

Wednesday, November 08, 2017

Stocks

U.S. stocks inched higher as investors parsed the latest batch of corporate earnings. Many investors say solid corporate earnings and a U.S. economy that is picking up steam should continue supporting major indexes moving forward. More than 85% of S&P 500 companies have reported third-quarter results as of Wednesday morning, with roughly threequarters of them beating earnings expectations, according to FactSet.

Treasurys

U.S. government bonds bounced between gains and losses as investors prepared for an auction of 10-year Treasury notes. Demand for bonds this week has overcome the typical pressure that comes when the government sells new debt. Investors have also grown more skeptical about the chances of Congress passing tax cuts. That has helped boost Treasurys, as tax cuts could prompt more bond issuance and inflation--both negatives for long-term Treasury debt.

Forex

The U.S. dollar fell, softening against the Canadian dollar as investors bet the recent rise in oil prices will support the loonie.

Commodities

Oil prices fell after government data showed that crude supplies in the U.S. unexpectedly grew last week as exports declined and production increased. The U.S. Energy Information Administration reported that the amount of stored oil rose by 2.2 million barrels last week, compared with the 2.1 million barrel draw that analysts surveyed by The Wall Street Journal were expecting.

Market Snapshot*

DJIA	23563.36	+6.13
Nasdaq	6789.12	+21.34
S&P 500	2594.38	+3.74
10-Year	2.3265%	-5/32
30-Year	2.7861%	-10/32
Euro	\$1.15985	+0.0009
Nymex Crude	\$56.81	-0.39
Source: SIX Financial Information, ICAP plc *preliminary values subject to adjustments		

Tomorrow's Headlines

Trump's China Trip Brings Deals

Xi Jinping welcomed Donald Trump to China with a series of business deals and a private tour of the Forbidden City, seeking to impress the U.S. president even as he stepped up pressure on Beijing to curb financial ties with North Korea.

The deals valued an estimated \$9 billion were designed to set a positive tone for Mr. Trump's one-and-a-half-day visit. Hours before Mr. Trump landed, China reported an almost \$27 billion trade surplus with the U.S. in October.

Wednesday afternoon, President Xi and Trump and their wives toured the former imperial palace off Beijing's Tiananmen Square before a Peking opera performance and a private dinner.

Mr. Trump arrived in Beijing from South Korea, where he took direct aim at North Korean leader Kim Jong Un in a speech that both opened a path to negotiation and warned of the potential consequences of his nuclearweapons program.

Mr. Trump also put Beijing on notice ahead of his talks with President Xi, again calling on China to do more to pressure Pyongyang to change course. China is by far North Korea's top trading partner, but is also the U.S.'s largest.

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Tomorrow's Calendar

1:30 p.m.	U.S. Weekly Export Sales Corn (Metric Tons) (previous 901.4K) Soybeans (Metric Tons) (previous 1982.2K) Wheat (Metric Tons) (previous 347.8K)
1:30 p.m.	11/04 Unemployment Insurance Weekly Claims Report - Initial Claims Jobless Claims (expected 230K) Jobless Claims, Net Chg (previous -5K) Continuing Claims (previous 1884000) Continuing Claims, Net Chg (previous -15K)
2:30 p.m.	IMF regular press briefing
2:45 p.m.	Bloomberg Consumer Comfort Index
3:00 p.m.	Sep Monthly Wholesale Trade Inventories, M/M% (expected +0.3%)
3:30 p.m.	11/03 EIA Weekly Natural Gas Storage Report Working Gas In Storage (Cbf) (previous 3775B Working Gas In Storage, Net Chg (Cbf) (previous +65B
4:15 p.m.	Economic Club of New York luncheon with U.S. Secretary of the Treasury Steven Mnuchin
5:00 p.m.	World Agricultural Supply & Demand Estimates (WASDE) Corn, End Stocks (Bushels) Soybeans, End Stocks (Bushels) Wheat, End Stocks (Bushels)
7:00 p.m.	SEC Closed Meeting
9:30 p.m.	Money Stock Measures
9:30 p.m.	Federal Discount Window Borrowings
9:30 p.m.	Foreign Central Bank Holdings

Tomorrow's Headlines

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Tencent Buys 12% Stake in Snap

Less than a day after Snap Inc. posted weak results that sent its shares plunging, the struggling social-media and camera company disclosed that Chinese internet giant Tencent Holdings Ltd. had recently bought a 12% stake, becoming one of its largest shareholders.

Tencent, an early pre-IPO backer of Snap, acquired roughly 146 million of its shares in the public market, Snap said in a filing Wednesday. The purchase adds to an investment Tencent made in Snap in 2013 during a fundraising round before the company's initial public offering of stock. Tencent's current total position in Snap wasn't clear.

Tencent didn't disclose the price it paid for the shares, but as recently as Oct. 6 executives were discussing raising its stake through share purchases on the open market, a person familiar with the matter said. That would suggest Tencent likely spent at least \$2 billion acquiring the stake, based on Snap's minimum share price in this period.

The disclosure comes one day after Snap's quarterly results fell short of Wall Street's expectations. The company failed to significantly add to the number of people using its app on a daily basis. The amount of money advertisers are spending on Snapchat to reach those users also disappointed investors.

Investors to Investigate Volkswagen

Investors won a small victory in their battle to force Volkswagen AG to compensate them for share losses suffered in the wake of the German car maker's diesel emissions-cheating scandal.

When the Porsche-Piech family, heirs of Beetle inventor Ferdinand Porsche, and major shareholder Lower Saxony state, blocked minority shareholders from appointing an independent investigator to determine who was responsible for the scandal, the angry shareholders took their grievance to the courts.

Now, a court in Celle in northern Germany, has ruled in favor of the minority shareholders, allowing them to have an independent auditor investigate the company and determine if senior executives knew about the cheating or whether they should have known and were therefore derelict in their duties.

Cost to Insure Against a Venezuelan Default Hits Record

The cost to insure against a debt default in Venezuela rose to an all-time high Wednesday, reflecting growing investor concern that the country isn't following through on the president's pledge to make the most recent payment.

Some bondholders and analysts said there was no evidence that state-owned Petroleos de Venezuela, SA made a \$1.1 billion bond payment that was due Nov. 2. The firm needed to pay by the end of a three-day grace period to avoid potentially triggering billions of dollars in credit default swaps, a kind of insurance that pays out in the event of a default, according to the rules that govern the contracts.

The credit default swap market was indicating a 91.3% probability of default in Venezuela by the end of 2018, compared with a 75% probability last week, according to investment bank Bulltick Capital.

Investors have to pay \$15 million a year to insure against the default of a notional \$10 million of Venezuela's oneyear bonds, the firm said. That compares with the \$7.6 million cost on Nov. 2 and lows of \$739,000 in 2014. Bulltick Capital said the fact that the annual premium exceeds the amount insured shows that the market believes a default will likely occur much sooner than in one year.

AT&T Deal Timing 'Uncertain'

A top AT&T Inc. executive warned for the first time that the company is unsure about the timing of its planned takeover of Time Warner Inc., as the combination of the telecom and media giants faces an extended antitrust review.

The Justice Department is seeking changes to the deal's structure, which would require the companies to sell off certain assets, in order to approve the transaction, according to people familiar with the matter.

The proposed transaction, which was valued at \$85 billion when it was struck last year, would turn the giant telephone company into one of the world's biggest media owners, putting CNN, HBO and the Warner Bros. film studio under the same corporate roof as satellite broadcaster DirecTV and more than 100 million wireless users.

The Justice Department is laying the groundwork for a possible lawsuit to stop the deal while at the same time negotiating with company executives, The Wall Street Journal reported last week. The two sides have been in discussions for months and aren't close to an agreement, the Journal reported.

"I can't comment on those discussions, but with those discussions, I can now say that the timing of the closing of the deal is now uncertain," John Stephens, AT&T's chief financial officer, said Wednesday at a Wells Fargo conference in New York. Just a few weeks ago, he told investors the company still expected the transaction to close later this year.

Apple Is Now a \$900B Company

The world's most valuable public company just made more history.

Apple Inc. shares rose 0.3% Wednesday to a new all-time high of \$175.38, giving the iPhone maker a market value of \$900 billion for the first time. Apple needs to close above \$175.30 to close above \$900 billion.

Apple is the first U.S. company to reach \$900 billion, having already become the first to hit \$800 billion when it accomplished the feat in May. It now needs to grow its market capitalization by just 11% to become the first to be

Tomorrow's Headlines

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worth \$1 trillion. Based on Apple's share count as of Oct. 20, that would mean a share price of \$194.77.

The milestone comes shortly after Apple's latest update to the iPhone hit stores last week. Shares also got a boost after the tech giant delivered its best quarterly growth in two years, fueled by strong sales in all of its key products and a rebound in the critical China market.

Mnuchin: Yellen Hasn't Decided Whether to Stay at Fed

Federal Reserve Chairwoman Janet Yellen hasn't decided whether to stay on the Fed board when her term as chairwoman ends next year, according to Treasury Secretary Steven Mnuchin.

President Donald Trump last week said he is nominating Fed governor Jerome Powell to succeed Ms. Yellen at the end of her four-year term as Fed chief, which ends Feb. 3. Ms. Yellen is also serving a 14-year term on the Fed's board of governors that doesn't expire until January 2024.

Asked whether Ms. Yellen intends to continue serving on the board of governors, Mr. Mnuchin told Bloomberg TV on Wednesday, "I don't think she's made any decision in regards to that one way or another yet," adding that the two had breakfast together Wednesday morning.

Mr. Mnuchin also said the administration is moving ahead with plans to fill several other Fed vacancies, including vice chairman.

A Fed spokeswoman declined to comment.

Sears Sales Slide Continues

Sears Holdings Corp. has closed hundreds of stores in recent years, but sales at its remaining locations continue to decline.

On Wednesday, Sears said sales at its existing namesake domestic stores plunged 17% in the third quarter, following a string of negative comparable-store sales dating back to the third quarter of 2014. Sales at existing Kmart stores dropped 13% in the third quarter.

Sears has said it is closing its weakest locations, which should boost over all productivity. Yet the opposite appears to be happening.

The reason cuts to the heart of some of Sears' problems. Its stores are rundown, its merchandise selection is limited and sales associates are scarce, according to shoppers and analysts.

It is a problem that has beset other retailers, not just Sears. As retail consultant Steve Dennis pointed out in a 2014 blog post, unless retailers refresh their business and give customers a reason to visit, closing stores is likely to make things worse, not better.

Humana Gives Downbeat Outlook

Humana Inc.'s third-quarter results beat analysts' expectations, but the company gave a downbeat initial view of its earnings for 2018, saying its formal guidance would likely fall below its target range despite projected enrollment growth.

For the most recent quarter, net income rose to \$499 million, or \$3.44 a share, compared with \$450 million, or \$2.98 a share, a year ago. Excluding one-time items, including costs related to recent job cuts, Humana earned \$3.39 a share, up from \$3.20 a share in the year-earlier period. Analysts had expected adjusted earnings per share of \$3.27. Revenue slid 3% from a year ago to \$13.3 billion.

For 2018, Humana said it expected growth in its Medicare Advantage business. Enrollment in its core individual Medicare plans will likely rise in the range of 150,000 to 180,000, said Brian A. Kane, Humana's chief financial officer. He also projected low double-digit growth on a percentage basis in Humana's group Medicare plans. However, he warned that membership in Humana's standalone Medicare drug plans would likely decline by "a few hundred thousand members."

FedEx Seals Turboprop Deal

FedEx Corp. is renewing part of its fleet of smaller cargo planes in a deal valued at \$1.3 billion at list price, amid an improved outlook for the global airfreight market.

FedEx will buy up to 50 turboprop planes from European aircraft maker ATR—a joint venture between Airbus SE, the world's No. 2 plane maker behind Boeing Co., and Italy's Leonardo SpA—the Toulouse, France-based plane maker said Wednesday. The deal comprises a firm order for 30 planes and options for 20 more, and represents a boost for ATR in the U.S., the world's largest single aviation market.

The delivery giant typically uses such turboprop planes which are slower and burn less fuel than their jet counterparts—to transport packages between smaller cities and larger airports where its big Boeing and Airbus jets operate.

The prospects for the airfreight market have improved in recent months after a prolonged slump. WorldACD, which tracks the sector, said air-cargo growth in September, the last month for which figures are available, grew above 5% year-over-year for the 13th consecutive month.

Toledano to Step Aside at Dior

Sidney Toledano plans to step aside after 20 years as chief executive of Christian Dior Couture as corporate parent LVMH Louis Vuitton Moet Hennessy seeks to inject new blood into its senior ranks.

Wednesday's announcement marks the end an era at Dior, during which Mr. Toledano, 66 years old, turned the elite brand into a global fashion powerhouse with annual sales of more than 2 billion euro (\$2.3 billion).

Pietro Beccari, the current chief executive of Fendi, also part of LVMH, was named to replace Mr. Toledano. Mr. Beccari is highly regarded within LVMH for having engineered a turnaround at Fendi. Under his tenure, sales grew from an estimated 600 million euro to 1 billion euro.

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Talking Points

Trump Should Give Thanks for Growth

In the year since Donald Trump was elected president, the economy and markets have been on a roll. Stocks have set one record after another, unemployment has dropped sharply and the U.S. enjoyed its strongest six months of economic growth since 2014.

Mr. Trump thinks he knows why: "The reason our stock market is so successful is because of me," he declared earlier this week.

But Mr. Trump should be giving thanks, not taking credit. The entire global economy is picking up steam, and foreign stocks are outperforming American markets. This suggests the U.S.'s good fortune is due less to Mr. Trump's presence than to a broader, global trend. Years of highly stimulative monetary policies by central banks have finally overcome various postcrisis headwinds holding back growth.

So Mr. Trump is a lucky man. The question is, can he make his luck last? That will require translating what may be a short-lived upswing into permanently faster growth, and as the fight over U.S. tax cuts demonstrates, those prospects remain elusive.

The disappointing pace of global growth over the past decade reflects both structural drags such as aging populations and the headwinds that followed the U.S. financial crisis in 2008 and Europe's sovereign debt crisis in 2012. Central bankers responded to both with bond buying and zero interest rates.

That monetary medicine circulated slowly because banks were focused on working through their bad loans and complying with new rules rather than lending. The process was over in the U.S. and still under way in Europe when another shock hit in 2015: a collapse in the price of oil and an abrupt slowing in China.

By last year, most of those shocks had receded. Oil recovered, especially after production cuts by OPEC and Russia shortly after Mr. Trump's election. China reopened the credit taps.

Ethan Harris of Bank of AmericaMerrill Lynch notes in a recent report that monthly business activity indexes in the U.S. and globally bottomed out in February 2016, and have been rising since. He says growth in China, the eurozone and Japan this year has exceeded both economists' expectations and those countries' long-term potential growth rates.

The markets mirror this pattern. Blue chip shares are up 21% in the U.S. since election day last year, 22% in France, 28% in Germany, 34% in Japan and 26% in emerging markets.

Of course, global growth and markets have always been linked, through trade and investor attitudes. Sometimes that's because the rest of the world is hitching a ride on a U.S. boom.

This time, though, there's a better case the reverse is happening. Japanese and European growth this year has been driven heavily by consumer spending and business investment, not exports.

Behind Disney's Play for Fox

Walt Disney Co.'s market capitalization is almost twice as big as Netflix Inc.'s. It operates the most successful movie studio in Hollywood, one of the most profitable channels on cable television and the biggest theme-park business in the world.

Yet its pursuit of 21st Century Fox Inc.'s entertainment assets indicates that repositioning its television business to compete in the streaming, a-la-carte world Netflix dominates has become Disney's top priority.

Disney's TV operation alone is substantially larger than Netflix, but its growth has stalled while its digital competitor is booming. Netflix's revenue increased 32% in the first nine months of its current fiscal year to \$8.4 billion and its operating continued on page 5

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income grew 163% to \$593.4 million. In the first nine months of its fiscal year, Disney's TV revenue was flat at \$18 billion and operating income fell 11% to \$6 billion.

Recent talks for Disney to acquire Fox's entertainment cable networks and film and television studio, and stakes in European satellite broadcaster Sky and streaming television company Hulu, have stalled, and it is unclear whether they will restart, let alone result in a deal, according to people close to the discussions. Fox and Wall Street Journal parent News Corp. share common ownership.

In an interview before the Fox talks were reported this week, Disney Chief Strategy Officer Kevin Mayer said Disney has in the past decade spent \$15 billion buying up "really high quality" intellectual property from Pixar Animation Studios, Marvel Entertainment and "Star Wars" producer Lucasfilm.

"Now we've turned our attention to the one platform seeing growth challenges," he said. "That's the television platform."

That same logic applies to its pursuit of Fox's assets, analysts and people close to Disney said.

The company is already in the midst of a multibillion-dollar effort to launch direct-to-consumer online video offerings, an effort that could be the final legacy of Chief Executive Robert Iger, who is scheduled to retire in 2019.

Democrats Shape New Coalition

In their rousing election victories in Virginia on Tuesday, Democrats learned two important things: They found out what an anti-Trump coalition looks like, and they discovered it can be a winning one.

That coalition combines upper-scale white voters, millennials, minorities, suburban women and single women. Exit polling indicates that those groups not only went heavily for Democratic victor Ralph Northam in the governor's race, but performed better for him than they did for Hillary Clinton in the 2016 presidential election.

That tide produced a stunning nine-point victory for Mr. Northam—almost twice as large as the margin by which Mrs. Clinton carried the state—and it's hard to interpret it as anything other than a reaction to President Donald Trump. He is the biggest actor on every political stage right now; almost everything happens in the Trump context.

In fact, the best news for Democrats may have been the signs that their wave of energy carried beyond the top race and down the ballot to elections for the state House of Delegates. Many thought Mr. Northam could win at the top of the ballot (though most concluded only barely), but nobody thought Democrats would be on the verge of turning the state legislature blue.

Still, there also are multiple, less-obvious cautionary notes for Democrats in Virginia, starting with the tendency to over-interpret such an off-off-year election.





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