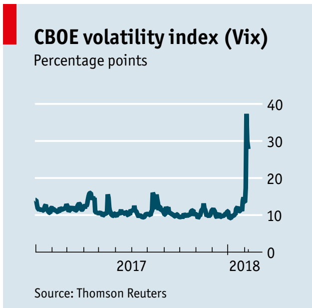
Business



It was a turbulent week on the world's **stockmarkets**, a rude awakening after a long period of calm during which share-price indices have soared. The Dow Jones Industrial Average plunged by 1,175 points in a day, its biggest points decline to date. The FTSE 100 fell by 2.6%, the most since June 2016 when Britain voted to leave the EU. A measure of market volatility, the Vix, also known as "the fear index", soared to its highest level since China's currency crisis in 2015. Among other things, markets are worried that the improving world economy and pressures on inflation will cause central banks to ramp up interest rates.

Welcome to the office!

The market turmoil coincided with **Jerome Powell's** first day on the job as chairman of the Federal Reserve.

Crypto-currencies also swung even more wildly than usual. **Bitcoin** dropped below $6,000 before jumping by 30% within 24 hours. A note by Goldman Sachs compared trading in digital currencies to the internet bubble of the 1990s.

America's **trade deficit** grew by 12% last year, to $566bn, the highest it has been since 2008. Although American exports increased to $2.3trn, imports surged to $2.9trn. That helped push up the politically sensitive goods deficit with China to a record $375bn.

Last year's intense hurricane season, wildfires in California and earthquakes in Mexico all took a toll on **Munich Re's** annual profit, which slumped by 85% to €392m ($442m). The German reinsurer estimates that the industry's claims from natural catastrophes in 2017 will top $135bn, a record.

A South Korean appeals court halved the five-year prison sentence for bribery handed down last year to **Lee Jae-yong**, Samsung's de facto boss, and suspended his remaining jail term, allowing him to walk free. The decision disappointed reformers who had hoped the sentence represented a break from the leniency shown by judges towards businessmen in corruption cases. Mr Lee was not cleared of all charges. His father, Lee Kun-hee, was meanwhile charged as a suspect in a tax-evasion case.

Wynn's gambling loss

Steve Wynn resigned as chairman and chief executive of Wynn Resorts, one of the world's largest casino companies, following allegations stretching back decades that he coerced employees into sex. He denies the accusations.

Despite a doubling of its net losses, **Snap's** fourth-quarter earnings delighted investors when it reported higher-than-expected revenues and an increase in the number of people who use its messaging app on a daily basis, to 187m. The company floated on the stockmarket last March, but its share price has fallen far below its closing price at the time of its IPO.

The ***Los Angeles Times*** has a new owner. Patrick Soon-Shiong, a biotech entrepreneur, is buying the newspaper along with the *San Diego Union-Tribune* for $500m from Tronc, which used to be part of the Tribune media empire.

Dalian Wanda, a Chinese conglomerate, sold a stake in its film business to a consortium headed by Alibaba, China's biggest e-commerce company. Dalian Wanda is under pressure from the Chinese government to pare back assets in order to reduce debt.

After months of pre-trial hearings, a court case got under way in which **Uber** is accused by **Waymo**, a self-driving car business owned by Alphabet, Google's parent company, of stealing trade secrets. Travis Kalanick, who was ousted as Uber's chief executive last year, took the stand. He described how driverless cars were a threat to Uber's taxi-hailing business model, which impelled him to acquire Otto, a startup created by Anthony Levandowski, an engineer who worked at Waymo. Waymo contends the acquisition was a ruse through which Uber gained its technical secrets.

Broadcom submitted its "best and final" offer to take over **Qualcomm**. The latest proposal is worth $146bn. Qualcomm's board has so far not engaged with its chipmaking rival, but the issue will surely dominate its shareholders' meeting on March 6th.

Roads to nowhere

Los Angeles was the most **congested city** at peak travel times in 2017, according to a report by INRIX, a transport-analytics firm. The city's drivers spent an average of 102 hours a year sitting in congestion during rush hour, more than ten hours longer than in Moscow, which ranked second in the study. Although America overall was positioned joint fifth with Russia out of the 38 countries surveyed, five of its cities made the list of the ten most congested. Despite its congestion charge, Londoners still wasted 74 hours a year snarled up in traffic, the worst of any city in western Europe.

Other economic data and news can be found on pages 80-81

Running hot

The United States is taking an extraordinary economic gamble

VOLATILITY is back. A long spell of calm, in which America's stockmarket rose steadily without a big sell-off, ended abruptly this week. The catalyst was a report released on February 2nd showing that wage growth in America had accelerated. The S&P 500 fell by a bit that day, and by a lot on the next trading day. The Vix, an index that reflects how changeable investors expect equity markets to be, spiked from a sleepy 14 at the start of the month to an alarmed 37. In other parts of the world nerves frayed.

Markets later regained some of their composure (see page 63). But more adrenalin-fuelled sessions lie ahead. That is because a transition is under way in which buoyant global growth causes inflation to replace stagnation as investors' biggest fear. And that long-awaited shift is being complicated by an extraordinary gamble in the world's biggest economy. Thanks to the recently enacted tax cuts, America is adding a hefty fiscal boost to juice up an expansion that is already mature. Public borrowing is set to double to $1 trillion, or 5% of GDP, in the next fiscal year. What is more, the team that is steering this experiment, both in the White House and the Federal Reserve, is the most inexperienced in recent memory. Whether the outcome is boom or bust, it is going to be a wild ride.

Fire your engines

The recent equity-market gyrations by themselves give little cause for concern. The world economy remains in fine fettle, buoyed by a synchronised acceleration in America, Europe and Asia. The violence of the repricing was because of newfangled vehicles that had been caught out betting on low volatility. However, even as they scrambled to react to its re-emergence, the collateral damage to other markets, such as corporate bonds and foreign exchange, was limited. Despite the plunge, American stock prices have fallen back only to where they were at the beginning of the year.

Yet this episode does signal just what may lie ahead. After years in which investors could rely on central banks for support, the safety net of extraordinarily loose monetary policy is slowly being dismantled. America's Federal Reserve has raised interest rates five times already since late 2015 and is set to do so again next month. Ten-year Treasury-bond yields have risen from below 2.1% in September to 2.8%. Stockmarkets are in a tug-of-war between stronger profits, which warrant higher share prices, and higher bond yields, which depress the present value of those earnings and make eye-watering valuations harder to justify.

This tension is an inevitable part of the return of monetary policy to more normal conditions. What is not inevitable is the scale of America's impending fiscal bet. Economists reckon that Mr Trump's tax reform, which lowers bills for firms and wealthy Americans—and to a lesser extent for ordinary workers—will jolt consumption and investment to boost growth by around 0.3% this year. And Congress is about to boost government spending, if a budget deal announced this week holds up. Democrats are to get more funds for child care and other goodies; hawks in both parties have won more money for the defence budget. Mr Trump, meanwhile, still wants his border wall and an infrastructure plan. The mood of fiscal insouciance in Washington, DC, is troubling. Add the extra spending to rising pension and health-care costs, and America is set to run deficits above 5% of GDP for the foreseeable future. Excluding the deep recessions of the early 1980s and 2008, the United States is being more profligate than at any time since 1945.

A cocktail of expensive stockmarkets, a maturing business cycle and fiscal largesse would test the mettle of the most experienced policymakers. Instead, American fiscal policy is being run by people who have bought into the mantra that deficits don't matter. And the central bank has a brand new boss, Jerome Powell, who, unlike his recent predecessors, has no formal expertise in monetary policy.

Does Powell like fast cars?

What will determine how this gamble turns out? In the medium term, America will have to get to grips with its fiscal deficit. Otherwise interest rates will eventually soar, much as they did in the 1980s. But in the short term most hangs on Mr Powell, who must steer between two opposite dangers. One is that he is too doveish, backing away from the gradual (and fairly modest) tightening in the Fed's current plans as a salve to jittery financial markets. In effect, he would be creating a "Powell put" which would in time lead to financial bubbles. The other danger is that the Fed tightens too much too fast because it fears the economy is overheating.

On balance, hasty tightening is the greater risk. New to his role, Mr Powell may be tempted to establish his inflation-fighting chops—and his independence from the White House—by pushing for higher rates faster. That would be a mistake, for three reasons.

First, it is far from clear that the economy is at full employment. Policymakers tend to consider those who have dropped out of the jobs market as lost to the economy for good. Yet many have been returning to work, and plenty more may yet follow (see page 33). Second, the risk of a sudden burst of inflation is limited. Wage growth has picked up only gradually in America. There is little evidence of it in Germany and Japan, which also have low unemployment. The wage-bargaining arrangements behind the explosive wage-price spiral of the early 1970s are long gone. Third, there are sizeable benefits from letting the labour market tighten further. Wages are growing fastest at the bottom of the earnings scale. That not only helps the blue-collar workers who have been hit disproportionately hard by technological change and globalisation. It also prompts firms to invest more in capital equipment, giving a boost to productivity growth.

To be clear, this newspaper would not advise a fiscal stimulus of the scale that America is undertaking. It is poorly designed and recklessly large. It will add to financial-market volatility. But now that this experiment is under way, it is even more important that the Fed does not lose its head. ■