budget surplus. Last month, the Congressional Budget Office projected the deficit will total $804 billion this year and exceed $1 trillion a year starting in 2020. That poses a longer-term risk to the economy, especially in light of slower growth and an aging population.

Economists surveyed in April by The Wall Street Journal placed the average odds of a recession occurring in the next 12 months at 15%. That risk is down slightly from 19% in April 2016.

There were two earlier periods in the post-World War II era when the unemployment rate had even longer runs at or below 4%. The rate was 4% or less for 33 straight months in the late 1960s, ending in January 1970. The rate was below 4% for 35 months ending in 1953.

Those too were very different economies. They overlapped with wars in Korea and Vietnam, which removed able-bodied young men from the civilian labor force.

Moreover, those extended periods of low joblessness weren't without risk. In the 1950s and early '60s, the economy was more prone to swing from periods of fast economic growth to recession. Between 1953 and 1961, the economy fell into recession three times. In comparison, the economy has had just three recessions in the past 35 years.

And in the early 1950s, when unemployment neared 3%, consumer inflation pushed to near 10%.

In the late 1960s, the long period of low unemployment preceded a massive run up prices. For all of the 1970s, the U.S. faced historically high inflation and elevated unemployment rates.

Max Rust contributed to this article.

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The New York Times

The Upshot
Should the Fed Create 'FedCoin' to Rival Bitcoin? A Former Top Official Says 'Maybe'

By Neil Irwin
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Many enthusiasts of Bitcoin and other cryptocurrencies are motivated by deep skepticism of the central banks that control the world's money supply.

But what if central banks themselves entered the game? What would happen if the Federal Reserve, or the European Central Bank or the Bank of Japan used blockchain technology to create their own virtual currencies? Besides, that is, having some cryptocurrency fans' heads explode?

A former Fed governor — who was also a finalist to lead the central bank — thinks the idea deserves serious consideration.

"Most central banks have a view that these crypto-assets are clever, like guys in the garage did it and it's kind of cool, or risky," given the potential investor losses and widespread fraud, said Kevin Warsh, who was a governor at the Fed from 2006 to 2011 and was a topcontender to become its chairman late last year when President Trump instead appointed Jerome Powell.

If he had returned to the Fed, Mr. Warsh said, he would have appointed a team "to think about the Fed creating FedCoin, where we would bring legal activities into a digital coin."

"Not that it would supplant and replace cash," he said, "but it would be a pretty effective way when the next crisis happens for us to maybe conduct monetary policy."

He added that blockchain technology, which allows reliable, decentralized record keeping of transactions, could be useful in the payment systems operated by the Fed, which enable the transfer of trillions of dollars between banks.

"It strikes me that a central bank digital currency might have a role to play there," Mr. Warsh, who is now a distinguished visiting fellow at the Hoover Institution at Stanford, told several reporters Thursday evening.

Some central banks are already doing work in this vein, including the Monetary Authority of Singapore and the Bank of England. And Mr. Powell acknowledged the potential applications in his confirmation hearing for the Fed chairmanship in November, saying, "We actually look at blockchain as something that may have significant applications in the wholesale payments part of the economy."

It would be quite a twist if a technology whose most ardent fans are motivated by distrust of central banks became a key tool for those banks.

But it would address some of the concerns connected to Bitcoin and its many privately created rivals. To the degree that the value of existing cryptocurrencies fluctuates wildly, they are ill-suited as a medium of exchange. Central banks have spent hundreds of years learning how to keep the value of money stable.

And to the degree Bitcoin and the like facilitate tax evasion, money laundering and fraud, they will be a target of global law enforcement. Central banks are used to building systems that allow enforcement of those laws.

It's clear that central banks weighing use of blockchain technology don't share the more anarchist impulses of some of the most die-hard cryptocurrency enthusiasts. But there may be more commonality than it might seem. As Mr. Warsh argues, if people really do believe that digital currencies in some form are the future of money, it would behoove central banks to treat them as more than a novelty.

“Congress gave the Fed a monopoly over money,” Mr. Warsh said. “And if the next generation of cryptocurrencies look more like money and less like gold — and have less **volatility** associated with them so they would be not just a speculative asset but could be a reliable unit of account — as a purely defensive matter I wouldn’t want somebody to take that monopoly from me.”

In other words, if cryptocurrency enthusiasts are correct that this technology could become a better way of carrying out even routine transactions, the Fed and its counterparts are the institutions that have the most to lose.

Kevin Warsh in London in 2014. “It strikes me that a central bank digital currency might have a role to play,” he said Thursday night. | Pool photo by Alastair Grant

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Markets
Sluggish European Markets Dent French Banks' Results; U.S. revenue was hit by the weakening of the dollar against the euro

By Pietro Lombardi and William Horobin
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Shares of BNP Paribas SA and Société Générale SA fell Friday as the French lenders' investment-banking operations struggled at the start of the year, lagging U.S. peers that largely prospered in **volatile** markets.

France's first- and third-largest banks by assets faced sluggish European markets at the start of 2018 and U.S. revenues were dented by the depreciation of the dollar against the euro. Equity markets have fallen slightly after a bumper year in 2017, while yields on government debt have edged higher.

"Results recorded an unfavorable exchange rate effect, as well as the impact of a lackluster market context compared to the first quarter of last year," BNP Paribas said in a statement.

BNP Paribas' Corporate and Institutional Banking division reported a 9.8% decline in revenue on the year in the first three months of 2018. Société Générale's revenue from its global banking and investor-solution business, which includes investment banking and asset management, fell 13%.

In afternoon trade, BNP Paribas shares were down 3% on the day at €61.48 and Société Générale shares were 7.2% lower at €41.67.

The French banks' malaise contrasted with U.S. peers who made first quarter trading gains on markets stirred by the prospect of rising rates in America, tax cuts and the effervescence of large tech stocks.

In Europe, trading revenus compared unfavorably with a strong first quarter in 2017. Société Générale Chief Executive Frédéric Oudea said the European Central Bank's slower exit from easy monetary policy also weighed on activity compared with the U.S.

"It's a strange quarter," Mr. Oudea said. "Clearly, the distribution of businesses has been particularly important."

BNP Paribas said its overall net profit in the first quarter fell 17% to €1.57 billion ($1.88 billion). That was above analyst expectations, but revenue at €10.8 billion was below expectations of €11.04 billion.

Société Générale reported a 14% increase in net profit to €850 million. Net banking income, the top-line revenue figure, fell to €6.29 billion compared with €6.47 billion a year earlier.

The low-interest-rate environment also hit Société Générale's French retail revenue, which fell 0.7% on the year.

Further rattling investor nerves, Société Générale announced a management reshuffle late Thursday, appointing several deputy chief executives. And it is still to announce a final agreement on two disputes with U.S. authorities related to benchmark interest rates and transactions involving Libyan counterparties. The bank said it expects the agreement in the "coming days or weeks" to be in line with a provision of around €1 billion allocated to the cases.

"The stock is under pressure due to a lower performance in CIB, the unexpected change of management is not helpful at this stage and no finalization of the litigation," said analysts at Jefferies.

Mr. Oudea said Société Générale will see stronger growth by continuing to focus on its markets business in Europe, derivatives globally and corporate financing.

"We will continue our strategy and consider it is a good strategy beyond the result of one quarter," Mr. Oudea said.

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Retailers Make Strides as They Adapt --- Turnaround efforts appear to be paying off, and investors are taking notice

By Michael Wursthorn
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Investors are warming to shares of department stores, fast-food chains and apparel retailers that have long sat in Amazon.com Inc.'s shadow in the **S&P 500**'s consumer-discretionary sector.

Struggling retailers such as Macy's Inc. and Target Corp. have invested heavily in e-commerce and revamped stores and inventory to improve their brick-and-mortar operations. McDonald's Corp. has overhauled its low-price value menu to entice customers back to its restaurants, and Nike Inc. has focused on selling its products directly to consumers and has overhauled key brands like its Jordan line of sneakers.

The yearslong turnaround efforts suggest the companies are making strides in adapting to a changing marketplace dominated by Amazon and remain viable businesses, at least for now. Investors have taken notice. Shares of Macy's have posted a double-digit-percentage increase this year after sliding in 2017, while Target and Nike are up 9% and 7%, respectively, and McDonald's has cut its losses to 7%.

"Certain narratives tend to dominate stock performance longer than they should," said Kevin McCarthy, a senior research analyst with Neuberger Berman, referring to Amazon's outsize influence. "People aren't taking that granular a view of these names and what's going on."

The retail rebound has helped the consumer-discretionary sector outperform most of the other segments in the **S&P 500** this year, with a gain of 4.1%, versus a slide of 1.6% for the broader index. Two stocks -- Amazon and Netflix Inc. -- are responsible for a majority of that increase, thanks to their respective gains of 34% and 62%. But even without their contributions, consumer-discretionary stocks are outperforming many other sectors in the index, including industrials, materials and consumer staples.

Of the companies in the sector that have reported first-quarter results, about 74% have topped analysts' expectations, according to research firm FactSet. But some of those stocks, including Hilton Worldwide Holdings Inc. and Royal Caribbean Cruises Ltd., have suffered from a broader trend of investors not rewarding those results with a bump in share price.

Many companies in the sector are in the midst of multiyear turnarounds to overhaul how they attract customers, focusing their effort on direct sales and on improving e-commerce. They have also gotten a boost as the global economic upswing that buoyed other corners of the market eventually filtered down to consumers' wallets.

Big hotel chains are expanding their inventory of rooms, while cruise-line operators have modernized ships and overhauled how they price fares. Investors also are betting that consumers will continue spending on experiences and luxury items, areas that Amazon hasn't been able to fully penetrate.

"Luxury is no longer equal to formality," Tiffany & Co. Chief Executive Alessandro Bogliolo said on the jeweler's earnings call. "Luxury is no longer predominantly for richer . . . older people. Now, luxury is meaningful to a large audience."

Shares of Tiffany have pared their decline this year to 1.6% since the company reported stronger-than-expected earnings in mid-March.

More broadly, a tight labor market, high levels of consumer confidence and a large fiscal stimulus in the form of a $1.5 trillion tax overhaul have translated to higher spending on indulgences such as designer handbags and Mediterranean cruises.

Many company executives have expressed confidence during their earnings calls that the economy remains robust and that sales will continue increasing this year.

Mark Parker, president and chief executive of Nike, told investors there is strong demand for athletic footwear and apparel in the U.S. and elsewhere. In previous years, Nike likely would have struggled to grab those customers, but the company's rejiggered operations have put it on better footing, analysts say.

"We intensified the pace and scale at which we're bringing fresh and unexpected products to consumers," Mr. Parker said on the call, referring to new products such as its Air Vapormax and Nike React shoe lines.

But some investors are still unwilling to bet big on consumers. One reason is that companies are coping with higher costs that are putting pressure on profit margins.

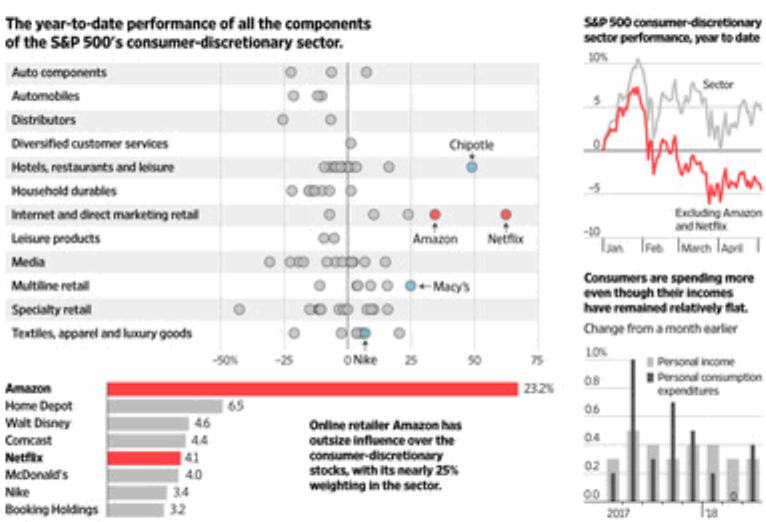
Underwear maker Hanesbrands Inc. said Tuesday that higher raw-material costs ate into its profit margins in the first quarter, even as the company topped earnings expectations. McDonald's, which also exceeded estimates, said Monday that it saw a jump in commodities costs. The same troubles plague the consumer-staples sector, which is made up of businesses that sell necessities like diapers and detergent.

And other companies such as Tapestry Inc., the parent of Coach and Kate Spade, aren't seeing the same sales upswings as some rivals. Its shares slumped after the company reported weaker sales at Kate Spade and production delays at its Stuart Weitzman brand, cutting Tapestry's year-to-date gain to 4.2%.

"I don't think we're accelerating into a new extended or higher sustainable level of growth where the consumer is going to be propelling us to this significantly higher level of growth," Brian Levitt, a senior investment strategist at OppenheimerFunds, said. "We're probably going to hit a little bit of a soft patch here in economic activity."

And while Commerce Department data show personal spending picked up in March after a slowdown earlier this year, some analysts worry that paychecks might not go as far due to rising inflation. Others warn that the recent jump in interest rates could make it harder for some Americans to access debt, which could further limit spending.

Still, despite some fears that synchronized global growth is slowing, analysts say it is more likely that growth is on course to peak before beginning a gradual decline over the next couple of years.



Sources: FactSet (S&P performance, weighting); Commerce Department (income and expenditures)

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New Tax Law Fattens Corporate Profits

By Theo Francis and Richard Rubin
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The largest U.S. companies found a new formula for success in the first quarter: larger pretax profits and smaller tax bills -- mostly compliments of the federal tax overhaul.

More than half of the combined net-income growth reported by 200 large public companies for the first quarter stemmed from a decline in the companies' effective tax rates, a Wall Street Journal analysis of quarterly financial data from Calcbench found.

At a third of the companies, tax expenses fell in dollar terms even as pretax income rose, boosted by strong revenue growth and the expanding economy.

Chip giant Intel Corp.'s pretax profits rose $1.2 billion over first quarter 2017 -- but tax expenses fell by $294 million. Defense contractor Lockheed Martin Corp. said pretax profits rose $325 million in the March quarter while tax costs fell $43 million.

The tax savings are helping to drive profits to new highs among companies in the **S&P 500 index**. Overall, first-quarter after-tax earnings for index companies were on track through Wednesday to rise 25.3% over the 2017 period, according to Thomson Reuters. That would mark the seventh straight quarter of per-share profit growth and the strongest gains in more than seven years.

A cut in the U.S. corporate tax rate to 21% from 35% was the centerpiece of the federal overhaul passed in December, and lawmakers and tax analysts expected the largest immediate benefits would go to companies with few foreign operations and few tax breaks to lose, such as retailers.

Confirming expectations that companies would benefit rapidly: Pretax earnings for the **S&P 500** are forecast to rise about half as fast as after-tax earnings, at 12.1%, Thomson Reuters said.

"It's clearly not just the economy" driving corporate profits, said Joseph LaVorgna, chief economist for the Americas at Natixis, a corporate and investment bank. "Change in tax policy is part of it."

Investors had anticipated big tax savings and pushed major U.S. stock indexes to record highs earlier this year. In recent weeks, gains have been more muted even as companies from Goldman Sachs Group Inc. to Apple Inc. have reported strong results.

S&P 500 revenues are expected to rise roughly on par with the fourth quarter's 8.3% rise from a year earlier, the fastest clip since late 2011 and the seventh straight quarter of growth, Thomson Reuters data show. The figures reflect reported results -- as adjusted by analysts -- for about two-thirds of companies in the index, and analyst estimates for the rest.

Energy, technology and financial firms have led per-share earnings growth with gains of 30% or more, followed by companies in the materials and industrial sectors, both above 25%. Real estate has lagged behind, at 2.7% per-share earnings growth, as have consumer staples, at 13% growth.

Broader data suggest that the tax overhaul has had at best a modest impact on the economy as a whole. Gross domestic product expanded at 2.3% in the first quarter, a slower pace than at the end of 2017, as household spending cooled. But business investment was strong and the tax benefits are showing up in the quarterly results of the biggest U.S. corporations.

At CSX Corp., tax expenses in the first quarter were roughly flat, despite a 57% increase in pretax earnings, "illustrating the favorable impacts of tax reform," the railroad's chief financial officer, Frank Lonegro, said in a mid-April conference call with analysts. The company expects taxes to total about 25% of pretax income this year, down from 38% last year.

In addition to a reduced income-tax rate at home, multinational companies will benefit because they generally can now bring current and future foreign profits back for U.S. investment, dividends or share buybacks without paying an additional U.S. tax.

Many companies did face a one-time tax on the foreign profits they had accumulated over the years. In most cases, companies accounted for that and other one-time tax effects in the previous quarter, meaning that the current earnings season is the first clear picture of how companies are faring on an ongoing basis.

Now large companies are deciding what to do with their tax windfalls. Apple on Tuesday boosted its dividend and said it would repurchase $100 billion of its shares from investors, the latest in a flood of companies returning cash to investors.

Apple's tax costs for the first three months of 2017 were $3.7 billion, including an assumption that the company would pay U.S. taxes on some of its foreign income. This year, those costs declined by $1.3 billion even as pretax income went up by $1.5 billion. A new foreign minimum tax likely won't apply to Apple until after its next fiscal year starts later in 2018.

Many companies are returning their tax savings to investors. The amount spent on share buybacks in the first quarter rose by more than 50% over the fourth quarter of 2017, and by two-thirds over the first quarter of 2017, according to S&P Dow Jones Indices. Companies have also set plans to invest in expansion and new technology, and some paid one-time bonuses to employees.

For 28 **S&P 500** companies, lower taxes were the difference between reporting earnings growth and an earnings decline. Those included chemical maker Monsanto Co., asset manager T. Rowe Price Group Inc. and laboratory chain Quest Diagnostics Inc.

A T. Rowe Price spokesman said the firm also recorded an increase to net revenue and near-record asset inflows. "The tax savings are also helping us accelerate investments in our strategic priorities and increase the return of capital to our stockholders," he said.

Monsanto noted that, while its lower effective tax rate was primarily a result of the tax overhaul, it also reflected other, unspecified tax effects. Quest didn't respond to a request to comment.

"More than ever, it matters to look at more than just the bottom line," said Jack Ciesielski, an accounting analyst and publisher of Analyst's Accounting Observer. "The lower tax rate could be masking deteriorating fundamentals."

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The New York Times

Business/Financial Desk; SECTB
Late Buying Drive Erases Much of Markets' Early Losses

By THE ASSOCIATED PRESS
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Losses for health care companies and banks left stocks in the United States lower Thursday, although a late push for technology and industrial companies helped the market avoid a steeper decline.

After a weak finish the day before, the Dow Jonesindustrial average dropped as much as 393 points Thursday morning. Thanks to another gain in Boeing, it ended slightly higher.

Companies including insurer AIG, prescription drug distributor Cardinal Health and music streaming service Spotify suffered big losses. Banks declined along with interest rates.

Microsoft and Cisco Systems helped technology companies to some modest gains. But investors have not found much to get excited about in the last couple of days as they worry about trade tensions and the possibility that growth in company profits has peaked.

''Investors went from being very optimistic to being more concerned about what could happen next,'' said Kate Warne, investment strategist for Edward Jones. ''People are getting far ahead of themselves.''

The Standard & Poor's 500-stockindex slid 5.94 points, or 0.2 percent, to 2,629.73. The Dow rose 5.17 points to 23,390.15. The Nasdaq composite lost 12.75 points, or 0.2 percent, to 7,088.15.

About three-fourths of S.&P. 500 companies had reported results as of Wednesday, according to CFRA Research, and their profits and revenues have consistently blown past Wall Street's expectations. But the market is not acting like it: Since April 12, the day before big banks started reporting their results, the S.&P. 500 is down 1.3 percent.

''Investors looked for any and all reasons to sell the results,'' wrote Lindsey Bell, investment strategist for CFRA Research. In a note to clients, Bell said that Caterpillar ''crushed all hopes'' that stocks would rise following earnings. The construction equipment maker said it does not expect to top its first-quarter profit for the rest of the year.

The possibility that earnings growth was at its peak did not appear to be on investors' minds until the comments from Caterpillar executives came out last week. Rising costs are one challenge companies are facing, and that could be in focus again Friday after the government releases its report on job creation and wage growth.

Ms. Warne, of Edward Jones, said she still expects stocks to rise this year because of continued economic and profit growth. But she said it might take weeks or even months before that happens.

Banks fell in tandem with interest rates as bond prices climbed. The yield on the 10-year Treasury note fell to 2.95 percent from 2.98 percent.

Cardinal Health, which distributes prescription drugs, also had a smaller-than-expected profit and slashed its forecast for the rest of the year. Cardinal said its Cordis cardiovascular products business ran into supply chain problems and also paid a higher expected tax rate. The stock gave up 21.4 percent to $50.80.

Tesla tumbled 5.5 percent to $284.45 after the electric car maker took another big loss as it struggles to produce its lower-cost Model 3 sedan. Some experts are wondering if Tesla will be able to pay all of its bills because of the repeated losses.

Musk appeared to make matters worse on the company's conference call, as he dismissed questions about the company's cash needs as ''boring, boneheaded'' and ''not cool.'' After being asked about reservations for the Model 3, he said the subject matter was ''killing me.'' JPMorgan Chase analyst Ryan Brinkman said the call was ''truly bizarre.''

Benchmark United States crude recovered from an early loss and rose 0.7 percent to $68.43 barrel in New York, its highest price since December 2014.

Gold rose 0.6 percent to $1,310.70 an ounce.

The dollar fell to 109.17 yen from 109.73 yen. The euro rose to $1.1984 from $1.1938.

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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For Cboe, Fervor Over Fear Cools --- Concerns about the reliability of volatility trading dims investor enthusiasm for VIX

By Gunjan Banerji
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Anxiety is back on Wall Street. That should be good news for Cboe Global Markets Inc., the operator of the VIX index of expected stock swings, widely known as the market's fear gauge.

But Cboe shares have tumbled 15% this year, lagging far behind both the broader **stock market** and the firm's peers. Questions about the reliability of **volatility** trading -- punctuated by the one-day collapse in February of **volatility**-linked exchange-traded products and a rarely seen wobble last month that raised concerns about possible manipulation -- are dimming enthusiasm for the VIX just at the time when it would seem most attractive.

The number of futures contracts outstanding for the Cboe **Volatility** Index, or VIX, has declined precipitously since early February, despite the market's generally **volatile** performance.

In addition, average daily volumes slumped in April to the lowest level in more than a year, even as trading of futures and options in other markets rose.

The declines have set the stage for the Chicago-based company's quarterly earnings and conference call, expected Friday morning. Cboe needs to restore investor confidence in its ability to manage a historically lucrative business that is turning out to be more complex than many anticipated.

"People thought that the Cboe was a pure beneficiary of higher **volatility**," said Rich Repetto, an analyst at Sandler O'Neill + Partners. "It's not that simple."

Still, he said he doesn't see the dip in VIX volumes as a permanent impairment. He is monitoring whether other parts of Cboe's business like **S&P 500** options and European trading will offset declines in the VIX complex.

Investors typically wager that stocks like Cboe or high-speed trading firms like Virtu Financial Inc. will profit from higher **volatility**, said Mr. Repetto. Virtu's shares have almost doubled this year. Exchange rivals like CME Group Inc. and **Nasdaq** Inc. have added 7.5% and 12%, respectively. Meanwhile, Cboe has been the worst-performing U.S. exchange operator.

"The growth outlook for Cboe's VIX futures remains a critical question to the stock," wrote analysts from Goldman Sachs Group Inc. in March.

A collapse in February of two securities that used VIX futures, as well as worries about potential manipulation in the index, have fomented doubts about the ecosystem of VIX products among traders.

The trends are a sharp reversal from 2017, when record volumes in VIX futures and options propelled Cboe shares up 86% to a high in January of this year. Even though markets were quiet last year, VIX-linked products were popular as traders and investors used them to bet against **volatility**.

More than one-third of Cboe's revenue growth in the two years through 2017 stemmed from trading in VIX derivatives, according to Goldman Sachs.

"Cboe rode up this high-fee product. And now they're riding that back down," said Mike Bailey, director of research at FBB Capital Partners, based in Bethesda, Md.

Mr. Bailey said he hasn't bought shares of Cboe because its business is so concentrated in VIX products. He owns CME shares.

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U.S. Markets
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Dow Industrials End Slightly Up After Clawing Back Earlier Losses; Blue-chip index had lost nearly 400 points earlier; S&P 500 and Nasdaq edge lower

By Michael Wursthorn and Riva Gold
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The **Dow Jones Industrial Average** recouped a nearly 400-point plunge to end slightly higher, a sign of the **stock market**'s resilience despite indications of lackluster corporate earnings, weakening economic data and rising interest rates.

The blue-chip index has struggled for direction, trading in a relatively narrow range of about 850 points over the past month. That trend continued Thursday as the Dow industrials bounced back from a key long-term technical level and eked out a slight gain of less than 0.1% to snap a four-session losing streak.

The index has fallen nine of the past 12 sessions and remains down 10% from its Jan. 26 high.

The string of daily declines appears to be taking a toll on investors. Just 28% of individuals believe the **stock market** will be up six months from now, according to the American Association of Individual Investors's most recent weekly survey, down from 37% the previous week and below the historical average of 39% going back to 1987.

"This is a complicated thing" for investors, said Barry Bannister, head of institutional equity strategy at Stifel Financial. "We have domestic and geopolitical uncertainty, plateauing global growth…This is good for stock pickers. It's not good for indexing."

Several mediocre earnings reports dragged on major indexes Thursday, and shares came under further pressure after data showed that the pace of growth across much of the U.S. economy slowed in April.

The Dow industrials added 5.17 points, or less than 0.1%, to 23930.15, after earlier sliding as much as 394 points. The **S&P 500** declined 5.94 points, or 0.2%, to 2629.73, while the **Nasdaq Composite** fell 12.75 points, or 0.2%, to 7088.15. Both the S&P and **Nasdaq** are down two straight days.

The market has lacked a clear leader since indexes tumbled into correction territory, marked by declines of more than 10%, in early February. Even upbeat profit results in the tech sector—and from popular names like Apple—have failed to light a rally.

Although 78% of **S&P 500** stocks have topped earnings expectations through the first three months of the year, stocks haven't responded with the same enthusiasm. Apple's market-moving power, for example, took a serious hit this week after the tech giant reported better-than-expected earnings. While its shares are up 9% this week, the broader **S&P 500** tech sector has added just 1.2% over the same time.

Tech stocks have also been fueled by investors' expectations that new-age gadgets will disrupt old-economy businesses. But those presumptions are waning for now, as companies like Tesla struggle to ramp up production and face questions over the safety of their technology.

Shares of Tesla slumped $16.70, or 5.5%, to $284.45 Thursday after the electric car maker burned through cash faster than expected, and Chief Executive Elon Musk sparred with analysts on a conference call.

Besides concerns about earnings, the Federal Reserve's plan to maintain its pace of gradual rate increases, which was reiterated Wednesday, has forced investors to re-evaluate their allocations between stocks and bonds, while a strengthening dollar has pressured U.S. multinational companies in recent weeks. Trade concerns also continue to linger as the Trump administration has yet to complete implementing plans for its proposed tariffs.

"Protecting against inflation is one of the key things to do," said Jeff Layman, chief investment officer of BKD Wealth Advisors. "The higher interest rates go, the more difficult it is for the valuation of stocks."

On Thursday, investors punished shares of Cardinal Health after the wholesale drug supplier reported a lower-than-expected profit for the first three months of the year and lowered its outlook for the remainder of 2018 due to performance issues. Cardinal Health's stock plunged 13.85, or 21%, to 50.80, dragging the broader **S&P 500** health-care sector lower.

Earlier Thursday, the Institute for Supply Management said its nonmanufacturing index—tracking a wide range of U.S. industries such as health care, finance, construction and agriculture—slipped in April from March, missing economists' expectations. While the survey still showed an expansion in activity, the slowing growth had initially sent the Dow and other major indexes lower.

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WSJ PRO CENTRAL BANKING

Economy

EU Paints Rosy Economic Picture, But Warns of Threats From U.S. The bloc faces risks from Trump's protectionist trade policies and U.S. economy overheating, official says

By Emre Peker
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BRUSSELS—The European Union unveiled an upbeat economic outlook for the eurozone Thursday, but warned of rising risks from President Donald Trump's protectionist trade policies and of the U.S. economy overheating.

As the currency union enjoys its strongest growth in a decade after years of crisis, the EU's potential trade war with the U.S. over steel and aluminum tariffs is weighing on what some officials and analysts have called the "euroboom."

U.S. trade policies pose an "unambiguously negative risk" to the global economy that threaten the eurozone's five-year expansion, the EU's executive —the European Commission—said. EU officials are racing against a June 1 deadline to clinch permanent exemptions from Mr. Trump's tariffs of 25% on steel and 10% on aluminum imports, with no quick and clear path for an agreement.

Gross domestic product in the 19-member eurozone is set to grow by 2.3% in 2018, easing to 2% expansion next year, the EU said in its quarterly report, in line with earlier forecasts. The economy grew by 2.4% in 2017.

"The biggest risk to this rosy outlook is protectionism, which must not become the new normal," said Pierre Moscovici, EU commissioner for economic and financial affairs, taxation and customs.

Another threat stems from the president's stimulus measures, including tax cuts, which could result in a faster pace of interest rate increases by the Federal Reserve if the U.S. economy overheats, the EU said. Fed Chairman Jerome Powell said last month that gradual rate increases will help the U.S. economy grow without overheating, as some of his deputies warned of the risk.

That, along with Mr. Trump's trade measures, could contribute to **financial market volatility**, which is "likely to become a more permanent feature," Mr. Moscovici said.

A slowdown in eurozone economic activity in the first quarter of 2018, coupled with a surprise drop in consumer prices in April, has also introduced an element of uncertainty, highlighting headwinds still facing bloc as it recovers from the 2008 global financial crisis.

The annual rate of inflation fell in April, a setback for the European Central Bank as it considers whether and when to end its bond-buying stimulus program. The EU's statistics agency said consumer prices were 1.2% higher than in April 2017, a fall from the 1.3% rate of inflation recorded in March, and well below its target of 2%.

ECB President Mario Draghi said in a late April news conference that the bank expected the inflation rate to hold around 1.5% for the rest of 2018.

Mr. Moscovici acknowledged the eurozone's slowdown in the last quarter, but said he believed it was temporary, citing the highest employment numbers since the monetary union was established in 1999 as a sign that growth was taking hold .

The commission forecasts unemployment at 8.4% by the end of the year, down from the 8.5% expected as of November. The rate is seen as dropping to 7.9% in 2019.

In another sign that European economies are slowly shedding the legacy of the crisis, the eurozone budget deficit is forecast as declining from 0.9% in 2017 to 0.7% this year and 0.6% in 2019.

One bright side is Greece, where investments are seen rising dynamically over the next couple of years, Mr. Moscovici said, after an eight-year bailout in which it nearly crashed out of the eurozone.

"We should use the current good times to make our economies more resilient," said Valdis Dombrovskis, a commission vice president responsible for eurozone and financial policies. "We also see increased risks on the horizon."

Paul Hannon in London and Nektaria Stamouli in Athens contributed to this article.

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The New York Times

Business Day
Elon Musk Rejects ‘Boring, Bonehead Questions,’ and Tesla’s Stock Slides

By Matt Phillips
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Investors seemed to take another big quarterly loss from Tesla in stride. At least until the company’s chief executive, Elon Musk, started talking.

Mr. Musk’s contentious conference call with analysts after Tesla’s earnings announcement on Wednesday sent shares of the electric-car maker sharply lower. And the losses extended into Thursday’s trading session.

Tesla’s **stock price** fell 5.6 percent on Thursday, after Mr. Musk butted heads with analysts on the call who wanted updates on the company’s continuing production issues and high cash-burn rate. At one point Mr. Musk even told one analyst: “We have no interest in satisfying the desires of day traders. I couldn’t care less. Please sell our stock and don’t buy it.”

Shareholders were listening. The stock sell-off gained pace in after hours trading Wednesday after the conference call began at 5:30 p.m. Eastern. And volume surged as the stock fell after the open of trading Thursday.

“Let’s just say that Elon’s behavior on the call should give even the uberbulls pause,” wrote Brian Johnson, an analyst who covers Tesla at Barclays Capital, who described the conference call as “downright bizarre.”

[Mr. Musk told analysts Tesla’s profitability goals hinge on producing 5,000 Model 3s a week.]

Conference calls after earnings reports are released tend to be clubby affairs where analysts gently probe executives for details they can use to adjust their profit and revenue estimates up and down for coming quarters.

But Tesla’s call Wednesday contained considerable fireworks. Mr. Musk cut off an analyst asking about the company’s need to raise additional money from investors.

“So where specifically will you be in terms of capital requirements?” asked Toni Sacconaghi, an analyst covering Tesla for Sanford C. Bernstein.

“Excuse me,” Mr. Musk responded, according to a Bloomberg transcript of the call. “Next. Boring bonehead questions are not cool. Next?”

Another analyst then tried to ask about orders for the Model 3, the mass-market Tesla vehicle seen as crucial to the company’s future.

“We’re going to go to YouTube,” Mr. Musk answered. “Sorry. These questions are so dry. They’re killing me.”

He then turned a large portion of the call over to a series of questions from Galileo Russell, who hosts a “financial talk show geared towards millennials" on YouTube, according to his profile on LinkedIn. Mr. Russell had asked on Twitter before the call if he could pose a question on behalf of individual investors, and Mr. Musk had agreed.

Over the last five years, Tesla has at times been one of the hottest stocks in the market and it has been widely owned by both individual investors and technology enthusiasts, as well as institutional investors excited about the long-term business prospects for the company.

Since the start of 2013, its shares are up more than 700 percent, dwarfing the gain of more than 80 percent for the broader **Standard & Poor**’**s 500**-**stockindex**. But since peaking in September 2017, the shares have slumped by more than 26 percent, as concern has grown about ongoing production problems for the Model 3, and the prodigious amount of cash the company is burning through.

Many expect that its need for cash will require the company to again turn to markets to raise more capital. In light of that, some analysts have suggested that Mr. Musk's attitude toward Wall Street could be self-defeating.

“The analysts on the call represent the providers of capital that Tesla has throughout its history depended upon,” wrote Adam Jonas, who covers Tesla for Morgan Stanley.

* Tesla Is Still Burning Cash, but Elon Musk Sees a Turning Point

* For Tesla, ‘Production Hell’ Looks Like the Reality of the Car Business

* With Tesla in a Danger Zone, Can Model 3 Carry It to Safety?

Elon Musk's contentious conference call with analysts after Tesla's earnings announcements sent shares of the electric-car maker sharply lower. | Joe Skipper/Reuters | Elon Musk, the Tesla chief executive, introduced the company's first mass-market vehicle, the Model 3, at an event in 2017 at its factory in Fremont, Calif. On Wednesday, Mr. Musk batted away an analyst's question about Model 3 orders. | Alexandria Sage/Reuters

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Markets

Oil Settles Higher as Iran Decision Looms; Investors are awaiting clarity on President Trump's position on the 2015 Iran nuclear deal

By Alison Sider and Christopher Alessi
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Oil prices climbed back from early losses Thursday as equities rebounded and a major North Sea oil terminal temporarily shut down, halting the flow of Brent crude.

U.S. crude futures rose 50 cents, or 0.74%, to $68.43 a barrel on the New York Mercantile Exchange, just 0.31% off a multiyear high reached in April. Brent, the global benchmark, rose 26 cents, or 0.35%, to $73.62 a barrel on ICE Futures Europe.

EnQuest, the terminal's operator, said it shut down pipeline systems carrying some 80,000 barrels a day of crude to its Sullom Voe Terminal in the Shetland Islands off Scotland after discovering on Wednesday a "minor defect" at the terminal. The company expects the pipeline to be up and running again by Sunday.

The disruption is expected to be much shorter than an outage on the Forties Pipeline System late last year that jolted **oil prices** higher. That pipeline system, which carries some 445,000 barrels of crude a day through the North Sea, was shut down for nearly three weeks after its operator discovered a small fracture.

Oil also got a boost Thursday from the **stock market**, as equity indexes regained ground after plunging earlier in the day. Oil and equities have been connected "like an umbilical cord," said Donald Morton, senior vice president at Herbert J. Sims & Co.

Oil prices have rallied higher over the past month, buoyed by continued output cuts by members of the Organization of the Petroleum Exporting Countries, along with growing geopolitical tensions.

Investors are awaiting clarity on U.S. President Donald Trump's position on the 2015 international nuclear deal, which eased sanctions against Iran in return for curbs on its nuclear program. Mr. Trump has been sharply critical of the deal. Mr. Trump is due to decide by May 12, and a withdrawal risks sanctions being reinstated.

"Downside follow through across the energy complex continues to be limited by a need to maintain risk premium related to the possible renewal of Iranian sanctions," Jim Ritterbusch, president of Ritterbusch & Associates said. "Should any sanctions prove capable of curtailing Iranian exports by at least 200,000 barrels a day, an up-spike into new high territory above the $70 mark is likely to develop."

But in recent days prices have been trading back and forth in a range as investors digest data on supply and demand. The U.S. Federal Reserve on Wednesday left interest rates unchanged and noted positive economic data, helping to lift **oil prices**. But data released by the U.S. Energy Information Administration reported higher stockpiles of oil and signs of weaker gasoline demand.

Gasoline futures rose 0.77 cent, or 0.37%, to $2.0875 a gallon. Diesel futures rose 1.025 to $2.7260 a gallon.

Sarah McFarlane contributed to this article

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Markets

Gold Bounces Back as Dollar Retreats; Some see Fed's latest interest-rate signal as encouraging for holders of gold

By Amrith Ramkumar and David Hodari
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Gold rebounded from a recent downturn Thursday, lifted by a pause in the dollar's recent rally.

Front-month gold for May delivery added 0.6%, to $1,310.70 a troy ounce, on the Comex division of the New York Mercantile Exchange. With the dollar surging and worries about higher interest rates mounting, prices had fallen in eight of the previous 10 sessions entering Thursday, though essentially staying in their year-to-date range of about $1,305 to $1,360.

The precious metal becomes more expensive to overseas buyers when the dollar grows stronger and struggles to compete with yield-bearing assets such as Treasurys as borrowing costs rise. A recent shift in global growth momentum back to the U.S. and firming inflation have more investors betting that the Federal Reserve will raise interest rates three more times this year.

The Fed left interest rates unchanged Wednesday and gave no indication that it plans to deviate from its previous projection of two more increases, though the central bank's statement did note inflation is moving closer to its 2% annual target.

Still, some analysts who had feared a more aggressive statement said the latest signal from the Fed was encouraging for holders of gold and other assets that tend to struggle when borrowing costs rise.

On Thursday, the WSJ Dollar Index, which tracks the U.S. currency against a basket of 16 others, was down 0.4% after closing at its highest level of the year a day earlier. It had its best month since late 2016 in April.

"That's really what has driven the price of gold," said Chris Gaffney, president of EverBank World Markets. "The question is how long this rally will last. I still think we're within a weakening trend of the dollar that started in the beginning of 2017."

Analysts will be closely watching Friday's jobs report for the latest reading on the U.S. economy. Some think a pickup in wage growth that hints at rising inflation could reinforce expectations for higher interest rates.

Still, some investors **bullish** on gold think the metal can withstand higher rates if consumer prices rise or geopolitical risks mount. Some money managers use the metal as a hedge against inflation and market **volatility**.

Among base metals, front-month copper for May delivery climbed 0.4%, to $3.0590 a pound. Worries about trade tensions slowing the global economy and commodity demand and a lack of supply disruptions from mining labor contract renegotiations have pressured the metal this year, with prices down more than 6.7% in 2018 after hitting a nearly four-year high in December.

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WSJ PRO CENTRAL BANKING

Economy
U.S. Foreign-Trade Deficit Narrowed in March; It was the largest one-month decline for the trade deficit in two years

By Ben Leubsdorf
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WASHINGTON—The U.S. trade gap narrowed sharply in March, partly reversing a widening in the deficit that followed hurricane-related disruptions late last summer.

The international-trade deficit in goods and services shrank 15.2% from a month earlier to a seasonally adjusted $48.96 billion in March, the Commerce Department said Thursday. Economists surveyed by The Wall Street Journal had expected a slightly larger March deficit of $49.6 billion.

It was the largest one-month decline for the U.S. trade deficit in two years, taking it to its lowest level since September. Hurricanes Harvey, Irma and Maria had disrupted port traffic and damaged parts of the Gulf Coast and Caribbean in August and September.

Imports dropped 1.8% in March, "starting to reverse the surge which followed the hurricanes last summer, when wholesalers and retailers had to rebuild inventory very quickly," Pantheon Macroeconomics chief economist Ian Shepherdson said in a note to clients.

Several analysts also pointed to the timing of Lunar New Year, which began in mid-February, as a possible source of recent import **volatility**.

Meanwhile, U.S. exports climbed 2% from February to their highest dollar value on record including larger shipments abroad of civilian aircraft, soybeans, corn and crude oil.

Data on international trade can be **volatile** from month to month, and the figures weren't adjusted for inflation.

The U.S. trade deficit in goods with Mexico was the largest on record in March, while the U.S. trade surplus in goods with the U.K. hit a record high. The country-level data weren't adjusted for seasonality and excluded services.

More broadly, the U.S. trade gap has widened this year, increasing 18.5% in the first three months of 2018 compared with the same period a year earlier. That reflects healthy demand both at home and overseas: Exports rose 6.8% in the first quarter from a year earlier, and imports climbed 9.1% over the same period.

Demand for U.S. exports has helped support the manufacturing sector, aided by a weaker dollar and stronger growth overseas. Factory output rose 3% in March from a year earlier, according to Federal Reserve data, and overall industrial capacity utilization hit its highest level in three years.

The U.S. has run annual trade deficits since the 1970s, importing more goods than it exports and posting a more modest trade surplus in services.

President Donald Trump has argued the U.S. should reduce its trade deficits and in March he announced tariffs of 25% on imported steel and 10% on aluminum imports, with temporary exemptions in place for some countries. He also has threatened to levy tariffs on a variety of Chinese goods.

"Years of unfair trade have hammered American families and plundered American wealth," Mr. Trump said in remarks last month. "It's been absolutely terrible for our country."

It could take months for the tariffs' effects to emerge clearly in the often-**volatile** monthly data on U.S. imports. Thursday's report showed the dollar value of bauxite and aluminum imports increased in March from the prior month, as did imports of iron and steel mill products.

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Economy

U.S. Jobless Claims Edged Higher Last Week; Initial claims up after hitting nearly 49-year low; continuing claims lowest since 1973

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WASHINGTON—The number of Americans filing new applications for unemployment benefits inched up last week from the lowest level in almost a half-century, but remained historically low.

Initial jobless claims, a proxy for layoffs across the U.S., increased by 2,000 to a seasonally adjusted 211,000 in the week ended April 28, the Labor Department said Thursday. Economists surveyed by The Wall Street Journal had expected 225,000 new claims last week.

The 209,000 claims in the prior week were the lowest since Dec. 6, 1969—when the U.S. population and workforce were far smaller than they are today. The 211,000 new claims last week were the second-lowest weekly reading over that span.

"In all, we see the claims data as pointing to robust labor markets," Barclays economist Pooja Sriram said in a note to clients.

Claims can be **volatile** from week to week; the four-week moving average fell last week to 221,500, its lowest level since March 3, 1973.

The Labor Department said claims-taking procedures in Puerto Rico and the U.S. Virgin Islands, which were devastated last year by powerful hurricanes, "have still not returned to normal."

Unemployment-benefit applications have remained low for years, evidence of healthy conditions in the U.S. job market.

Nonfarm employers added an average 202,000 jobs per month in the first quarter, up from a monthly average of 182,000 new jobs during 2017 as a whole, according to the Labor Department. The jobless rate was 4.1% in March for the sixth straight month, holding at its lowest level since the end of 2000.

The Labor Department on Friday will release its April jobs report. Economists surveyed by the Journal expect 195,000 new jobs for the month and an unemployment rate of 4.0%.

"Job gains have been strong, on average, in recent months, and the unemployment rate has stayed low," the Federal Reserve said Wednesday in its latest policy statement.

Thursday's report also showed the number of jobless claims made by workers longer than a week declined by 77,000 to 1.756 million in the week ended April 21. That was the lowest level since Dec. 8, 1973. Continuing claims are reported with a one-week lag.

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Heard on the Street
Wages Could Upset the Fed's Routine

By Justin Lahart
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[Financial Analysis and Commentary]

The Federal Reserve's course seems set, with steady, modest rate increases persisting through this year into next. The factor that could upset its plans is wage pressures, which are starting to flow through the economy.

The Fed wrapped up its two-day policy meeting on Wednesday by leaving rates on hold while signaling that it is still on a tightening path.

Coming after March's rate increase, this didn't count as a surprise. The central bank has fallen into a pattern of only raising rates ever other meeting.

That path higher reflects an economy that has reached a sweet spot. At the same time, inflation has, as the Fed acknowledged on Wednesday, moved close to the central bank's 2% target. Wage growth still isn't high enough to push inflation significantly higher.

As former Fed Chairwoman Janet Yellen has pointed out, wages should be able to grow as fast as labor productivity plus 2 percentage points -- the Fed's inflation target -- without driving inflation above 2%. That is because the more productive workers are, the less their wage costs drive overall costs higher.

Economists' forecasts for Thursday's first-quarter productivity report from the Labor Department put output per hour at 1.3% above its year-earlier level. That is pretty low, but still suggests the economy could handle 3.3% wage growth.

Last week the Labor Department reported that its comprehensive gauge of wages and salaries was up by 2.7% in the first quarter from a year earlier.

Still, that 2.7% increase represented the largest gain since 2008. More important, companies are talking more about wage pressures.

Diversified manufacturer Carlisle said wages are increasing across its businesses, for example, while Chipotle Mexican Grill said its wage inflation was running at 5%.

Temporary-staffing firm Robert Half International said hidden labor-market slack, such as discouraged workers not counted in the unemployment rate, has begun to tighten, and that wage inflation is picking up as result.

None of which means wage growth is going to pick up to the point that the Fed needs to break its every-other-meeting pattern.

But it would make sense for the Fed to signal that the pattern could be broken, both to give it the option of raising rates more frequently and to prepare **financial markets** for what might happen.

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THE WALL STREET JOURNAL.
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Central Banks Still Hold Strings --- Meticulous messaging by policy makers has the effect of keeping bond yields in check

By Jon Sindreu
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Ten-year Treasury yields' rise above 3% for the first time in four years last week confirmed the end of a decade of unprecedented monetary stimulus. But central banks' vast power over markets might not be over.

A big chunk of this command has stemmed from how central banks have painstakingly communicated their every intention to investors, analysts say. There are few signs of this approach changing.

For investors, this suggests bond yields might not rise sharply even as monetary policy returns to normal. And stocks, which are less attractive to investors when bond returns increase, could withstand the blow much better.

Over the past year, the Federal Reserve has nudged interest rates up three times and yields on 10-year U.S. government notes have followed, rising to 3% from 2.4%. The Fed, which kept rates steady Wednesday -- a widely expected move that sparked little market reaction -- is also selling back part of its $4.5 trillion bond portfolio, just as economists expect a larger U.S. budget deficit to increase debt issuance. But despite a greater supply of bonds, the extra return that investors demand to hold 10-year Treasurys instead of cash remains negative and hasn't edged up, Fed estimates show, suggesting yields are still being carefully steered by messages from the central bank. A similar thing has happened in Europe: German bonds of up to three years of maturity remain below the European Central Bank's minus 0.4% policy rate.

Yields usually move to track expectations of where officials will set rates -- because government debt is broadly seen as interchangeable for money printed by the central bank -- but don't match exactly. This difference is what analysts dub the "term premium," which can reflect factors such as supply and demand for bonds in the market.

A term premium that is close to zero, however, suggests that supply and demand have less influence over bonds than policy makers' carefully engineered messages.

It also means yields are less likely to increase much more as easy money ends, said Emiel van den Heiligenberg, head of asset allocation at Legal & General Investment Management, "because central banks will control the narrative quite tightly."

Many investors feared that term premiums could surge once central banks stopped buying bonds.

By making their policies predictable, central bankers have reduced the risk of **bond prices** suddenly moving against their holders' interests, bringing the term premium they demand close to zero, analysts say. On top of that, hunger by pension funds and sovereign-wealth managers to park their cash in safe assets has likely pushed the premium over the edge, turning it negative, investors said.

To be sure, officials might not always be able to keep expectations controlled, especially if inflation suddenly snaps back after years of being subdued. But history suggests that central banks will at least try.

In 2008, the Fed aped other central banks in adopting a "corridor system" that keeps rates extremely rangebound. After the crisis, rate setters around the world have guided long-term rates as well.

By publishing "dot plots," which display individual policy makers' forecasts of the range of future rates, the Fed now micromanages market expectations and has clearly signaled that borrowing costs will increase twice more this year and three times in 2019.

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Trade Tensions Test Xi's Limits

By Chun Han Wong
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BEIJING -- A U.S. delegation led by Treasury Secretary Steven Mnuchin arrives here on Thursday with a list of asks for President Xi Jinping: reduce China's trade surplus with the U.S., better protect intellectual property, and end policies Washington says favor large Chinese companies and discriminate against American businesses.

Mr. Xi may be China's most powerful leader in decades, but he faces a test of that strength as he tries to advance the nation's economy and avert a trade war with the U.S.

Empowered this year to stay in office indefinitely, Mr. Xi has stated his objectives to develop industrial champions and advance the country's technology firepower. He has also pledged to open up certain Chinese markets in an effort to paint himself as a proponent of free trade.

But the aggressive move by the U.S. to pressure China on trade has complicated his position.

The Trump administration this week indicated it is considering executive action that would restrict the ability of some Chinese companies -- likely including Huawei Technologies Co. and ZTE Corp., two of the world's leading telecommunications-equipment makers -- to sell such equipment in the U.S., based on national security concerns, several people familiar with the matter said.

Mr. Xi has responded to Washington's threats with plans for retaliatory tariffs, though he has indicated he wants to avoid a damaging trade fight.

Paring state control over the economy also runs counter to Mr. Xi's objective to strengthen Communist Party authority over all of Chinese society. And anything less than stout resistance against perceived American bullying is likely to displease many Chinese.

Public expectations and resistance from ministries, local governments and state enterprises make compromise politically risky. Since the U.S. began unveiling tariffs and threats of further trade penalties this year, Chinese state media has filled airwaves and newspapers with reports and commentaries accusing President Donald Trump of being an aggressor bent on tearing up global rules and on using trade as a tool to suppress China's rise.

The hard-line rhetoric ramped up further after the U.S. banned sales of American products to ZTE in April for violating a previous agreement, making compromise with the U.S. more difficult.

"The louder Trump's demands, the greater the domestic pressure on the Chinese leadership to appear steadfast," said Jessica Chen Weiss, an associate professor at Cornell University who has studied the role of nationalism in China's foreign relations.

In public remarks in recent weeks, Mr. Xi and his top lieutenants have sought to cool temperatures with the U.S., offering greater foreign access to the financial and auto sectors and lower tariffs on car imports.

Mr. Xi "has sold himself as a very powerful leader," said Christopher Balding, an associate professor at the HSBC Business School in Shenzhen. But "even in China, you can't just snap your fingers and change the tariff rate on cars."

Some foreign business executives and economists dismissed the concessions, saying the sectors they included aren't regarded as critical to Chinese aspirations to become a high-tech industrial power, or are already heavily dominated by Chinese players. Officials cast the moves as a signal of Beijing's commitment to open up Chinese markets and adhere to global trade norms.

Though China's economy is humming steadily and expanded 6.8% in the first quarter, growth remains heavily dependent on investment -- much of it fueled by worrying amounts of debt, equivalent to around 260% of gross domestic product.

Mr. Xi has been ginning up support for his positions in publicized tours of the provinces. Traveling in central China last week along the Yangtze River, he visited the mammoth Three Gorges Dam, an icon of state planning, and Xinxin Semiconductor Manufacturing Corp., a leader in a government-backed effort to create competitive makers of chips.

His message, according to state media: China needs to "rely on our own hard work" in mastering key technologies.

By his record, Mr. Xi is a staunch backer of China's brand of state capitalism, with an inclination to improve its performance, not overturn it. He has treated market forces more as potential agents of instability than tools for shaking up sluggish state-run industries, especially since a **stock-market** implosion in 2015.

"Xi Jinping is a committed planner and an interventionist," said Scott Kennedy, a deputy director at the Washington-based Center for Strategic and International Studies. "He doesn't believe in markets."

State-owned enterprises remain the backbone of China's economy and an instrument of foreign policy. They fill government coffers, dominate strategic industries from energy to telecommunications, anchor employment markets and help disburse state largess through investments at home and abroad.

At home, most ply protected markets they have fought to preserve.

"There are basically two forms of quiet opposition to foreign entry: Beijing and its large state firms, and provincial governments and their local firms," said Andrew Collier, managing director at Orient Capital Research, an independent research firm in Hong Kong. "Even if access is granted, there is likely to be subtle delays by local or central government regulators, and hurdles that will impede market access."

State industries are central to the "Made in China 2025" initiative, Beijing's blueprint to create a world-beating manufacturing sector -- and a focus of the Trump administration, which says the plan discriminates against foreign companies. Mr. Xi has frequently shown his support for the plan by visiting businesses that benefit from it.

State industries have also been formidable centers of resistance to Mr. Xi's own plans. His earlier efforts at overhauling state enterprises -- trying to get them to improve their returns through restructuring and mergers -- became mired in discord between government agencies, among them the state commission that oversees state businesses.

A report issued last year by a think tank run by China's top economic-planning commission accused vested interests in local government and businesses and excessively powerful agencies of impeding overhauls, watering them down and delaying them with "constant compromise." The report ran 217 pages.

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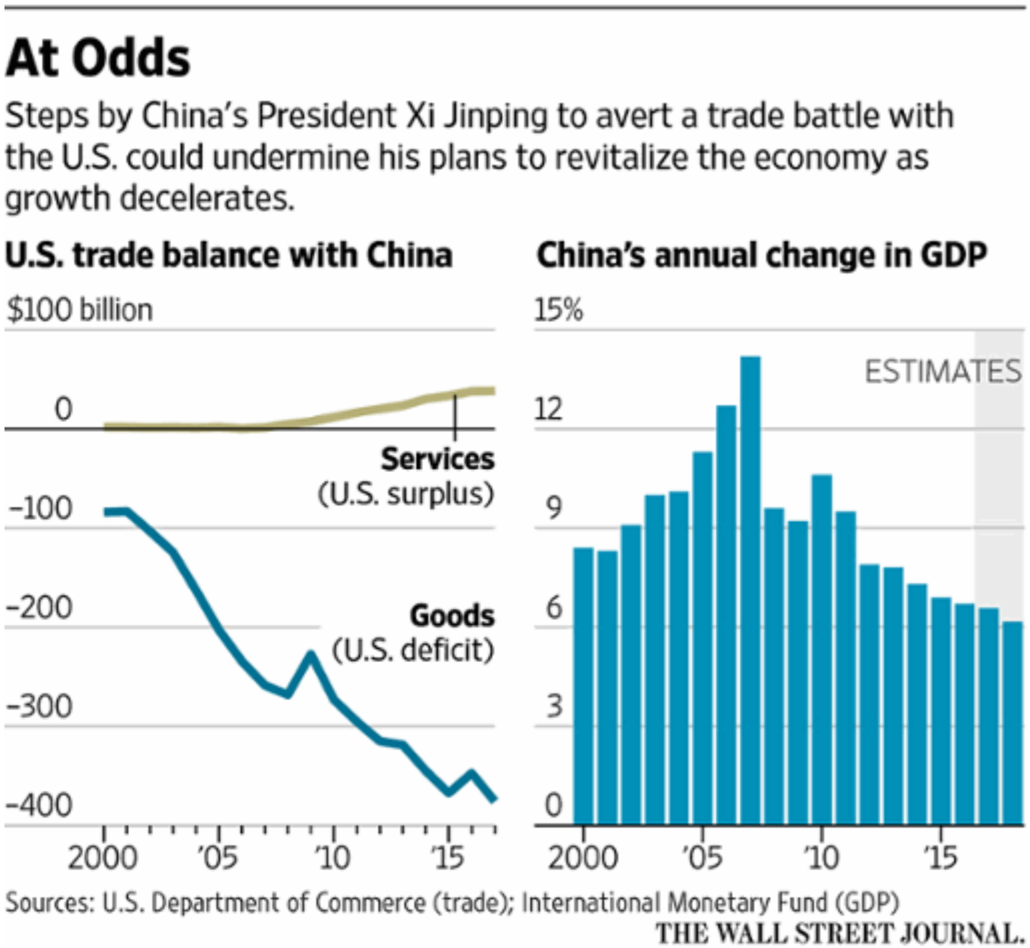

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Wall Street Retreats at the Thought of Higher Interest Rates

By THE ASSOCIATED PRESS
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A late slump left U.S. stocks mostly lower on Wednesday as investors appeared to grow more concerned about the possibility of rising interest rates. Apple climbed after a solid quarterly report and a forecast for strong iPhone sales.

Brewer Molson Coors suffered its biggest one-day loss in 13 years after it said the U.S. beer industry got off to a slow start in 2018. Weak results from drugmaker Gilead Sciences and animal health company Zoetis weighed on health care companies. Smaller companies fared better. Apple did a bit better than Wall Street expected in its latest quarter and forecast better sales than investors feared. The tech giant also said it will spend some of its tax savings on a $100 billion stock repurchase.

The Federal Reserve left interest rates unchanged, as investors and analysts expected, and said it expects to keep raising interest rates gradually. The central bank said inflation has approached its 2 percent target, but it didn't suggest it is overly concerned that inflation will strengthen more than that. Major indexes sold off in the last hour of trading. Steve Wood, chief market strategist at Russell Investments, said investors believe the Fed doesn't expect to do much to prop up the economy.

"The Fed views the economy as having improved and inflation has returned to normal," he said. "That environment, in the Fed's opinion, no longer justifies overly accommodative monetary policy."

One of the key debates on Wall Street is whether the Fed will raise rates three times as planned, or if it will raise them four times in response to more signs of inflation and faster economic growth. That question wasn't answered Wednesday and Wood said he thinks a fourth increase is possible.

The **S&P 500 index** fell 19.13 points, or 0.7 percent, to 2,635.67. The **Dow Jonesindustrial average** lost 174.07 points, or 0.7 percent, to 23,924.98. The **Nasdaq composite** slid 29.81 points, or 0.4 percent, to 7,100.90.

The Russell 2000 index of smaller-company stocks added 4.58 points, or 0.3 percent, to 1,554.92 as smaller technology companies and retailers advanced.

After months of concerns on Wall Street about weak iPhone sales, Apple had a slightly better fiscal second quarter than expected and investors were pleased with its projections for the current quarter as well. It's also giving its shareholders a lot of cash. Apple bought back almost $23 billion in stock in the first three months of the year and will spend another $100 billion on stock repurchases. It's also raising its dividend.

The Republican-backed tax package temporarily lowered the taxes that companies pay when they bring cash stashed overseas back to the U.S., which encouraged companies like Apple to bring that cash back to the U.S. Apple stock climbed 4.4 percent to $176.57.

The bond market had little reaction to the Fed's statement and **bond prices** were little changed. The yield on the **10**-**year Treasury** note remained at 2.97 percent. The dollar weakened and fell to 109.73 yen from 109.81 yen. The euro fell to $1.1988 from $1.1993.

Molson Coors Brewing said cold weather may have prompted consumers to cut back on their drinking. The company's results fell short of analyst projections and it also said sales to wholesalers declined. Its stock shed

15.4 percent to $60.64. Coca-Cola and Pepsi continued to fall, with Coke down 1.2 percent to $42.06 and Pepsi sliding 1.9 percent to $97.23.

Xerox's CEO and most of its board will resign as investors Carl Icahn and Darwin Deason push the company to stop its sale to longtime partner Fujifilm. The duo called for Jacobson to resign in late January, shortly before Xerox announced a deal that will result in Fujifilm taking majority control of Xerox. Jacobson and five other directors are being replaced. Xerox said the new board will reconsider the deal with Fujifilm and could terminate or restructure Xerox's relationship with the company.

Xerox shares fell 9 percent to $29.38.

Snap skidded 21.9 percent to $11.03 after its first-quarter revenue fell far short of estimates. The company said its redesign, which some users have slammed, was one of the reasons for the slip.

After posting its highest growth in a decade during 2017, economic growth in the 19-country eurozone slowed a bit in the first quarter, largely because of temporary factors such as cold weather. Despite the slowdown, growth was higher than the equivalent in the U.S.

The DAX in Germany soared 1.5 percent and the French CAC 40 picked up 0.2 percent. In Britain the FTSE 100 rose 0.3 percent.

Benchmark U.S. crude jumped 1 percent to $67.93 a barrel in New York, while Brent crude, the international standard, rose 0.3 percent to $73.36 per barrel in London.

Wholesale gasoline lost 0.4 percent to $2.08 a gallon. Heating oil rose 1 percent to $2.12 a gallon. Natural gas fell 1.7 percent to $2.75 per 1,000 cubic feet.

Gold fell 0.1 percent to $1,305.70 an ounce. Silver jumped 1.5 percent to $16.38 an ounce. Copper added 1 percent to $3.07 a pound.

Japan's Nikkei 225 slipped 0.2 percent and the Hang Seng in Hong Kong lost 0.3 percent. South Korea's Kospi gave up 0.4 percent.

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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.

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The New York Times

Business/Financial Desk; SECTB
Fed Holds Interest Rates Steady, Staying on Track for a June Increase

By JIM TANKERSLEY
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WASHINGTON -- The Federal Reserve held interest rates steady at the conclusion of its two-day policy meeting on Wednesday and acknowledged rising inflation, but it gave little indication that officials are worried about a sudden, rapid escalation in prices or an abrupt slowdown in economic growth that could alter its gradual pace of rate increases.

The Federal Open Market Committee's unanimous decision not to raise rates so quickly after a March increase had been widely expected. The official statement from the committee gave no indication that Fed officials plan to raise rates faster than previously telegraphed.

Officials made only a few changes to the language they had used after their March meeting to describe inflation and growth. Most notably, they acknowledged that ''on a 12-month basis, both overall inflation and inflation for items other than food and energy have moved close to 2 percent,'' which is the central bank's stated target for inflation.

The Fed is midway through what is meant to be a long and gradual push toward historically normal rates. It raised its benchmark interest rate in March to a range of 1.5 to 1.75 percent. Economic projections released at that meeting indicated that officials were split on whether they expected to raise rates a total of three or four times this year, with a narrow majority leaning toward three over all.

Economists overwhelmingly predict that the Fed will next raise rates in June, but after that, the consensus begins to break down. Some analysts say to expect four total rate increases this year given the strength of the economy, including a historically low unemployment rate.

Inflation has finally reached the Fed's target

Data released on Monday showed that wages and prices are now growing at 2 percent a year, according to the Fed's preferred inflation measure, the personal consumption expenditures price index. Excluding **volatile** food and energy prices, the rate is 1.9 percent. Those levels indicate inflation is finally reaching the 2 percent target after six years of failing to meet that goal.

Officials acknowledged that increase on Wednesday, but the statement suggested that the Fed was not overwhelmingly concerned. The statement noted that annual inflation ''is expected to run near the committee's symmetric 2 percent objective over the medium term.'' The inclusion of ''symmetric'' is a sign that the Fed could tolerate inflation running slightly above 2 percent for a period of time.

The language is a change from the March meeting statement, which said that inflation and core inflation rates ''have continued to run below 2 percent'' and that annual inflation is ''expected to move up in coming months'' and stabilize around 2 percent.

The statement on Wednesday also eliminated a line from the March statement that said ''the committee is monitoring inflation developments closely.''

''The Fed is telling markets that it won't overreact to a run of higher numbers'' in inflation readings, Ian Shepherdson, chief economist at Pantheon Macroeconomics, wrote in a research note after the meeting, ''just as it didn't overreact to the run of five straight downside surprises last year.''

Several Fed officials have raised concerns in recent weeks about the economy's ''overheating'' and publicly pondered whether the Fed may need to pour on some cold water with higher interest rates. The concern is that if the Fed does not raise interest rates quickly enough, wages and prices could begin to spiral up, forcing a sharp rate increase that could push the economy into recession.

If such a situation arises, ''it's very hard to navigate that without having an economic downturn,'' Eric Rosengren, the president of the Federal Reserve Bank of Boston, said in an interview last month. ''My concern is that's much worse than just having slightly slower growth'' from a slightly faster pace of rate increases.

No sign of concerns over economic growth

The chairman of the Fed, Jerome H. Powell, and other officials are broadly optimistic about the strength of the economy but have noted some risks on the horizon for growth -- most notably a potential drag from a trade dispute with other nations, like China. Some economists have also raised early concerns about slowing growth in Europe, which could affect the United States, and about other market metrics that could portend a slowdown, such as the rise in Treasury bond yields.

There were few hints of those concerns in this meeting's statement.

The statement declared that ''business fixed investment continued to grow strongly'' since the last Fed meeting, which was more **bullish** language than the March statement. It noted, as it did in March, that household spending growth had moderated since the end of last year. It eliminated a line from the March statement that declared ''the economic outlook has strengthened in recent months,'' but did not add any new language about risks to growth.

Officials said that ''risks to the economic outlook appear roughly balanced,'' a slight change from March, when they declared that ''near-term risks'' appeared roughly balanced.

Analysts read that as an endorsement of the economy's staying power. ''By not referring to the slower G.D.P. growth in the first quarter or potential risks from trade policy, the committee is emphasizing that there are more signs of strength than weakness in the economy,'' Ben Ayers, senior economist at the insurance firm Nationwide, wrote after the meeting.

A 'stay the course' statement

The language in the statement, and the decision on rates, validated Fed watchers who had predicted few changes this month. In part, that's because there haven't been significant surprises in economic data since the last meeting.

''The F.O.M.C. notes boil down to 'steady as she goes,''' said Robert Frick, corporate economist with Navy Federal Credit Union. ''So, without the Fed trying to slow down the economy to head off a hot economy or rising inflation, we can expect the unemployment rate to continue dropping, and just as importantly, wages will be free to rise.''

Jerome H. Powell, right, the Federal Reserve's chairman, with the deputy director Thomas A. Connors last month in Washington. (PHOTOGRAPH BY ANDREW CABALLERO-REYNOLDS/AGENCE FRANCE-PRESSE -- GETTY IMAGES)

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Fed Is on Course for Rate Increases --- Policy makers remain headed for gradual rises, including a possible one in June

By Nick Timiraos
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WASHINGTON -- The Federal Reserve held short-term interest rates steady Wednesday and indicated it remains on track to raise them gradually, including at its June meeting, to keep the expanding economy on an even keel.

After years of aggressive, postcrisis interventions to heal labor markets and delayed rate rises to spur inflation, central-bank officials now have the economy largely where they want it.

Labor markets are strong. Wages are rising. And inflation has reached the central bank's 2% target but with little evidence of a breakout.

"Mission accomplished, for now," said Michael Feroli, chief U.S. economist at JPMorgan Chase, in a research note Wednesday.

The Fed, in a statement released after its two-day policy meeting, offered nothing to dispel market expectations that it would deliver its second rate increase of the year when it meets in June.

Stocks and bond yields edged lower after the meeting ended. The **Dow Jones Industrial Average** closed down 174.07 points, or 0.7%, to 23924.98 in a fourth straight session of losses. The WSJ Dollar Index, which had its best month in April since November 2016, edged up 0.3% Wednesday. The yield on the benchmark 10-year U.S. Treasury note inched down to 2.964% from 2.976% Tuesday.

Fed officials acknowledged the recent firming of inflation, which they had forecast for many months, but signaled no plans to pick up the pace of rate increases in response.

Consumer prices rose 2% in March from a year earlier, according to the Fed's preferred gauge, after nearly a year in which inflation softened unexpectedly. Core prices, which exclude the **volatile** food and energy sectors, rose 1.9% in March, up from 1.6% in February.

When inflation firmed early last year, officials added language to the March 2017 policy statement describing the Fed's 2% inflation goal as "symmetric," a signal they won't raise rates more aggressively if inflation rises a bit above that level.

On Wednesday, officials added a second reference to their "symmetric 2% objective" in the statement, together with other changes to reflect the recent rebound.

The changes suggest the Fed is saying, "We're not going to overreact if inflation moves above 2%," said Lewis Alexander, chief U.S. economist at Nomura Securities.

Fed officials see 2% inflation as consistent with an economy with healthy demand for goods and services. Projections released at their March meeting show all 15 participants expected annual core inflation of at least 2% by 2020, and more than half of them see it rising to at least 2.1% next year and staying there through 2020.

The recent rebound was widely expected because inflation declined in March 2017, caused by a price war between wireless phone carriers. The weak figure dropped out of the year-over-year comparison in the latest inflation reading, which was released Monday.

When officials met in March, they said such an increase "by itself, would not justify a change in the projected path for the federal-funds rate," according to minutes of that meeting released last month.

Fed officials voted in March to raise their benchmark rate to a range between 1.5% and 1.75%. They voted unanimously Wednesday to leave it there.

Fed officials find themselves at a potential turning point this year. "After a period of high anxiety facing very real challenges, they've come a long way," Mr. Alexander said. "It would be a mistake to suggest they are ever completely satisfied, but it does seem like the risks in some sense are less profound than the ones they faced in recent memory."

The question looming over Wednesday's meeting centered on how officials might raise rates over the coming years, which could potentially shift the central bank from spurring economic growth to restricting it.

The challenge for central bankers is to lift borrowing costs enough to prevent the economy from overheating, but not so much that it tips into recession.

"Raising rates too slowly would make it necessary for monetary policy to tighten abruptly down the road, which could jeopardize the economic expansion," Fed Chairman Jerome Powell said in a speech last month. "But raising rates too quickly would increase the risk that inflation would remain persistently below our 2% objective."

A related question for Mr. Powell and his colleagues is how the Fed would react if inflation rises above the 2% target, which has scarcely happened since the central bank formally adopted it in 2012. Officials haven't indicated how much or how long inflation could go higher without triggering a stronger policy response.

In March, officials penciled in three rate rises this year, but the committee was relatively evenly divided between those who favored three and four additional increases. Most officials expected three increases next year.

Traders in futures markets after the Fed announcement placed a nearly 50% chance of three more rate increases this year and have fully priced in one of those increases at the June meeting, according to CME Group.

The statement showed little desire to send a strong message in either direction. "They have the market as close to their expectations as one could reasonably wish for," said Mr. Feroli of JPMorgan.

While the economy has performed in line with officials' forecasts so far this year, there is greater uncertainty because of recent changes to tax, federal spending and trade policies in Washington.

President Donald Trump signed into law $1.5 trillion in tax cuts at the end of last year, boosting most private forecasts of growth and employment for the coming two years. Congress and the White House also agreed to increase federal spending over the next two years.

Wall Street economists predict the measures will push unemployment down to levels not seen since the 1950s, and no one is quite sure what that would do to inflation or financial stability.

The unemployment rate in March held at 4.1%. The Labor Department will release its April employment report Friday.

It is probably too soon for officials to have reached firm conclusions about how the recent fiscal policy changes could boost growth and price pressures. But the upturn in inflation, which has occurred largely before any of the fiscal stimulus ripples through the economy, could add a new dimension to these discussions.

Trade policy is another wild card. Mr. Trump has threatened to impose tariffs and other penalties against major trading partners, with a particular focus on China, to narrow trade deficits.

Those imbalances could widen, however, because the tax cuts and government spending increases are likely to increase domestic demand, which typically boosts imports. Tariffs, by raising import prices, also can fuel more inflation.

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Worry About the Trade Deficit -- a Bit

By Jason Furman
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There is a case for being concerned -- though only modestly -- about the U.S. trade deficit. The principal villain in this story is not China, Europe or Mexico, but the U.S. itself. Getting that narrative wrong, however, is leading Washington toward policies to reduce the trade deficit that will be somewhere between irrelevant and counterproductive. Simultaneously, the U.S. is pursuing domestic policies that will boost the trade deficit even further.

The U.S. trade deficit has been stable for nearly a decade at about 3% of gross domestic product. That's partly offset by net income that Americans earn on their investments abroad, leading to a current-account deficit of about 2.5% of GDP.

There are sound arguments that a deficit of this magnitude is nothing to worry about. Adam Smith taught that what's really valuable to a country is imports. Exports are merely the unpleasant effort undertaken to get them. Moreover, as long as the Federal Reserve has room to cut interest rates if needed, the trade deficit doesn't cost jobs. Any additional demand that came from reducing the trade deficit would be offset by the Fed as it raises rates. Do a quick global survey: It isn't as if the unemployment rate is lower in countries like Italy that have trade surpluses than in countries like the United Kingdom that have large trade deficits.

Nevertheless, the flip side of the current-account deficit is the large amount of foreign borrowing the U.S. needs to undertake every year. America has been borrowing from abroad since the 1970s, and its net obligations to the rest of the world now stand at 40% of GDP. Having the U.S. dollar as the world's reserve currency -- what economists sometimes call America's "exorbitant privilege" -- allows the U.S. to borrow relatively cheaply, while Americans invest some of the proceeds in higher-return projects overseas. So far the U.S. is still making money, on net, from its international position. But no one knows how long that will last -- and regardless, America would be making even more money if it didn't owe foreigners so much debt.

Future rates of return are unpredictable, but aging is guaranteed. Today there are 4.2 working-age Americans for each one 65 or older. By 2040 that will fall to 2.9. Partly as a result of these demographic trends, most forecasts now expect the economy to grow only about 2% a year. Given all this, borrowing substantial sums from abroad to fund spending today may be unwise, since it will require -- all else equal -- cutting back on spending in the future.

This is why the International Monetary Fund has recommended that the U.S. cut its current-account deficit roughly in half. That would mean reducing the annual trade deficit by about 1% of GDP, or $200 billion. This may be more aggressive than warranted, but at a minimum the U.S. should endeavor to make sure the current-account deficit does not rise much above about 3% of GDP.

But how? Even the best-executed trade policy will have little effect on the trade deficit. Tariffs? Empirical evidence shows no relationship with trade balances. Argentina has a large trade deficit despite its high tariffs, while Germany has a large trade surplus despite its low tariffs.

What about curbing unfair trade practices by China and other countries? That would boost U.S. exports in some specific industries -- but it would also drive up the dollar, hurting other exports and increasing imports. The net effect on the overall trade deficit would be imperceptible, though it might change some of the bilateral balances. How about a trade war? That would do even less to reduce the trade deficit. Higher U.S. and foreign tariffs would cancel each other out, shrinking the volume of trade without altering the net balance.

The reality is that a basic accounting identity holds: The current-account deficit is the gap between total investment and total savings. If a country saves less money than it puts toward things like factories and equipment, it has to finance the difference with foreign borrowing. Ultimately, current-account flows and financial flows must match. America's net imports of cars, oil, clothing and other goods are matched by net exports of government debt, corporate debt and so forth.

For now U.S. investment as a share of the economy seems likely to rise. It's bouncing back from the postcrisis overhang. Higher **oil prices** are driving momentum in the oil-and-gas industry. And the 2017 tax law modestly increases incentives to invest. All told, it would be reasonable to expect investment to rise by about 1% of GDP over the next few years.

At the same time, the federal budget deficit, a form of negative savings, is expected to increase by about 2% of GDP over the next year, with about half of that due to the tax cuts. All else equal, this would increase the current-account deficit by 3% of GDP, which translates to an additional $600 billion in the annual trade deficit. (In reality, increased private savings will likely offset some of the effect.)

What would be a better course? First, pursuing trade enforcement and liberalization in a multilateral fashion. That would not affect the trade balance, but it would expand the volume of both exports (helping support more higher-paid jobs) and imports (benefiting consumers). Then to prevent the trade deficit from growing, the U.S. should increase national savings. One way to boost private savings would be to expand retirement-savings options for workers who do not have them, a policy that would have the added benefit of helping American families prepare better for old age. Cutting the federal budget deficit would directly boost national savings even more. If the U.S. is serious about making progress toward a more sustainable international position, the solution is to stop blaming others and start examining ourselves.

Mr. Furman, a professor of practice at the Harvard Kennedy School, was chairman of the White House Council of Economic Advisers, 2013-17.

(See related letters: "Letters to the Editor: Total Investment, Total Saving and Deficits" -- WSJ May 8, 2018 and "Letters to the Editor: The Sale of Manhattan In Balance of Trade Terms" -- WSJ May 14, 2018)

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