

## The Morning Ledger: Investors Betting on Further Junk-Bond Gains

The Wall Street Journal- Nina Trentmann  
January 9, 2017

Sprint signage stands at the company's store in Chicago, Ill., U.S., July 22, 2016. BLOOMBERG NEWS

Good morning. An uptick in earnings among riskier U.S. companies is bolstering investor confidence that an epic rally in junk bonds can last a little longer, Sam Goldfarb writes. After six straight quarters of year-over-year declines, earnings of low-rated companies increased 14% in the second quarter and 72% in the third quarter, according to Bank of America Corp. At the same time, defaults slowed following a wave of bankruptcies in the energy sector.

Among the many junk-rated companies that had better earnings was Sprint Corp., which reported a 17% increase in adjusted Ebita for the quarter ended Sept. 30 from a year earlier. Its 7.625% bonds due 2025 last traded at around 107 cents on the dollar, up from 75 cents on the dollar in June, **according to MarketAxess Holdings Inc.**

### THE DAY AHEAD

iPhone celebrates its birthday. Ten years ago, on Jan. 9, 2007, former Apple Inc. CEO Steve unveiled the long-awaited iPhone, the BBC reports. Since then, a lot has changed: Apple on Friday revealed it missed its own annual sales and profit goals for the first time since 2009, putting a dent in Chief Executive Tim Cook's annual paycheck and pressuring the company to deliver a blockbuster with its next iPhone.

### THE WEEK AHEAD

U.S. retail sales, Chinese export data. On Tuesday, the U.S. Labor Department's November Job Openings and Labor Turnover Survey should give the Federal Reserve more clarity on how close the economy is to reaching the level officials believe is full employment. Inflation data from China (released Monday night in the U.S.) will be scrutinized for signs of improved demand in the world's second-largest economy.

On Thursday, gross domestic product data from Germany will show if the region's economic powerhouse is helping to pull the European economy out of its long stagnation. In Japan, investors will be watching November's current-account data (released Wednesday night in the U.S.) for how much a weakening yen is boosting exports. U.S. retail sales data from the Commerce Department could show strong holiday buying and give economists reason to bump up their growth estimates for the final quarter of the year. Chinese trade data (released Thursday night in the U.S.) should give insight into the state of global demand for goods from the world's manufacturing base and the health of the Chinese economy.

And, the car industry gathers in Detroit, for the North American International Auto Show.

### CORPORATE NEWS

Selling. McDonald's Corp. was one of the first American brands to strike gold in China, becoming a symbol of China's opening to the West. Now it is handing over the reins there to a Chinese state-owned enterprise, in a deal that would value the business at up to \$2.08 billion. The Oak Brook, Ill., chain said Monday it is selling an 80% stake in its China operations to a group that includes Citic Ltd., its investment-management arm Citic Capital Holdings and U.S. private-equity giant Carlyle Group LP.

Volkswagen hopeful. Volkswagen AG hopes to resolve a U.S. criminal investigation of the German auto giant's emissions cheating "as soon as possible," one of the company's top executives said. Herbert Diess, who chairs the Volkswagen brand, said Sunday evening that the auto maker hopes to soon settle an expected criminal case, which would likely be the final significant U.S. action against the company for installing illegal software on diesel-powered vehicles that allowed them to dupe government emissions tests.

Fiat pledges support for U.S. plants. Fiat Chrysler Automobiles NV said Sunday it will invest \$1 billion in two existing plants, creating what it says will be 2,000 new jobs. The decision ahead of Motown's annual car show comes as auto makers have faced heat from the incoming administration of President-elect Donald Trump to manufacture more vehicles in the U.S.

Some of the sector's most powerful scions, including Ford Motor Co. Chairman Bill Ford and Toyota Motor Co. President Akio Toyoda, have in the week leading up to the auto show signaled they support seeing more Made in the U.S.A. labels in America's driveways.

GM stays put. General Motors Co. Chief Executive Mary Barra said the company won't move small-car production to the U.S. from Mexico in the wake of President-elect Donald Trump's criticism of the auto maker's imports. Ms. Barra, speaking to reporters at a GM event on the eve of its hometown auto show in Detroit, said manufacturing decisions and plant investments are made far in advance of production and can't easily be reversed.

Looking east. Morgan Stanley and UBS Group AG are planning to increase their stakes in their investment-banking operations in mainland China, in a sign of commitment toward developing more business in the country, people familiar with the matter said. Both Morgan Stanley and UBS are planning to increase their stakes in their China joint ventures to 49%, the highest threshold permitted by Chinese authorities, people familiar with the plans said. Morgan Stanley currently owns 33.3% of its joint venture and UBS 24.99%.

Uber to release ride data. Uber Technologies Inc. has tussled with regulators from Seattle to Paris to keep its trove of ridership data private. Now, in a twist, it is making some of it freely available on the internet. The ride-hailing company in the coming weeks will start releasing its data from dozens of global cities showing average travel times from one point to another, information gleaned from millions of trips.

Theranos keeps cutting. Theranos Inc., facing a cash crunch, continues to cut staff and void unreliable blood-laboratory test results. The Silicon Valley company, which once promised to reshape the medical-testing industry, said it laid off 155 employees Friday. The cuts come after 340 employees were laid off in October, and leave the firm with about one-quarter the staff it had in August.

Closing. Troubled women's apparel retailer Limited Stores LLC is closing all of its 250 stores nationwide, though the website remains available. In a letter to employees, which was reviewed by The Wall Street Journal, Chief Financial Officer Larry Fultz said that due to a heavy debt load and tough retail environment the company had to be sold or it would be closed altogether. He said in the letter the company was in the process of reviewing bids from potential buyers, and was "hopeful" the business would remain open.

AIB still open to U.S. membership. One year after opening with 57 charter members, the China-led Asian Infrastructure Investment Bank remains open to the U.S. joining, President Jin Liqun said. "The door will remain that way," Mr. Jin said in a Bloomberg interview, when asked whether he expects the U.S. would reconsider becoming a member. "We maintain a consistent policy. The AIB is a multilateral development institution." U.S. President Barack Obama rejected joining in early 2016.

Buy Japanese. China and Taiwan continued to invest heavily in Japan last year, the Financial Times reports. Although the number of inbound deals was slightly lower in 2016 than in the previous year, their total value of ¥2.56 trillion (\$22 billion), according to data from Japanese research firm Recof Corp., marked a 150% increase from 2015 levels.

## REGULATION

Summers criticizes deregulation plans. Former U.S. Treasury Secretary Lawrence Summers has attacked the policy proposals of Donald Trump on several fronts, saying the president-elect's plans for deregulation were setting the stage for the next financial crisis, Bloomberg reports. Members of Trump's transition team have vowed to dismantle the 2010 Dodd-Frank Act, the principal legislative response to the 2008-09 global financial crisis. On Saturday, Federal Reserve governor Jerome Powell waded into the congressional debate about rolling back postcrisis regulations, urging Congress to review the Volcker rule aimed at stopping banks from betting with insured deposits.

More than expected. Some of the world's biggest banks are set to spend more than \$200 million each—much higher than their original estimate—to implement new regulations that will dramatically increase capital demands for some parts of their trading businesses, the Financial Times reports.

Indonesia to issue new rules for bank reports. Indonesia is planning stricter rules for market reports written by banks acting as primary dealers for government bonds, days after severing ties with J.P. Morgan Chase & Co. over what officials here said was a faulty equities downgrade. Finance Ministry officials told The Wall Street Journal on Saturday that they could begin discussing new policies on Monday for the 19 financial institutions that act as primary dealers in Indonesia's regular government domestic bond auctions.

The next big thing? Wealth and influence in the technology business have always been about gaining the upper hand in software or the machines that software ran on. Now data—gathered in those immense pools of information that are at the

heart of everything from artificial intelligence to online shopping recommendations—is increasingly a focus of technology competition, the New York Times reports. And academics and some policy makers, especially in Europe, are considering whether big internet companies like Alphabet Inc.'s Google and Facebook Inc. might use their data resources as a barrier to new entrants and innovation.

## EARNINGS

Swiss National Bank back in the black. The Swiss National Bank on Monday posted a strong profit for 2016, offsetting some of the steep decline in the prior year due to a rise in value of its foreign-currency assets. The SNB said its profit was over 24 billion Swiss francs (\$23.6 billion) last year, compared with a paper loss of CHF23.3 billion in 2015 and a CHF38 billion profit in 2014.

## ECONOMY

German exports exceed expectations. German exports jumped more than expected in November, posting their steepest monthly rise in 4½ years and pushing up overall industrial production which drove growth in Europe's biggest economy in the final quarter, Reuters reports. The data, released by the Federal Statistics Office and the Economy Ministry on Monday, reaffirmed expectations for a strong rebound in the fourth quarter of 2016 after the economy halved its quarterly growth pace in the third due to weaker exports.

Cost for yuan overnight borrowing plummets. The cost for banks in Hong Kong to borrow yuan from one another overnight dropped to 14.05% on Monday, hitting the lowest level since Dec. 30. That overnight rate clocked in at 61.3% on Friday, the second-highest level on record. The moves reflect a broader effort by Chinese authorities to control the yuan's descent. Last week, the yuan's weakness threatened to take it near 7.0 to the dollar, a level that is closely watched by many analysts and that, if broken, could trigger a fresh push for Chinese individuals and companies to send money overseas.

Stay ahead of the next rate rise. Banks have flooded the market with debt in the first days of the new year, propelling a record pace of bond sales as companies seek to lock in borrowing costs before interest rates rise further, the Financial Times reports. The sales have been met with ample investor appetite ahead of the fourth-quarter earnings season, when the majority of U.S. banks are expected to report improved profitability.

Has the rally just begun? Perhaps this rally hasn't ended. Perhaps it has just begun. The Dow Jones Industrial Average on Friday closed at 19963.80, as it nears 20000 and extends an upswing that began in the depths of the financial crisis. When it arrives at 20000, it will be the Dow's 14th thousand-point milestone since then and the second-fastest on record.

Coming to a ratings agency near you. China wants to bring in foreign expertise to give its formidably large and dysfunctional bond markets a much-needed credibility boost. But problems run deep, and investors should stay wary. As Chinese bonds sold off sharply in December, Beijing quietly declared its intention to allow foreign credit-rating companies to rate local issues for the first time. This would be a step in the right direction for a market that has grown large without learning to correctly price risk.

European stocks keep trailing their U.S. counterparts. For European stocks, the start of 2017 is proving kinder than the start of 2016. By the end of the first week of trading last year, the Stoxx Europe 600 had fallen 6.7%; this year it is up 0.9%. But the bigger picture is that Europe has lagged badly behind U.S. equities that have set fresh highs. The stagnation of European earnings is to blame.

## CFO MOVES

MDxHealth SA, a Belgium-based healthcare company, has announced the appointment of Jean-Marc Roelandt as CFO, effective Jan. 15. Mr. Roelandt joins MDxHealth after having served as CFO and managing director at BHF Kleinwort Benson Group SA since 2006. Compensation details were not immediately disclosed.

Pou Sheng International Holdings Ltd., a Chinese sportswear retailer listed in Hong Kong, says the contract of its CFO Chen Kuo-Lung has been terminated and CEO Kwan Heh-Der has resigned amid the discovery of incorrect sales records and the possibly early recognition of revenue. In a regulatory filing to the Hong Kong Exchange, the company said the board says the incident "reveals weakness over the financial control" at Pou Sheng. Pou Sheng said it has "discovered on 6 January 2017 certain incorrect sales records in the month of December 2016, which could potentially lead to recognition of revenue for sales transactions that did not take place before end of year 2016." While stating that this "incident" was "not significant when compared to the level of revenue", Pou Sheng has engaged an accounting firm to investigate the company's records.

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