

# THE WALL STREET JOURNAL.

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EUROPE EDITION

DJIA 20523.28 ▼ 0.55%

NASDAQ 5849.47 ▼ 0.12%

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BRENT 54.89 ▼ 0.85%

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## What's News

### Business & Finance

The pound surged as investors bet an early U.K. election would give May room to negotiate a more favorable Brexit deal. A1

◆ Goldman reported first-quarter earnings that fell below expectations, as trading revenue declined 2.4% and trailed rivals. A1

◆ Post is paying \$1.76 billion for Weetabix, the iconic British breakfast brand, allowing the U.S. cereal maker to expand in the U.K. B1

◆ Facebook said it would make its augmented-reality tools, which mix physical and digital worlds, available to third-party developers. B1

◆ The IMF forecast that the global economy will grow 3.5% in 2017, the best rate in five years, despite trade and geopolitical tensions. A2

◆ Bank of America said first-quarter profit climbed 40%, beating expectations, helped by a jump in trading and a rise in rates. B6

◆ PayPal said it would make its service available on Alphabet's Android Pay, letting customers use their balances to shop at physical stores. B6

◆ United's said corporate clients are pushing the airline to fix its customer service, following outrage over a passenger's removal. B2

◆ Bitcoin exchanges suffered glitches over the past few days that blocked deposits and withdrawals. B6

◆ Charles Schwab's profit grew 37% as more clients opened new accounts at the brokerage. Sales rose 18%. B6

### World-Wide

◆ May said she would call an early election June 8, in an effort to strengthen her hand in talks with the EU on Britain's exit from the bloc. A1

◆ European politicians and officials mainly welcomed the call for an early election but said it won't affect their approach to talks. A4

◆ Israel placed a jailed Palestinian political leader in solitary confinement after he organized a mass hunger strike to demand better prison conditions. A3

◆ U.S. and Afghan forces fought to dislodge Islamic State from a stronghold near the blast site of a massive American bomb. A3

◆ The head of Turkey's main opposition party said he had no faith in the judiciary, as his party pushed to annul Sunday's vote. A3

◆ French officials held two men suspected of planning a terror attack in Marseille and said the men had pledged allegiance to Islamic State. A5

◆ Trump said in an early-morning tweet that he is taking action to overturn what he called Obama's lax immigration policies. A6

◆ The number of applicants for visas to bring highly skilled workers to the U.S. dropped this year. A6

◆ The man suspected of killing a Cleveland retiree and posting the act on Facebook killed himself. A7

◆ Pence reaffirmed the U.S.-Japan military alliance during a visit to Tokyo. A5

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€3.20; CHF5.50; £2.00;  
U.S. Military (EUR) \$2.20

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## U.K.'s May Calls for Early Election



Theresa May, shown outside 10 Downing Street, says divisions in Parliament imperil Britain's ability to make Brexit a success.

Prime minister says she seeks a stronger mandate in Brexit negotiations

By JENNY GROSS AND JASON DOUGLAS

LONDON—British Prime Minister Theresa May called a surprise early general election for June 8 aimed at strengthening her hand in her country's critical coming divorce negotiations with the European Union.

Mrs. May is betting the election will deliver her a big increase in her slim 17-seat majority in the 650-seat House of Commons, giving her greater freedom of maneuver in negotiations with the EU and reducing her dependence on the few dozen lawmakers who want a sharp and rapid break with the bloc.

Opinion polls back her hunch. A poll by YouGov PLC taken last week showed Mrs. May's Conservative Party received 44% of support, compared with the main opposition Labour Party's 23%. The pro-EU Liberal Democrats received 12% and the rest went to other parties.

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## Pound Surges on Hope for Stability

By GEORGI KANTCHEV AND CHRISTOPHER WHITTALL

heavy FTSE 100 index, which includes many companies that earn money in foreign currencies, slid 2.5%.

Many analysts said the general election, which will be held in June, would be good news for the pound if Mrs. May increases her Conservative Party's majority. Opinion polls suggest that she will win any election convincingly.

Mrs. May must barter over the terms of divorce with her European peers, but she is also facing down a restive wing of her own party, which

### Brexit Gambit

Analysis: U.K. gears up for a one-issue election...A4

Streetwise: Pound suggests a softer ride for Britain...B1

Heard on the Street: Vote won't make Brexit easier...B10

deal that salvages at least some of the trade advantages that come with EU membership. A larger Conservative majority would damp the influence of those voices.

"It looks like she is going to get a larger majority and make her government more stable—and markets love stability," said David Stubbs, global market strategist at J.P. Morgan Asset Management.

Deutsche Bank, whose analysts were among the most negative on the pound, referred to Mrs. May's an-

Please see POUND page A4

### Election Boost

News of the U.K. vote sent the pound higher.

How many dollars £1 buys



Note: As of 3 p.m. Tuesday in New York  
Source: Tullett Prebon

THE WALL STREET JOURNAL.

## HOLLYWOOD NEEDS CHINA'S HELP

The U.S. film industry increasingly relies on Chinese investors and moviegoers

### Screen Rivals

China's movie box-office totals are projected to surpass the U.S.



Note: Projections for U.S. begin in 2016, and in 2017 for China  
Source: IHS Markit

THE WALL STREET JOURNAL.

By ERICH SCHWARTZEL

LOS ANGELES—February's premiere of "The Great Wall" showcased the calculated balance between two superpowers.

Matt Damon walked the red carpet with his Chinese co-star, Jing Tian. Director Zhang Yimou thanked co-producers Universal Pictures and China-owned Dalian Wanda Group Co. The afterparty had sweet-and-sour chicken.

The movie's poor showing didn't slow the trans-Pacific collaboration. Hollywood has become so entangled with China that the movie industry can't run without it.

Chinese investors and more than a billion potential moviegoers have made China indispensable to the film business. The country's box-office total last year, at \$6.6 billion, was the world's second-largest compared with the first-place U.S., \$11.4 billion. In a few years, analysts predict, China will be No. 1.

While the U.S. movie-ticket sales have remained relatively flat, China's have more than tripled since 2011.

"We never thought of China 10 years ago. Now, we're at a point where Hollywood can't exist without China," said Adam Goodman, a former production chief at Paramount Pictures. He now runs a film-production company backed by Le Eco, a Beijing-based technology company.

Private and state-backed Chinese companies have invested tens of billions of dollars in U.S. film ventures over the past decade. The relationship comes with strings attached. Chinese authorities, censors and consumers influence nearly every aspect of American moviemaking in China, from scripts to casting to greenlighting sequels.

"We're in a moment of significant disruption," said Richard Lovett, president of Creative Artists Agency, which represents such clients

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### HOW TO BE THE BEST DEPUTY

#### LIFE & ARTS, A9

### GALAXY S8: AN EVOLUTIONARY MILESTONE

#### PERSONAL TECHNOLOGY, B1

### Facebook Slaying Suspect Kills Self

MANHUNT ENDS: Cleveland Police Chief Calvin Williams, far left, answered questions during a news conference

Tuesday, after a man suspected of killing a Cleveland retiree and posting the act on Facebook shot and killed himself. A7

TONY DEJAK/ASSOCIATED PRESS



## Goldman Trips in Trading, Trails Rivals

By LIZ HOFFMAN

A rare trading stumble from Goldman Sachs Group Inc. ended a streak of strong earnings for big U.S. banks and set the Wall Street powerhouse, fresh off a leadership transition, on its heels early in the year.

Goldman reported first-quarter net income of \$2.26 billion, or \$5.15 a share, on revenue of \$8.03 billion. All three

figures were better than a year earlier but fell below what Wall Street analysts had forecast.

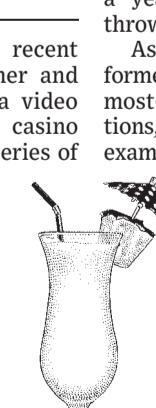
The reason: a 2.4% decline from a year earlier in all-important trading revenue, which was well behind results reported by rivals.

The lackluster result shows that for all of its postcrisis changes—dialing down risk, adding consumer-facing businesses and embracing lend-

ing—Goldman still lives and dies by the unpredictable and unforgiving business of swapping stocks, bonds and commodities.

The rare misstep comes amid a transition atop the firm. Gary Cohn, the former No. 2 to Chief Executive Lloyd Blankfein, departed for a job in the White House in December and was succeeded by a new

Please see BANK page A2



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## WORLD NEWS

# IMF Gives Thumbs-Up to Global Economy

Fund sees positive signals despite geopolitical angst, forecasts 3.5% growth

BY IAN TALLEY  
AND HARRIET TORY

**WASHINGTON**—The global economy is on course for its best performance in several years despite trade tensions and looming geopolitical threats, the International Monetary Fund said ahead of a meeting of world finance chiefs in Washington this week.

Investors are skittish over a potential U.S. standoff with North Korea, France's elections and Washington's fresh use of force in the Middle East and Afghanistan. But global investment, manufacturing and consumer confidence are signaling strength. U.S. growth is projected to accelerate. Europe and Japan are finally showing signs of recovery.

Meanwhile, oil prices have risen from 2016 lows, boosting inflation readings from exceptionally low levels and offering hope for economies dependent on commodity exports that the worst of the two-year price rout might be over.

The International Monetary Fund, in its flagship report on the state of the global economy, nudged up its forecast for world growth this year a tenth of a percentage point to 3.5%, which will be the fastest rate in



IMF Managing Director Christine Lagarde and World Bank President Jim Yong Kim

five years if the IMF is correct.

"Acceleration will be broad-based across advanced, emerging, and low income economies, building on gains we have seen in both manufacturing and trade," said IMF Chief Economist Maurice Obstfeld.

While the IMF kept its forecast pickup for U.S. growth at 2.3% for the year—up from 1.6% last year—it notched higher outlooks for all five of Europe's largest economies.

In Asia, another dose of government stimulus has pushed China's growth forecast up a tenth of a percentage point to 6.6%, and the fund

lifted Japan's outlook by 0.4 percentage point to 1.2%. Growth in cross-border trade of goods and services this year—while still well below precrisis levels—is projected to nearly double to 3.8%.

Consumer price inflation across advanced economies is projected to pick up to 2% on average, more than twice the previous year, and is gathering pace in emerging markets, too.

"The global economy is accelerating after a period of expansion that has been the most gradual of the past century," Bank of Montreal Chief Executive Officer William

Downe told shareholders earlier this month.

Like many of the largest banks in the U.S., Canada's fourth-largest lender reported a better-than-expected first-quarter profits, with earnings up nearly 40% on the year.

Measures of optimism of households, businesses and investors show high hopes about growth prospects and expectations of higher inflation. Consumer confidence isn't just strong in the U.S.: It also ticked higher in March in the eurozone, underpinned by a eurozone unemployment rate that in February hit its lowest

level since mid-2009.

Surveys of purchasing managers showed that activity in the first three months of the year in the eurozone's manufacturing and services sectors hit its highest measure since 2011, before the eurozone economy entered a slowdown caused by its government debt crisis.

Bellwether companies in Europe, such as German car maker Daimler AG, reported sharply higher earnings in the first three months of the year. And French car-parts maker Faurecia SA said first-quarter sales rose 9.8% on strong growth in the U.S. and China.

"A strengthening of the U.S. and global economy...allow us to make some positive assumptions about business conditions for the remainder of our fiscal year," said William Furman, CEO of international railroad giant Greenbrier Company, based in Lake Oswego, Ore.

Even with the generally positive projections outlined by the IMF, however, trade frictions, political uncertainty and China's debt problems still threaten to erode and potentially upset global growth.

Those and other headwinds are expected to keep world growth capped at 3.8% for the foreseeable future, according to the IMF's outlook.

"The world economy may be gaining momentum, but we cannot be sure that we are out of the woods," said Mr. Obstfeld.

Investor sentiment in U.S. growth is reliant in part on

the Trump administration delivering on promises of a tax overhaul and infrastructure spending, though the president has hit speed bumps advancing his agenda.

Productivity growth around the world is still slow. Growth is also held back by still-sluggish trade growth, aging populations and the failure of the European Union to resolve the legacies of its sovereign debt crisis.

Precrisis growth rates were an exceptional time for major emerging markets. Many are now bumping up against the ceiling of growth gains that could prove hard to extend.

The rapid economic liberalization of China, India and Eastern Europe and the development of global supply chains made the precrisis trade-growth trend at twice the pace of the global economy a unique period, says World Trade Organization chief economist Robert Koopman. The WTO economist said he only sees an acceleration of trade to around 1.5 times the global growth rate.

Economic growth in China, the world's second largest economy, has also come at a cost of a credit buildup that many economists warn could mean much weaker growth ahead and even financial turmoil.

## Notice to Readers

Andrew Browne's China's World column is on hiatus.

# BANK

Continued from Page One pair of top lieutenants.

R. Martin Chavez, who takes over as chief financial officer later this month, spent his first analyst earnings call explaining the misstep. "We didn't navigate the market well," Mr. Chavez said. "There are always things we can do better...but no one quarter defines the franchise."

Goldman shares were down 4.7% in late afternoon trading Tuesday. The biggest contributor to the Dow Jones Industrial Average's postelection run, Goldman shares have been the index's biggest laggard this year as investors' exuberance about the Trump administration's agenda has worn off.

Goldman's results were in contrast to those of big-bank rivals. J.P. Morgan Chase & Co. and Citigroup Inc. beat estimates last week, powered by huge trading gains, and Bank of America Corp. followed suit Tuesday. Morgan Stanley is scheduled to report Wednesday.

A slow start to the year relative to its peers puts Goldman on its heels.

Goldman's return on equity, a closely watched measure of profitability, was 11.4% in the first quarter, though it would have been 8.9% without a tax adjustment. That is below the bank's theoretical cost of capital of around 10%, a threshold Goldman rarely falls below.

Investors were expecting a better performance, in part because the Federal Reserve in recent months has twice raised interest rates. That bodes well for trading businesses as investors buy products to protect themselves from future increases and bet on diverging rates.

But Goldman didn't get the boost seen elsewhere. Its fixed-income revenue was essentially flat compared with a year earlier, while J.P. Morgan posted a 17% gain, Citigroup was up 19% and Bank of America led with a 29% increase.

Mr. Chavez blamed calm markets, which present clients with fewer opportunities to make wagers on price moves. For example, the price of U.S. crude oil hasn't been this stable in more than two years, by one measure. That stings Goldman, which is bigger in commodities trading than rivals.

In other areas, Goldman tripped while rivals shone. Bank of America singled out corporate-bond trading as a bright spot, while Goldman said that dragged on its results. The Charlotte, N.C.-based bank also generated \$1 billion

more in overall fixed-income trading revenue than Goldman, the largest-ever gap between the two firms.

"Hard to put lipstick on these results," UBS Group AG analysts wrote in a note to clients.

Goldman's trading desk hasn't been Wall Street's biggest by revenue in years, eclipsed after the financial crisis by J.P. Morgan and others. But it has long been seen as its fiercest and most profitable, relying on its brains rather than brawn.

Making matters worse, the first quarter is typically the strongest for trading desks as investors reposition portfolios for the new year. The slow start is also likely to raise questions about whether the firm has the right mix of trading clients.

Goldman's traditional strength in peddling complex trading products to hedge funds, a high-margin business, once powered its results. But that focus became a liability in recent years as these clients struggled with poor returns and investor preference shifted to simpler widgets that, for example, protect against currency or interest-rate swings.

Goldman has pushed over the past year or so to emphasize those plain-vanilla products and do more trading business with corporations and asset managers. Mr. Chavez said Tuesday that the firm's efforts in that area were still under way.

The bank also shuffled leadership in its fixed-income trading business last fall and has been heavily courting so-called quantitative funds. These use algorithms, rather than human hands, to trade heavy volumes of securities.

Revenue in Goldman's investment-banking division, which advises on mergers and acquisitions and corporate fundraisings, rose 16% on a surge in stock offerings. The firm held off a late-quarter challenge from Morgan Stanley to retain its M&A crown.

But there are warning signs there, too. Merger fees fell 1.9% from last year and the bank's pipeline of future deals has shrunk.

Even Goldman's faster-growing businesses aren't big enough to make up for a blunder in core trading activities. Since the crisis, the firm has tiptoed into areas such as consumer lending and asset management, which have more stable revenue.

For example, revenue at Goldman's investment-management division, which handles money for pension funds, wealthy families and others, rose 12% from a year earlier. And Marcus, the firm's new online personal-lending business, is nearing \$1 billion in loans outstanding after launching just six months ago, according to people familiar with the matter.

## A 3,000-Year-Old Find in Egypt



UNEARTHED: Archaeologists near the Nile city of Luxor uncovered the tomb of Userhat, a judge from the New Kingdom more than 3,000 years ago. The finding is the latest in a series of a major discoveries of ancient relics, which Egypt hopes will boost tourism.

## Indian Tycoon Arrested in London

BY DANIEL STACEY  
AND DENISE ROLAND

Indian tycoon Vijay Mallya, once feted as the country's "King of Good Times," was arrested in London by British police, following a request by Indian authorities who are seeking to extradite him to face allegations of fraud back home.

Mr. Mallya, previously one of India's most flamboyant and successful entrepreneurs with investments ranging from an airline to the country's biggest beer brand, has been living in the United Kingdom since March 2016 when he left India amid a raft of court actions.

India's government canceled his passport and has been seeking to extradite him to face creditors who are seeking to recover \$1.4 billion.

British police in a statement said Mr. Mallya was arrested after going to a central London police station this morning.

In a Twitter statement, Mr. Mallya played down coverage of his arrest as "Indian media hype," and said he had attended an extradition hearing "as expected."

"It was standard procedure in any extradition hearing," Mr. Mallya said in a separate email statement. "I am glad that my extradition case will finally be heard by an impartial U.K. Court. This will bring conclusion rather than an indefinite wait."

A spokesman for Westminster's Magistrates' Court said Mr. Mallya was released from custody following a bail payment of £650,000 (\$816,725), and was due to appear in



Vijay Mallya in February

court again for an extradition hearing in May.

While his extradition may drag on for some time, back in India the collapse of Mr. Mallya's empire has already led to the arrest of a former chairman of one of India's major state banks.

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As Indian banks face a debt hangover from lax lending policies during India's heady days a decade ago, Mr. Mallya—who was his own brand ambassador for the good life, throwing wild parties at which pop stars including Enrique Iglesias performed—has been singled out as an example of a tycoon who borrowed heavily, lived lavishly and then didn't repay debts.

Mr. Mallya's troubles stem from his failed Kingfisher Airlines, which was grounded in 2012 after high fuel prices and a slowing Indian economy caused a slump in profits.

Since then, seeking to steady his empire, Mr. Mallya has sold stakes in his liquor and beer businesses to Diageo PLC and Heineken NV, but still hasn't been able to repay creditors. A number of attempts to reach a settlement agreement

have failed.

In a range of court actions led by his creditors, and government investigations, Mr. Mallya has been accused of fraud and money laundering. India's securities regulator has banned him from trading shares in the major Indian stock exchanges or holding board positions in Indian companies.

Subrata Roy, another fallen Indian tycoon, has been punished harshly after not paying back bond investors. Indian authorities locked up Mr. Roy in 2014, demanding \$1.5 billion in bail for his release.

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## CORRECTIONS & AMPLIFICATIONS

**Ant Financial Services** Group is controlled by Jack Ma, the leader of **Alibaba Group Holding Ltd.** A Finance & Markets article Tuesday about Ant Financial's bid for MoneyGram International Inc. incorrectly said Alibaba controlled Ant Financial.

**Alphabet Inc.** generally limits the speeds of its self-driving cars on a test track in Merced County, Calif., but there isn't a specific limit; on public roads the cars follow the posted speed limit. A Business

ness & Finance article Tuesday about Google's purchase of land in Nevada incorrectly said Alphabet's self-driving cars were limited to 35 miles an hour on the test track and on public roads.

**The deadline** for health insurers to file rates for 2018 individual plans in New Hampshire has been pushed back to June 2 from April 24. A Business & Finance article Tuesday about the Affordable Care Act incorrectly reported only the original deadline.

Readers can alert The Wall Street Journal to any errors in news articles by emailing [wsjcontact@wsj.com](mailto:wsjcontact@wsj.com).

## WORLD NEWS

## Israel Cracks Down on Jail Protest Leader

Palestinian seen as potential successor to Abbas moved to solitary confinement

By RORY JONES

TEL AVIV—Israeli authorities placed a jailed Palestinian political leader in solitary confinement on Tuesday after he organized a mass hunger strike to demand better prison conditions.

Marwan Barghouti, who is serving five life sentences for his involvement in the deaths of Israelis in the early 2000s, was transferred to an isolation cell on the second day of the strike, which involves more than 1,000 of the roughly 6,500 Palestinians in Israeli jails, Palestinian and Israeli officials said.

Mr. Barghouti's leadership role in the strike poses a challenge to Mahmoud Abbas, the president of the Palestinian authority, whose popularity is flagging. Many Palestinians see Mr. Barghouti as a potential successor, despite his imprisonment.

A spokesman for Israel's prison service said disciplinary measures were taken against striking prisoners, including transferring them to separate cell blocks.



Protesters waved flags bearing a portrait of Marwan Barghouti during a rally in the West Bank city of Ramallah.

ABRAHAM MOA/WANNA/AGENCE FRANCE PRESSE/GETTY IMAGES

The spokesman neither confirmed nor denied a report in the Palestinian media that Israeli authorities were barring lawyers from meeting the striking prisoners and Mr. Barghouti.

Israeli Minister of Public Security Gilad Erdan said Israel wouldn't negotiate with

the prisoners. "There is no real justification for this strike," he told Israel's Army Radio.

The hunger-strikers are demanding more family visits and an end to what they say are unfair trials and torture in jail. They are also calling for an end to the Israeli policy of administrative detentions, un-

der which Palestinians can be held without charge for an indefinite period.

Israeli officials have said the conditions in Palestinian prisons are good and that Palestinians are detained to ensure the security of Israeli civilians.

By leading the strike, Mr.

Barghouti, 57 years old, has raised his profile at a time when many Palestinians are calling for Mr. Abbas, 82, to resign.

According to a poll last month by the Ramallah-based Palestinian Center for Policy and Survey Research, Mr. Barghouti would win a presi-

dential election in a three-way competition with Mr. Abbas and Ismail Haniyeh, a senior leader of the Islamist movement Hamas, which rules the Gaza Strip. Two-thirds of Palestinians want Mr. Abbas to resign, the poll also found.

Mr. Abbas, who publicly supports the strike, is expected to visit the White House in the coming weeks to meet with President Donald Trump and discuss restarting the peace process. The last round of talks, brokered by the U.S., fell apart in 2014.

Mr. Barghouti was convicted in 2004 on five counts of murder for participating in the planning of attacks on Israelis during the second Palestinian intifada, or uprising. During his trial, he challenged the Israeli court's legitimacy and provided no defense.

His popularity among Palestinians, who see him as a new, younger generation of Palestinian leadership, has endured, owing partly to his ability to communicate with rank-and-file members of the Fatah party from his jail cell.

Under Palestinian law, Mr. Barghouti could run for president from prison, which could pressure Israel to release him, according to Khalil Shikaki, head of the Palestinian Center for Policy and Survey Research.

## ISIS Fight Grinds On at Bomb Site

By JESSICA DONATI

ASAD KHEL, Afghanistan—Near the blast site of the "Mother of All Bombs," U.S. and Afghan forces are trying to dislodge Islamic State from a mountain stronghold where the militant group recently established a new front.

Afghan commandos and U.S. Special Forces clustered with their armored vehicles on Monday by a river at the foot of the Spingar Mountains, less than a mile from where the powerful U.S. bomb struck last week. Apache helicopters and fighter jets buzzed constantly overhead, and blasts echoed across the valley.

Remains of Islamic State fighters lay strewn in the grass yards away, casualties of a battle for control of the area that began more than two weeks ago, Afghan commandos told the first journalists to arrive in Asad Khel since Thursday's bombing. The bombing came days after an American soldier was shot in the neck and killed in a nearby village.

The bomb—often referred to by its nickname but officially called the GBU-43, or Massive Ordnance Air Blast—is one of the largest nonnuclear weapons in the U.S. arsenal and was used to target caves and tunnels in the valley beyond the village of Asad Khel.



An Afghan commando outside a damaged school in Shadai.

Sept. 11, 2001, attacks.

The U.S. military dropped its 15,000-pound "Daisy Cutter" bombs there at the time. Sixteen years on, the U.S. has again resorted to its heaviest weaponry to fight a new brand of militants, Islamic State.

But just as the militants have lost substantial ground in Iraq, Syria and Libya, the Islamic State presence in eastern Nangarhar province has shrunk by about 150 square miles since early March, according to the U.S. military. The Islamic State affiliate in Afghanistan doesn't have a spokesman.

Yet the valley around Asad Khel hasn't yet been secured and the Afghan government presence in Achin is minimal. Two Islamic State fighters on Saturday tried to attack the government's district headquarters several miles away with a car bomb, but a U.S. air-strike intercepted the vehicle, according to security sources.

The Islamic State fighters in the area include Afghans and foreigners, according to the Afghan commander. He said identification cards found among the fighters were from Arab countries, Pakistan, Uzbekistan and other places. The Wall Street Journal couldn't independently verify those claims. A U.S. soldier in command at the site declined to be interviewed.

## Turkey Opposition Chief Seeks to Annul the Vote

By MARGARET COKER AND NED LEVIN

Turkey's judiciary or the YSK, said Mr. Kilicdaroglu, using the board's Turkish initials, in an interview at his parliamentary office. "They see themselves as representatives of the [presidency] and not representatives of the judiciary."

CHP's application for annulment of the vote cited a number of irregularities during both the voting and counting processes for the April 16 referendum. But its focus was centrally on the YSK decision concerning the ballots without a seal.

The YSK didn't comment on the application. On Tuesday afternoon, the YSK published its rationale for the ballot decision for the first time, saying its actions were done to ensure voters wouldn't be disenfranchised. Polling stations around the country had "voluminous complaints" about not having proper ballot papers, it said.

Mr. Kilicdaroglu, speaking to his parliamentary bloc on Tuesday, accused the election body of intervening in the election on behalf of the state. "If you are making decisions in accordance with the political will that appointed you to that post, take those judicial robes off and leave that institution," he said in his speech.

—Yeliz Candemir contributed to this article.

## Migrant Toll Rises as Divisions Hamper Rescue Efforts

By DREW HINSHAW AND PIETRO LOMBARDI

ROME—Emergency crews near the shores of Libya are confronting a grim paradox: There have never been so many rescue boats along the sea passage to Italy. Yet never before have so many people been dying there.

Three years into an all-out push to stop fatalities in the central Mediterranean Sea, it remains the world's deadliest migration route. Despite efforts by dozens of governments, navies, international organizations and aid agencies, smuggling practices have become more hazardous on Europe's southern waters. Some 4,500 people died there last year, a toll 2017 is on track to surpass.

Those lost lives are sparking recriminations over who is to blame, pitting aid groups that say there aren't enough rescuers on the sea against European officials who say there may be too many. Both sides agree the number of people crossing and dying in the central Mediterranean is set to break another record this year. Last year, about 180,000 crossed over. So far this year, arrivals are up almost 24% from the same period in 2016.

Increasingly, rescued migrants are carried to Italy by

aid agencies like **Doctors Without Borders**. Such NGOs rescued nearly 47,000 migrants last year and were involved in about a quarter of all operations. This year, they have been involved in about a third. International conventions require rescued migrants to be brought to a safe country.

Aid groups fault the European Union for deploying too

few rescue boats, too far from Libyan waters. The NGOs say if they weren't there, even more people would die.

EU officials, however, have been pursuing an explicit policy of staying away from the coast to avoid encouraging more migrants to undertake the perilous passage. So many aid agencies are now sailing so close to Libya, the EU argues,

that they may be acting as a pull factor for migrants and a boon for smugglers sending out rubber boats.

The recriminations show how divisions between Europe's humanitarians and its border patrols are enabling the very traffic they all want to stop.

"If they keep arguing instead of working together,

smugglers will be able to work almost unhindered," said Alfonso Giordano, professor of political geography at **Rome's LUISS University**.

The death rate is rising, all sides agree, in part because smugglers are using more treacherous boats. Smugglers are stripping engines from dinghies mid-journey, authorities say, stranding horrified mi-

grants at sea. More crossings are taking place at night and in extreme weather. Boats are often so packed there wouldn't be room to wear life jackets even if anybody had one.

This is happening, some officials argue, because smugglers know their boats only need to make it to the line of rescue ships sitting just offshore. **EU border agency** Frontex says smugglers sometimes give the migrants phones with the NGOs' numbers already programmed in.

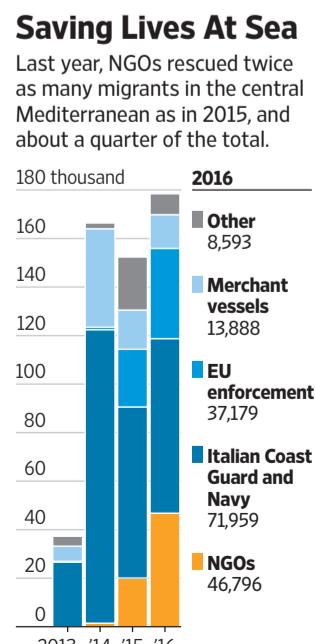
"We have never had so many vessels deployed to save lives and we have never had so many deaths," said Fabrice Leggeri, head of Frontex.

In contrast, the NGOs say smugglers are behaving more dangerously because an EU naval patrol has destroyed more than 400 of their boats. That practice, they say, discourages cartels from investing in supplies they figure they are bound to lose at sea anyway. Life in Libya, they add, has become so horrible many migrants are willing to board hopelessly treacherous boats to escape.

"Often, all of the women have been raped," said spokeswoman Laura Lanuza for rescue agency **Proactiva Open Arms**. "They don't mind if they die finally in the sea, honestly, because they can't stand to be in Libya anymore."



BERNAT ARMANGUE/ASSOCIATED PRESS



\*Frontex, EUNAVFOR MED  
Sources: Italian Coast Guard, EUNAVFOR MED  
THE WALL STREET JOURNAL

## WORLD NEWS

# Britain Gears Up for a One-Issue Election

By STEPHEN FIDLER

LONDON—June's general election in Britain will be dominated by one issue: Brexit. The subject has been just about all that has mattered in British politics since the June 2016 referendum decision to leave the European Union.

"Because the overriding issue is Brexit, it will be as close as you ever get to a one-issue election," said Peter Kellner, former president ANALYSIS of the YouGov polling firm.

The complication is that attitudes to Brexit aren't divided along conventional political party lines. The two main political parties and their voters are split over Brexit—and the big question is to what extent will people change their traditional voting behavior according to their views on the EU.

"For political scientists, it is going to be the most dazzling and fascinating election in their lifetimes," Mr. Kellner said.

Not since 1974 has an election been called on a single issue. Prime Minister Ted Heath called a snap election to strengthen his mandate in a fight with trade unions that was depicted as a battle over who governed the country.

Mr. Heath lost his majority. Many voters blamed him for precipitating an economic crisis after he responded to a coal miners' strike by imposing a three-day working week

on British industry. What followed was five years of Labour Party rule, initially under Prime Minister Harold Wilson.

Forty-three years on, few pundits expect Prime Minister Theresa May to lose her majority, now a narrow 17 seats, and she clearly expects to increase it substantially.

Rarely have incumbent leaders looked so comfortable going into a British general election.

Opinion polls suggest that popular support for the main opposition Labour Party under leader Jeremy Corbyn has melted down. If that performance continues into the election, the party will post its weakest electoral showing in decades, with its share of the 650-seat Parliament falling perhaps as low as 150–200 seats.

True, Labour will be hard to dislodge from many seats in which it holds a very substantial majority. Mr. Corbyn won't risk alienating his party's pro-Brexit supporters in the north of England by campaigning to stay in the EU. Indeed, he showed Tuesday he will try to fight the election on Labour's traditional trump cards of public services and living standards of the less well-off.

John Curtice, professor of politics at the University of Strathclyde, said Mrs. May's strategy depended on her preserving support among Conservative Party voters. "She has to keep together the coalition of those who voted to leave and those who voted re-



A newsstand in central London. Polls suggest support for the opposition Labour Party has melted.

main," he said.

Labour's current weakness will likely help to that end, Mr. Curtice said.

If she succeeds, the advantages for the prime minister are several-fold. She would have more freedom within her party to negotiate the sort of deal she wants with the EU

without having to worry about the wing of her party that wants a sharp and decisive break from the bloc.

It also would give her more clout in the negotiations in Brussels by giving her opposite numbers the confidence that she can deliver at home on her pledges to them that

would be unpopular among her party's right-wingers—for example, on immigration from the EU and on making some kind of post-Brexit financial contributions to the EU.

If so, that would seem likely to reduce the prospect of the U.K. tumbling out of the EU without a deal and to increase

the chances of temporary arrangements to soften the economic disruption of Brexit. Certainly, the pound's rally Tuesday suggested that some in the financial markets believe a hard post-Brexit landing is now less likely.

If all goes according to schedule, the U.K. would leave the EU as planned around March 2019. But it could then slip into transitional arrangements that would be terminated at the most three years later. In 2022, after serving out its full five-year term, the Conservative Party could fight the next election on having, as promised, delivered Brexit to the British people.

But Mrs. May is also taking a risk. She has performed an explicit about-face over an early election, which she previously depicted as a threat to stability, with the possibility that she could be accused of political opportunism.

She is gambling that attitudes to Brexit won't lead to tactical voting that will erode support for her party's MPs. Anti-Brexit Conservatives may switch allegiances in some places to the third-party Liberal Democrats, which will campaign for Britain to remain in the EU.

So far, the Liberal Democrats have succeeded in attracting Labour Party opponents of Brexit, mainly in the south of the country, Mr. Curtice said. So far, few Conservatives appear to have switched allegiance. Mrs. May will be hoping it stays that way.



Prime Minister Theresa May, speaking outside 10 Downing Street on Tuesday, said she called the vote to try to end divisions over the U.K.'s plan to leave the EU.

## BREXIT

Continued from Page One

Britain voted in a referendum in June to leave the EU, and in March Mrs. May formally opened the two-year negotiating window to settle terms with the bloc and map out the U.K.'s future relationship with its largest trading partner.

Those negotiations have yet to get under way as the other 27 EU governments haven't settled their own positions and are unlikely to do so until late May at the earliest. That leaves a tight timetable to resolve a host of complex issues arising from the U.K.'s 44-year membership in the bloc.

Uncertainty about the talks will also be heavily influenced by elections in coming weeks in France and in Germany in the fall.

Irish Finance Minister Michael Noonan said in an interview that French parliamentary elections in June—following two rounds of presidential elections on April 23 and May 7—could further

delay substantive negotiations. The new French president would need to establish a majority in parliament, he said.

"France won't start negotiating until they get that clear, and then there will be the German elections," he said.

As she announced the election, Mrs. May said divisions among U.K. lawmakers "will risk our ability to make a success of Brexit and it will cause damaging uncertainty and instability to the country. So we need a general election and we need one now."

Mrs. May took over as Conservative Party leader and prime minister in July without ever leading her party into a general election. Opinion polls suggest she would substantially increase her parliamentary majority in the election.

In Brussels, the initial reaction to her announcement was positive. "The chances for a good outcome of the Brexit negotiations have just gone up tremendously," a senior EU official said.

The House of Commons will vote on Wednesday whether to approve the election. Under U.K. law, two-thirds of the

lawmakers must back an election for it to take place earlier than the usual five-year term. The opposition Labour Party said it would back an early vote, meaning it will likely be approved.

The decision to call an election represents a significant U-turn for Mrs. May, who took office following the resignation of David Cameron, who opposed the U.K. leaving the EU.

**Experts said Mrs. May stands to win at least 100 additional seats in Parliament.**

She has repeatedly said she wouldn't call an early election, saying the U.K. needed stability to deal with the issues it is facing. On Tuesday, however, she said she was reluctantly calling one because it was necessary to ensure "the strong and stable leadership the country needs to see us through Brexit."

She told ITV News she

made the decision while on a hiking vacation with her husband in Wales before Easter. The prime minister said she "thought about this long and hard" before deciding.

A government official said Treasury chief Philip Hammond and Brexit secretary David Davis advised Mrs. May to "take the opportunity" of an early election to strengthen her hand in negotiations. They also advised that a snap poll would ensure that the next time Mrs. May faces a public vote, in 2022, any post-negotiation transition should be over and Britain would be fully outside the EU.

Labour Party leader Jeremy Corbyn said he welcomed Mrs. May's decision to call an early election. "We look forward to showing how Labour will stand up for the people of Britain," he said.

Several experts said Mrs. May stands to win at least 100 additional seats in Parliament because of her support among voters who backed Brexit and the deep divisions within the Labour Party.

Tony Travers, politics professor at the London School

of Economics, said that given Labour's weakness, Mrs. May could win a majority of as many as 150 to 200 seats. That would be in line with the biggest election landslides since World War II won by her predecessors Tony Blair in 1997 and 2001 and Margaret Thatcher in 1983.

"She's relying on the Labour Party being such a mess that whatever happens, she'll end up with a significantly bigger majority," Mr. Travers said.

On Tuesday Mrs. May trumpeted the U.K.'s recent economic strength, saying growth has "exceeded all expectations" since Britons chose to leave the bloc last June.

The International Monetary Fund on Tuesday raised its forecast for U.K. growth this year to 2%, reflecting the stronger-than-expected performance of the U.K. economy since the June Brexit vote.

But the fund said that it still expects the referendum decision to bear down on growth, albeit more gradually than previously thought.

—Valentina Pop in Brussels and Wiktor Szary in London contributed to this article.

## EU Says Vote Will Help Exit

BY LAURENCE NORMAN AND VALENTINA POP

BRUSSELS—European politicians and officials mainly welcomed British Prime Minister Theresa May's decision to call for a general election in June, saying it could ease negotiations over the U.K.'s divorce from the European Union, but said the decision won't affect their approach to the talks.

Mrs. May spoke briefly with European Council President Donald Tusk on Tuesday morning after making her surprise announcement calling for June 8 elections. Parliament must still approve the move.

The EU is currently in the process of fixing its own stance ahead of the negotiations, a process it aims to complete by May 22.

EU leaders will meet April 29, a month after Britain formally notified the bloc on its exit to agree on their basic stance. The bloc aims to agree upon the detailed negotiating mandate for chief negotiator, Michel Barnier, by May 22. It will then be ready for negotiations with Britain.

"The U.K. elections do not change our EU27 plans," said Mr. Tusk's spokesman Preben Aaman.

EU officials have laid out a tight timetable for the Brexit negotiations, with Mr. Barnier saying he wants negotiations completed by October 2018. The two-year window for Britain to exit from the bloc ends in March 2019.

—Anton Troianovski in Berlin contributed to this article.

## POUND

Continued from Page One

nouncement as a game-changer for sterling and dropped its two-year recommendation for clients to sell the currency. The pound had slumped before Mrs. May's surprise announcement Tuesday morning in London, then rose sharply and leapt again in the evening.

Alan Ruskin, co-head of foreign-exchange research at Deutsche Bank, described the pound's late, sudden move as a "flash crash to the upside," with the currency surging higher "and briefly nobody on

the other side."

Still, few are predicting a significant comeback for the pound, which remains down about 15% against the dollar since Britain voted to leave the European Union, an outcome investors see as negative for the economy.

Mrs. May became Britain's leader following David Cameron's resignation after the country's vote last June. Last month the U.K. government triggered the legal process of leaving the EU, but it still faces months of negotiations with Brussels on the post-Brexit relationship.

The pound had stabilized in recent months, partly as a re-

sult of the U.K. economy's defying gloomy post-Brexit predictions.

The election announcement adds to reasons the pound can continue to appreciate, said Mitul Patel, head of interest rates at Henderson Global Investors. Those include tentative signs that Mr. Patel said he has already observed, suggesting the U.K. is backing away from a so-called hard Brexit—a clean break from Brussels. "We still like sterling," he said. "It felt like sterling had fallen a long way and was priced for a 'hard' Brexit," he added.

Mark Dowding, co-head of investment-grade debt at

BlueBay Asset Management, said he thinks the pound will weaken over the medium term as Britain's divorce process begins.

A clear victory for Mrs. May would end some investors' belief that Brexit mightn't happen at all—an outcome that would cause sterling to rally, Mr. Dowding said. At the same time, a larger mandate should remove the risk of an intraparty brawl that triggers a constitutional crisis, he said.

Others remain as bearish as they were on the pound, arguing that an early election won't alter Britain's course away from the EU, its largest

trading partner, or dispel months of uncertainty over the terms of that departure.

ING Bank isn't changing its forecast that the pound will fall toward \$1.20 later this year, amid a "confluence of uncertainties" that also includes a potential second referendum in Scotland over whether it should remain a part of the U.K.

The pound's rise put pressure on the FTSE 100, Britain's benchmark stock index, which fell 2.5% to its lowest level since early February. Nearly 70% of FTSE 100 companies' revenues come from overseas, meaning those earnings are worth less when the pound rises.

## WORLD NEWS



French soldiers, police officers and firefighter vehicles are seen at the site of a police search on Tuesday in Marseille.

## French Terror Raid Nabs Two

**Alleged plot heightens security fears before vote; suspects said to be tied to Islamic State**

By NOEMIE BISSERBE  
AND JOSHUA ROBINSON

**PARIS**—Two young men detained Tuesday on suspicion of planning an imminent terror attack in the French city of Marseille had pledged allegiance to Islamic State, authorities said, reviving security fears just days before France's presidential elections begin.

The suspects, identified as 30-year-old Mahiedine M. and 24-year-old Clément B., were “preparing to carry out a violent and imminent action,” Paris prosecutor François Molins said.

Police raided their rented apartment in the southern port city on Tuesday, discovering bomb-making materials, automatic and semiautomatic firearms, a silencer, an Islamic

State flag and a map of Marseille.

French authorities didn't say if the men were suspected of targeting presidential candidates or sites linked to the two-round election to be held on April 23 and May 7. However, their allegiance video clearly showed a newspaper featuring one of the presidential candidates on the front page, Mr. Molins said.

Officials quietly circulated photos of the two suspects to each candidates' security services on Thursday, according to a person familiar with the matter.

Presidential candidates seized on the news of the police operation to rally supporters. Incumbent President François Hollande has been criticized by Marine Le Pen of the National Front and other presidential candidates for his government's failure to prevent attacks in Nice and Paris.

Ms. Le Pen, who was scheduled to hold a major rally in Marseille on Wednesday, didn't comment on the alleged

plot and a spokesman for the candidate declined to immediately comment.

France has been on high alert after a spate of terror attacks in the past two years that left more than 200 people dead.

**Presidential candidates seized on the news to rally their supporters.**

French Interior Minister Matthias Fekl said Tuesday that 50,000 members of the security forces, including the military, would be deployed in the first and second rounds of the elections.

“Democracy must not yield to terrorist threats,” said François Fillon, the conservative presidential candidate. “The campaign must continue until the end.”

Centrist presidential candi-

date Emmanuel Macron praised authorities for foiling the plot. “They showed, once again, how security forces are an essential part of the life of the Republic,” said Mr. Macron, who previously served as economy minister to Mr. Hollande.

The two suspects, both French citizens, met when the pair were cellmates for around two months in 2015, Mr. Molins said. They had been the target of preliminary investigations since early April, but authorities stepped up their efforts after discovering the video, which the suspects allegedly recorded and attempted to send to members of Islamic State, Mr. Molins said.

Mr. Molins added that several of the items in the video—including an Uzi and the Islamic State flag—appeared to be present in the Marseille apartment raided on Tuesday, in addition to the bomb-making materials, other firearms, a bulletproof vest and a hunting knife.

# ‘Muslim NATO’ Sharpens Focus On Protection

A Saudi-led coalition force of 41 countries is now taking shape and has found a focus: protecting member nations against the threat from Islamic State as the militant group's strongholds in Iraq and Syria disintegrate.

By Saeed Shah in Islamabad, Pakistan, and Margherita Stancati in Dubai

The coalition, sometimes referred to as the “Muslim NATO,” is expected to have its first substantive meeting over the next few months in Riyadh when defense ministers from member states, from Morocco to Malaysia, will gather to agree on its structure and mission.

However, these are Sunni-majority nations and absent from the alliance is Saudi Arabia's major rival in the Middle East, Shiite powerhouse Iran, which sees the grouping as a sectarian show of force.

The new coalition—concerned over where in the Middle East and Africa militants from Islamic State could lodge themselves as their “caliphate” in Iraq and Syria collapses—will set up a mobile military force to aid member countries that don't have strong counterterrorism capabilities. It also will battle other jihadist groups spilling out of war-torn Libya and Yemen, and Boko Haram in west Africa.

Under pressure from Riyadh, close ally Pakistan will provide a separate force of some 5,000 men to Saudi Arabia to help guard its vulnerable south, close to the border with Yemen, Pakistani officials said, a deployment yet to be announced.

At Saudi request, the coalition force will be led by the former head of Pakistan's army, Gen. Raheel Sharif, said Pakistani officials. Gen. Sharif was lauded for taking the fight to Pakistani militants.

Pakistan, which borders Iran, had previously said it wanted to focus on its battle with terrorism at home and stay out of the big confrontation in the Middle East between Riyadh and Tehran, aspirations that will be challenged by its participation in the coalition.

“This alliance is against terrorism, especially to help those countries which are threatened, but don't have the necessary wherewithal to combat terrorists,” said Khawaja Muhammad Asif, Pakistan's defense minister, in an interview. “We will not act against Iran.”

However, experts say that the coalition will inevitably antagonize Tehran.

“They [Saudis] live in fear of Iranian expansionism. And when they realized they couldn't rely on the U.S., they turned to allies who have armies,” a Gulf-based Western diplomat said.

The military component is the central focus of the alliance, which officials say is expected to be fully operational by year's end. Its command and control center, based in Riyadh, recently began hiring staff. It will also seek to boost cooperation to combat extremist ideology and terror financing.

The alliance isn't restricted to confronting terror groups like Islamic State and al Qaeda, said Maj. Gen. Ahmed Asiri, an adviser to Saudi Arabia's minister of defense who is involved in assembling the new alliance. In response to a request from a member state, he said the coalition could move against rebel groups and militias that pose a threat to member countries such as Yemen's Houthis, which is supported by Iran.

Iran's ambassador to Islamabad, Mehdi Honardoost, said this month that he had protested Gen. Sharif's appointment to Pakistan and that Muslim countries “should come together to form a coalition of peace to resolve their issues rather forming a controversial military alliance.”

Riyadh has pursued a more muscular foreign policy under the leadership of King Salman, partly a response to its growing frustration with the regional policy of its most important strategic ally, the U.S. Ties between the longstanding allies soured under the presidency of Barack Obama, largely over Washington's outreach to Iran.

President Donald Trump has since embraced closer cooperation with Riyadh, and it has vowed to take a harder line against Iran.

## WORLD WATCH

## RUSSIA

**U.S. Jets Head Off Bombers Near Alaska**

U.S. jet fighters scrambled to intercept Russian bombers off the coast of Alaska, the Pentagon said Tuesday, a day after the event happened.

There was no indication the Russian planes entered U.S. territory.

“On April 17, two Russian TU-95 Bear bombers were intercepted in international airspace off the coast of Alaska by two [North American Aerospace Defense Command] U.S. F-22 Raptor fighter aircraft,” said Lt. Col. Michelle Baldanza, a Pentagon spokeswoman.

—Ben Kesling

## BRAZIL

**Central Bank Signals Slower Recovery**

Brazil's central bank signaled a recovery from recession could take longer than previously expected, despite some signs of economic improvement.

In the minutes from its monetary-policy committee meeting last week, when it cut its benchmark Selic interest rate, the bank said the outlook for inflation was still positive and suggested it was ready for another full-point cut at the end of May.

—Jeffrey T. Lewis

and Paulo Trevisani

## CHINA

**New-Home Prices Notch Strong Gains**

The average price of new homes in 70 cities across China rose 0.7% in March from February, excluding government-subsidized housing, according to calculations from The Wall Street Journal based on data released by the National Bureau of Sta-

tistics. That compares with a 0.3% sequential gain in February. Average new home prices rose 10.3% in March from a year earlier, compared with a 10.6% increase in February.

—Dominique Fong

## AUSTRALIA

**Government Moves To End Visa System**

Australia's government plans to abolish a visa system used to bring thousands of skilled foreign workers into the country.

Prime Minister Malcolm Turnbull said Tuesday that the skilled worker visa would be abolished for a new system with tougher rules, allowing fewer overseas workers into the country.

“This is about jobs for Australians. We always will be an immigration nation,” Mr. Turnbull told reporters at Australia's Parliament.

—Rob Taylor

## JAPAN

**Pro-Stimulus Official Named to BOJ Board**

Prime Minister Shinzo Abe's administration nominated a vocal advocate of aggressive monetary stimulus as a member of the Bank of Japan's policy-setting body, a move that economists say could suppress speculation that the central bank will start backing away from its ultra-easy policy later this year.

Mr. Abe's cabinet submitted nominees to replace two of the central bank's board members whose terms will end in July.

One of the candidates is Goshi Kataoka, an economist at Mitsubishi UFJ Research and Consulting known for his staunch support of aggressive easing. The other is Hitoshi Suzuki, a Bank of Tokyo-Mitsubishi UFJ director.

—Takashi Nakamichi

## Pence Reaffirms U.S.-Japan Alliance

By PETER LANDERS

TOKYO—U.S. Vice President Mike Pence mixed tough words on North Korea with a gentle touch on trade, refraining from pressing Japan for economic concessions at a time of regional tension.

Mr. Pence was in Tokyo on Tuesday to start a U.S.-Japan economic dialogue after a campaign in which President Donald Trump frequently denounced Tokyo on trade issues such as the minuscule market share of U.S.-made cars in Japan.

But at a news conference after meeting Prime Minister Shinzo Abe, Mr. Pence spent much of his time on security, describing the U.S.-Japan military alliance as a “cornerstone of peace, prosperity and freedom in the Asia-Pacific.”

Reiterating language used by Mr. Trump during a visit by Mr. Abe to the U.S. in February, Mr. Pence said his message to Japan was that, “We are with you 100% in the face of provocations across the Sea of Japan” by North Korea.

He described North Korea as the “most ominous threat” in the region and said “our resolve could not be stronger” to rid the Korean Peninsula of nuclear weapons.

On trade, Mr. Pence avoided criticism and didn't mention the U.S. trade deficit with Japan.

He alluded to Japanese companies that built factories in his home state of Indiana and said the two countries had a strong business relationship.

He said the two-way dialogue started Tuesday “may result in bilateral trade negotiations”—a forum where Washington could press directly for concessions in ar-

## The Threat From North Korea's Missiles

Pyongyang has accelerated its tests of missiles and nuclear bombs as it tries to develop a nuclear-armed

missile that could hit the U.S. mainland.

● Missile test ● Nuclear test

1985 '90 '95 2000 05 10 15 17

Estimated explosive power in kilotons

15 Size of atomic bomb, in kilotons, dropped on Hiroshima in 1945

Less than 1 2 7 7 10

Notable tests and their estimated maximum ranges\*

Aug. 31, 1998 Taepodong-1 1,550 miles

April 15, 2016 Musudan 1,860

July 5, 2006 Taepodong-2 4,160

Feb. 7, 2016 Taepodong-2 6,210

Tokyo Alaska San Francisco Washington, D.C.



\*None of the missiles has reached the maximum range.

Sources: Center for Strategic and International Studies (test dates); South Korea Ministry of National Defense (explosive power and estimated range)

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eas such as agriculture—but I'll leave that to the future.”

Mr. Pence's counterpart, Deputy Prime Minister and Finance Minister Taro Aso, was all smiles after meeting the vice president.

“We've moved from the era of friction to the era of cooperation,” Mr. Aso said.

The two officials differed somewhat on the shape of future trade talks, with Mr. Pence saying that two-way deals were the best way to achieve results while Mr. Aso expressed hope that the U.S. and Japan could lead the way in setting broader regional trade standards.

Shortly after taking office, Mr. Trump withdrew the U.S. from the 12-nation Trans-Pacific Partnership trade deal, which had been a priority for Tokyo.

Mr. Pence called the TPP “a thing of the past.”

The two men said they planned to meet again by the end of the year on economic cooperation.

A joint statement said the U.S. and Japan aimed to “generate concrete results in the near term,” without setting a deadline.

Mr. Pence is on the second stop of an Asia-Pacific tour that started in South Korea,

where he also focused on the North Korean threat.

In Seoul earlier Tuesday, he praised the U.S.-South Korea free-trade deal, known as Korus, that went into effect in 2012, telling business leaders that Korean companies are a fast-growing source of investment in the U.S.

But he said it was concerning that the U.S. trade deficit with South Korea has more than doubled since the deal.

Mr. Pence said that he looked forward to working with South Koreans “as we reform Korus in the days ahead.”

—Jonathan Cheng contributed to this article.

# U.S. NEWS

# Presidency Hits Growth Of Business

Separating office from Trump firms seen as drag

By PETER GRANT

In the decade leading up to Donald Trump's election as president, his company added 15 golf courses and 13 hotels.

Keeping up such a rate of expansion won't be easy, according to Eric Trump, the president's son, who with brother Donald Trump Jr. took over running the Trump Organization after the inauguration in January.

While the company's revenue and income are expected to continue to rise during Mr. Trump's term in office, the increases will likely be at a slower rate, Eric Trump said, because of efforts to separate the Trump presidency from the family businesses. "We would be doing 30 deals across the globe" were his father not the president, Eric Trump said in an interview.

The Trump Organization's financial information is tightly held, and Mr. Trump, unlike all other recent presidents, has refused to release his tax returns. Eric Trump declined to provide statistics on how the company's growth rate has flattened.

But Dubai investor Hussain Sajwani confirmed earlier this year that the Trump Organization backed away from a licensing deal involving \$2 bil-

lion in property Mr. Sajwani was developing. The Trump Organization has said it also has canceled real-estate licensing agreements in Brazil, Azerbaijan and Georgia.

The latest example of lost potential business—and the first one domestically—came last week with the collapse of talks between the Trump Organization and Turkish-born developer Mukemmel Sarimsakci over a deal for a Scion-branded Trump hotel in Dallas. Mr. Sarimsakci didn't respond to a request for comment.

The president's critics say any forgone business doesn't mitigate the enormous conflict-of-interest issues he faces both in terms of legality and perception.

These critics say the steps Mr. Trump has taken to separate his presidency from his business interests—including turning over management to his children and transferring his ownership to trusts—have been inadequate, largely because he remains the beneficiary of those trusts.

They also point out the potential conflicts in Mr. Trump's Mar-a-Lago club in Florida, where he frequently hosts foreign dignitaries and where the membership fee was raised to \$200,000 earlier this year.

"He gets the money," said



Eric Trump, seen after stepping off Air Force One in Maryland on Sunday, said forgoing foreign deal hurts the family business.

Richard Painter, the chief ethics lawyer for former President George W. Bush who recently became vice chairman of the Citizens for Responsibility and Ethics in Washington, a government watchdog. "You follow the money."

Ethics experts also point out that even if the Trump Organization forgoes deals now, it is in a position to benefit greatly after Mr. Trump leaves office.

"There might not be a signed deal while the president is in office," said Kathleen Clark, a legal-ethics expert and professor of law at Washington University in St. Louis. "But

the concern is he could do favors for people in office with the expectation that he would receive a benefit sometime in the future."

A White House spokeswoman didn't return calls for comment. Eric Trump said Mar-a-Lago was able to raise its fees thanks to market forces.

The Trump Organization is a private, family-run business that owns billions of dollars worth of assets, including golf courses, hotels, office buildings and stores, and has management and licensing agreements.

An analysis by The Wall

Street Journal last year of candidate Trump's financial disclosures concluded his company had pretax profits of about \$160 million a year. The company said the figure was incorrect.

During two interviews in his New York office, Eric Trump said he is careful to not speak to his father about business other than to "chitchat" about such things as "how's the ninth green doing" at the company's Scotland golf course.

He said the only information he can provide his father about the business under ethics procedures the company

adopted is a quarterly report that shows profit and loss without any details.

"He'll probably never ask," he said of his father. "He has bigger fish to fry."

Eric Trump said foreign markets have faster growth rates than domestic ones and, as such, forgoing any new foreign deals cuts off the source of as much as 80% of the Trump Organization's new business. Typically in overseas deals, high-end hotels and golf courses are owned by local investors and licensed and managed by the Trump Organization.

# Trump, on Twitter, Pledges Immigration Move

By ELI STOKOLS

With early-morning tweets Tuesday, President Donald Trump appeared to have resumed his briefly dormant practice of reaching out directly to his supporters and the millions of others who follow him on the social-media platform.

The president declared at 5:39 a.m. local time that he is taking action to overturn what he considers the lax immigration policies of his predecessor, former President Barack Obama.

"The weak illegal immigration policies of the Obama Admin. allowed bad MS 13 gangs to form in cities across U.S. We are removing them fast!" Mr. Trump tweeted from his personal account.

Six minutes later, the president encouraged Twitter followers to tune in to watch his interview on Fox News Channel.

Roughly an hour after that, the president again attacked Jon Ossoff, the Democratic candidate in Georgia's Sixth Congressional District, who was expected to finish ahead of 11 GOP rivals Tuesday night. Mr. Ossoff, who has benefited from a national Democratic backlash toward the president and raised more than \$8.3 million in the battle for this vacant House seat, needed to capture more than 50% of the vote to avoid a likely runoff and win the seat outright.

"Democrat Jon Ossoff would be a disaster in Congress. VERY weak on crime and illegal immigration, bad for jobs and wants higher taxes. Say NO," Mr. Trump tweeted at 6:39 a.m.

He followed up at 6:46 a.m. with a second tweet, his fourth related to Mr. Ossoff in a 24-hour period, urging GOP voters not to sit out. "Republicans must get out today and VOTE in Georgia 6. Force runoff and easy win! Dem Ossoff will raise your taxes—very bad on crime & 2nd A," he tweeted, in apparent reference to the U.S. Constitution's Second Amendment, which refers to the right to bear arms.

The morning marked the third straight that Mr. Trump, who seemed to have taken a break from his habit of early-morning tweets the past week, fired off Twitter missives to his more than 28 million followers.

Throughout the presidential campaign and since, Mr. Trump would frequently frame news coverage of the day and beyond with tweets attacking his political opponents and more. In a 6:49 a.m. tweet on March 4, Mr. Trump accused Mr. Obama, without any evidence, of "wire tapping" his campaign.

In the Fox interview, which was recorded Monday, Mr. Trump said he didn't want to say if he is considering military action against North Korea, which over the weekend



Democratic House candidate Jon Ossoff, shown Tuesday, was targeted by President Trump in tweets.

tested a missile.

"I don't want to telegraph what I'm doing or what I'm thinking," Mr. Trump said, declaring that prior administrations had failed to deal effectively with the country's leader, Kim Jong Un.

Asked what would happen if North Korea successfully carried out a sixth nuclear test, Mr. Trump said: "We'll find out."

The president also blamed the "fake media" for characterizing his recent policy shifts on China as a flip-flop. Throughout his campaign, Mr. Trump said China was a cur-

rency manipulator and vowed action. Last week in an Oval Office interview with The Wall Street Journal, he said that is no longer the case.

"I haven't changed my stance," he said. "China's trying to help us."

Mr. Trump also said his administration is working to round up criminal undocumented immigrants who were a lower priority for Mr. Obama. Last week, Mr. Trump's attorney general, Jeff Sessions, directed federal prosecutors to pursue harsher charges against undocumented

immigrants who commit crimes or repeatedly cross into the U.S. illegally, and he promised to add 125 immigration judges in the next two years to address a backlog of immigration cases.

The moves are part of the administration's efforts to deter illegal immigration, though nonviolent migrants could also face more severe prosecutions.

Mr. Trump was headed to Kenosha, Wis., later Tuesday to sign an executive order aimed at tightening "Buy American" and "Hire American" requirements.

# Applicants For Visa Program Decline

By LAURA MECKLER

WASHINGTON—The number of applications for the H-1B visas used by high-tech companies and others to bring highly skilled workers to the U.S. dropped this year, the government said.

The exact reason is unclear, but experts pointed to Trump administration promises to crack down on abuses in the program, discussion of tougher vetting of foreigners and business decisions by Indian outsourcing firms that are heavy users of the program.

A total of 199,000 applications were received in five days for just 85,000 visas for the fiscal year that begins Oct. 1, the fifth year running that the cap was exceeded in a week or less and a sign that demand still badly outstrips supply. As a result, U.S. Citizenship and Immigration Services again distributed the visas by lottery.

But the number was down from 236,000 applications, known as petitions, the previous year. The number had been rising every year since 2013, when it took 73 days to receive 85,000 applications.

"It is definitely a stark drop after years of an upward trend," said Leon Rodriguez, who was the director of USCIS during the Obama administration and is now an attorney in private practice.

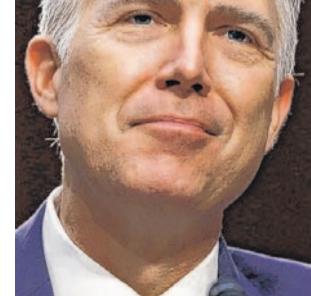
He said President Donald Trump's efforts to restrict travel to the U.S. by certain foreigners and to increase vetting of visa applicants may have made the positions less attractive to some would-be foreign workers. In addition, he pointed to Trump administration promises to increase enforcement of the program's rules.

The Trump administration hasn't made major changes to the H-1B program that Mr. Trump promised as a candidate. This month, the administration did announce that it would direct more inspectors in the H-1B program to the outsourcing companies, which have drawn scrutiny for displacing American workers.

The companies say they are adhering to the program's rules and that they only hire foreigners because they can't find Americans for the jobs.

# Technical Cases Greet Gorsuch at Supreme Court

By JESS BRAVIN AND BRENT KENDALL



JOEL RAE/REUTERS

Neil Gorsuch during his Senate confirmation hearing in March

About 10 minutes into the first argument, Justice Gorsuch entered the fray, asking lawyer Christopher Landau whether his argument regarding civil-service appeals really lined up with the law.

The case, *Perry v. Merit*

Systems Protection Board, involved a Census Bureau employee who claimed he was forced to retire, in violation of civil-service rules and antidiscrimination laws. Because civil-service cases normally are appealed to the U.S. Court of Appeals for the Federal Circuit, while discrimination suits go to federal district court, the question was where a case involving both types of allegations should be appealed.

"By what authority does a district court ever have the power to hear a civil-service claim?" Justice Gorsuch asked. "Wouldn't it be a lot easier if we just followed the plain text of the statute?" he added later. "What am I missing?"

Plenty, his new colleagues answered. "The one thing about this case that seems perfectly clear to me is that nobody who is not a lawyer—and no ordinary lawyer—could read these statutes and figure

out what they are supposed to do," said Justice Samuel Alito.

Justice Elena Kagan suggested that Justice Gorsuch's proposed approach was contrary to decades of practice.

"This would be a kind of a revolution," she said, adding: "I mean, to the extent that you can have a revolution in this kind of case."

In the second case, court watchers were mainly interested in whether Justice Gorsuch would participate at all, given that one of the lawyers arguing had been an outspoken Democratic supporter of President Donald Trump's Supreme Court nominee.

The case, involving a real-estate development in Chester, N.Y., included arguments by Neal Katyal, a former Obama administration lawyer who formally introduced Justice Gorsuch at his Senate confirmation hearings in March.

Ethics experts have said

that under traditional conflict-of-interest guidelines, the new justice wasn't required to recuse himself from Monday's case, but some said it would be understandable if he did so.

Justice Gorsuch did participate, however, asking a few questions, though none of Mr. Katyal.

The court typically hears two cases on argument days, but a scheduling quirk subjected Justice Gorsuch to a third technical dispute.

That case stemmed from the subprime-mortgage crisis that nearly tanked the U.S. economy. The specific issue had to do with how to calculate a deadline for the California Public Employees' Retirement System to file suit against underwriters of securities sold by Lehman Brothers before its 2008 bankruptcy. The question involved whether Calpers' suit was exempt from a three-year time limit.

The companies say they are adhering to the program's rules and that they only hire foreigners because they can't find Americans for the jobs.

## U.S. NEWS



Gary Mendell with a photo of his late son Brian in 2014. Mr. Mendell founded the addiction-advocacy group Shatterproof.

## Addiction Fighters Unite

By JEANNE WHALEN

Addiction experts have issued multiple tomes of guidelines about how best to treat the disease, but too few rehabilitation clinics around the U.S. are following the advice, public-health officials say.

Now, amid the nation's escalating opioid-addiction crisis, some of the country's top substance-abuse experts and a handful of insurance-company executives are uniting to try to force some standards on the fragmented and erratically regulated field.

The group aims to scrutinize the approaches to treatment that clinical evidence has demonstrated to be most effective—and then draft a plan for ensuring that state agencies and insurers require clinics use those methods as a condition for licensing and payment.

The need for more-rigorous treatment standards has intensified alongside soaring rates of opioid abuse, which has pushed U.S. overdose death rates to all-time highs. Many addicts and their families express frustration with the available treatment options, saying they are often too expensive, not covered by insurance or fail to produce long-term results.

Members of the 11-person

group, dubbed the Substance Use Treatment Task Force, include Penny Mills, chief executive of the American Society of Addiction Medicine; Michael Botticelli, executive director of Boston's Grayken Center for Addiction Medicine and former director of the White House's Office of National Drug Control Policy; Jay Butler, chief medical officer at Alaska's health department; and officials from insurers Cigna Corp. and UnitedHealth Group Inc.

*A group is pushing for the uniform adoption of effective methods of treatment.*

Gary Mendell, who founded the addiction-advocacy group Shatterproof after losing his son to the disease, is organizing the task force.

Mr. Mendell said he was motivated to start the effort after watching his son cycle through eight different rehab programs that he later realized weren't offering scientifically sound treatment. In an interview, Mr. Mendell said he wants "to spare other families from the horrific tragedy my

family suffered."

One of the main changes the task force wants to prompt is ensuring that more rehab facilities offer medications such as buprenorphine to treat opioid addiction. Clinical studies have shown buprenorphine reduces illicit opioid use and helps people stick with counseling and other forms of treatment, but many U.S. rehab centers don't offer the medication or don't allow patients to continue it while in treatment, according to the American Society of Addiction Medicine.

That is partly because many treatment centers were founded on the total-sobriety approach long advocated by 12-step programs, and see buprenorphine as the unhelpful replacement of one drug with another. In a report last year, the Surgeon General called this view "scientifically unsound."

One option the task force may consider is requiring all rehab centers to report their medication policies to state authorities, Mr. Botticelli, the former White House drug-control official, said in an interview.

The states could then check that clinics offer or allow buprenorphine or other opioid-treatment medications before issuing or renewing licenses,

he said.

The state licensing process could also be used to ensure clinic staff have the appropriate training to provide one-on-one counseling, and to check that the clinic is offering this service, Mr. Mendell said. The task force plans to comb through treatment guidelines advocated by experts including the Surgeon General and the American Society of Addiction Medicine, and focus on how to require or encourage the practices that can be tracked and measured, Mr. Mendell said.

Requiring clinics to report their patient outcomes to some central authority would be another useful step that would help patients and insurers know the best centers to give their business to, said Linda Rosenberg, chief executive of the National Council for Behavioral Health, which represents nonprofit substance-abuse treatment providers and is participating in the task force.

Mandatory reporting of clinic practices and patient outcomes would allow insurers to pay more to centers that have "higher-quality outcomes," says Doug Nemecek, chief medical officer for the behavioral-health business at Cigna, which is on the task force.

## Facebook Killer Shoots Self Dead After Car Chase

By KRIS MAHER

The man suspected of killing a Cleveland retiree and posting the act on Facebook shot and killed himself after a brief pursuit, Pennsylvania State Police said Tuesday.

State police said officers spotted Steve Stephens earlier in the day in Erie County, which borders Ohio, after they received a tip that his vehicle was in a McDonald's parking lot. Authorities say police tried to pull Mr. Stephens over, but he shot and killed himself after they approached him following a short chase.

Federal, state and local law-enforcement agencies had launched a nationwide manhunt for Mr. Stephens, who was wanted on an aggravated murder charge. Mr. Stephens, who was 37, posted video on Facebook of his seemingly random killing of 74-year-old Robert Godwin Sr. in Cleveland on Sunday.

"We are grateful that this has ended," said Cleveland Division of Police Chief Calvin Williams. He said authorities had received nearly 400 tips to aid in the search for Mr. Stephens. "That just shows the vigilance of people in this country."

On Monday, Cleveland offi-

cials announced a \$50,000 reward for information leading to the capture of the suspect. Officials said they had also been in touch with several people that Mr. Stephens had been in contact with, and that they had been cooperative with investigators.

Mr. Stephens's use of Facebook to broadcast the alleged murder and the subsequent manhunt sparked outrage across the nation, and the social-media company said it was reviewing how it handles objectionable content. The killing resulted in calls for the company to more closely monitor violence on its site.

Mr. Stephens broadcast multiple times on Facebook Live on Sunday, including a phone call in which he said he had "snapped."

Even so, authorities said there is much they don't know about what motivated Mr. Stephens. Chief Williams said authorities had been hoping to take Mr. Stephens into custody so they could learn more about what drove him.

Chief Williams noted that Mr. Godwin's family members had called for Mr. Stephens to turn himself in and said that they forgave him.

"We need to follow their lead," Chief Williams said.



Pennsylvania State Police at the scene of Steve Stephens's death. GREG WOHLFORD/ASSOCIATED PRESS

## Prison Guards Sue State in Wake of Riot

By SCOTT CALVERT

The family of a Delaware correctional officer killed by inmates in a prison uprising in February has sued the state's corrections department and two former governors, alleging that chronic understaffing created dangerous conditions that made the standoff possible.

The suit claims the state failed to employ enough correctional officers in the state's prisons. Instead, the suit claims, the state spent up to \$23 million a year requiring officers to work 16-hour overtime shifts, jeopardizing employee safety.

Other plaintiffs include three corrections officers who escaped and two who survived being taken hostage during the 18-hour inmate siege that ended when a tactical team stormed a prison building.

Following the February uprising, dozens of prison workers, including nurses and correctional officers, resigned, increasing pressure on a penitentiary system that has long struggled with staffing shortages. A union representing



The Vaughn Correctional Institution near Smyrna, Del., in February

Delaware prison workers has complained that key state officials didn't take sufficient steps to close staffing gaps. Delaware officials say roughly 5% of 1,796 correctional officer positions were vacant as of Dec. 21.

Former Govs. Ruth Ann Minner and Jack Markell, both Democrats, whose terms stretched from 2001 until early this year, are named as defendants. Ms. Minner and Mr. Markell couldn't immediately

be reached for comment.

The lawsuit's filing in U.S. District Court in Wilmington comes as two investigations continue into the harrowing standoff during which investigators say inmates killed Lt. Steven Floyd.

Crews rescued a female counselor who sustained no physical injuries. Inmates had earlier released two other correctional officers who endured torture, death threats and beatings, according to the law-

suit. Three other officers tried unsuccessfully to rescue Lt. Floyd and subsequently escaped back to the basement where they barricaded themselves in a boiler room for about 12 hours.

Other defendants include the state Department of Correction, along with current and former state prison and budget officials. The plaintiffs are seeking unspecified compensatory and punitive damages.

A corrections department spokeswoman declined to comment on the suit but said Commissioner Perry Phelps, one of the named defendants, is working with current Delaware Democratic Gov. John Carney and state legislators "to further ensure the safety and security" of the state's prisons.

The suit also claims Mr. Carney, who took office in January, halted a planned rescue about an hour after inmates took hostages the morning of Feb. 1 at the James T. Vaughn Correctional Institution in Smyrna, Del.

Aides to Mr. Carney didn't immediately respond to a request for comment.

## Utilities' Output Lifts Industrial Production

By JEFFREY SPARSHOTT AND SARAH CHANEY

WASHINGTON—U.S. industrial production rose in March as demand for home heating surged, masking a drop in manufacturing activity.

Industrial production—a measure of output at factories, mines and utilities—climbed 0.5% in March from a month earlier, the Federal Reserve said Tuesday. Output for February gained 0.1%.

Capacity use, a measure of slack in the economy, increased 0.4 percentage point to 76.1%. Capacity use remains below the long-run average of 79.9%, a sign the economy is operating below its potential.

Overall industrial production was boosted by an 8.6% jump in output at utilities, the largest rise in the index's history, "as the demand for heating returned to seasonal norms after being suppressed by unusually warm weather in February," the Fed said.

Manufacturing output, the biggest component of industrial production, decreased 0.4% in March, the first decline since August 2016, while gains for January and February were revised down. Motor vehicles and parts were the

biggest drag last month.

U.S. factory activity was stagnant through much of 2016 but picked up a little early this year. March manufacturing output was up 0.8% from the year-earlier month. Factory output increased at an annual rate of 2.7% in the first quarter, the Fed said.

U.S. businesses have been anticipating stronger demand from domestic consumers. Overseas, economic activity also has brightened, though a stronger dollar could make American goods more expensive for buyers outside the U.S.

The Institute for Supply Management said its index of factory activity fell to 57.2 in March from 57.7 in February, which had been the strongest reading since August 2014. Despite the downshift, the gauge marked a seventh consecutive month of industrial growth—a reading above 50 indicates sector expansion.

Output in the mining sector rose 0.1% in March. The mining index, which includes oil and natural-gas extraction, was up 2.9% from a year earlier. The sector had been weighed down by weak commodity prices. Utility output surged 8.6% from the prior month and was up 4.6% from a year earlier.

## U.S. WATCH

NORTH CAROLINA

### NCAA to Return After Bathroom Bill Revised

The National Collegiate Athletic Association said Tuesday that it is returning to North Carolina for several future athletic events, including men's basketball-tournament games in 2020 and 2021, now that state legislators have dialed back a controversial bathroom law.

North Carolina was chosen to host an array of matches, from early rounds of the men's basketball tournament in 2020 and 2021 to men's soccer matches in 2019 and women's swimming and diving championships in 2021.

The NCAA's board of governors said it would "reluctantly" allow consideration of North Carolina championship bids after the rollback but still hoped for a full repeal. The year-old law, known as House Bill 2, required people to use public restrooms associated with birth sex, rather than gender identity. Last month, lawmakers repealed most of the law's provisions but also blocked local governments from passing nondiscrimination ordinances until December 2020, a move criticized by advocates for lesbian, gay, bisexual and transgender people.

The NCAA had yanked men's basketball games from North Carolina this year in protest of House Bill 2, costing the state

about \$14.5 million, according to the Greensboro Convention and Visitors Bureau.

—Valerie Bauerlein

## ECONOMY

### Housing Starts Fall After Strong Winter

Housing starts declined in March, but not enough to signal a reversal of the long-term trend of improvement in new-home construction. Starts dropped 6.8% to a seasonally adjusted annual rate of 1.215 million from a month earlier, the Commerce Department said.

The decline came after an unusually strong winter, buoyed by temperate weather. Single-family

housing starts in February hit their highest level since October 2007.

"We had a lot of projects that probably would have started in March, but they started in January or February, so there's a little bit of backlog there," said Gus Faucher, chief economist at PNC Financial Services Group.

Building permits, which can signal future home construction, rose 3.6% to an annual pace of 1.26 million last month and were up 17% from a year earlier. The permit numbers "should quash any concerns that home builders might be pulling back," said Ralph McLaughlin, chief economist for the real-estate website Trulia.

—Laura Kusisto and Ben Leubsdorf

A California bed-frame factory. Manufacturing fell 0.4% in March.

ROBYN BECK/AGENCE FRANCE PRESSE/GETTY IMAGES



# LIFE & ARTS

WORK &amp; FAMILY | Sue Shellenbarger

## How to Be the Best Deputy

**GREAT BOSSES** get applauded, but an able No. 2 doesn't get much attention.

When done right, though, the deputy's job can be a rich and rewarding role. It takes finesse to make it a winning hand. The role offers access without having to take the spotlight or the main blame when things go wrong. The most-fulfilled deputies, however, also challenge the boss, call out mistakes, and still carry out the leader's plan.

Rhonda Haynes doesn't need the spotlight to be motivated. She derives her rewards from knowing things are getting done, the organization is running smoothly and her colleagues' morale is good, says Ms. Haynes, deputy executive director of a Chicago nonprofit.

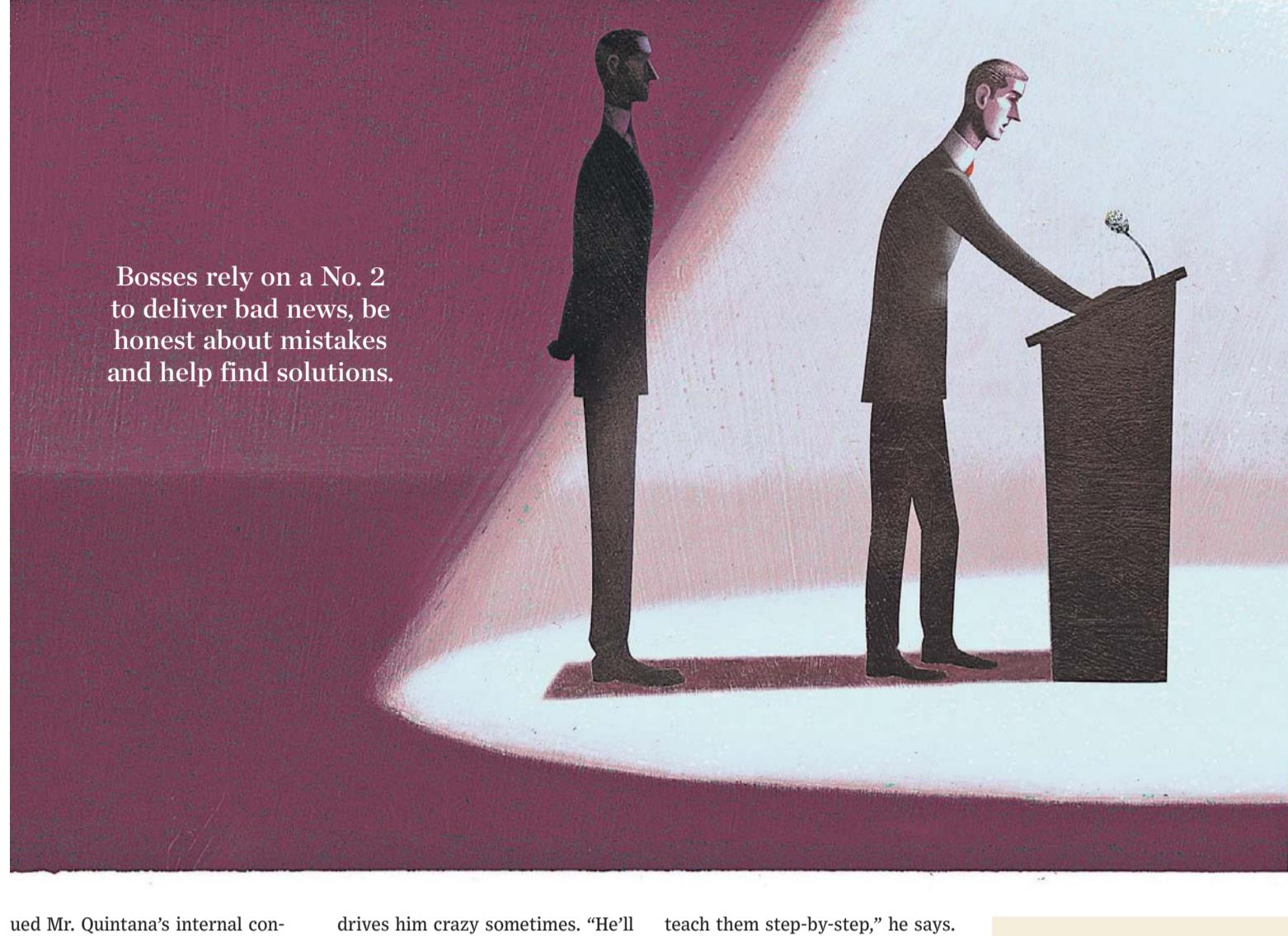
She doesn't confuse that with being selfless and has her demands, of course. A deputy can't succeed without the boss's support. On a previous job as a No. 2, Ms. Haynes says, her boss hampered her work by withholding information. In her current post, her boss Linda Listrom, executive director of the National Association for Urban Debate Leagues, gives her latitude to oversee operations and programs for the group, which support a network of student debate groups nationwide.

The second in command should be prepared to step in for the CEO when necessary. "You have to be able to take on anything the leader takes on, without having had all the experience," says Marc Hurwitz, Toronto consultant and co-author of a book on cultivating effective followers.

A deputy's skills also should complement those of the leader. "If No. 1 is strong in thinking at 30,000 feet, then you'd better be the one who's thinking at ground zero," says Robert Kelley, a management professor at Carnegie Mellon University. "You get less ego-stroking. You're not seen as a leader. For somebody who has those psychological needs, the No. 2 role can be very hard."

John Quintana built a strong internal network while serving as deputy chief operating officer of Argonne National Laboratory in Argonne, Ill., for six years. "You have to talk to people, and even more important than talking is listening" for problems that need attention, says Mr. Quintana, who is currently an interim deputy director at the lab.

Mr. Quintana's boss, Paul Kearns, who joined Argonne as chief operating officer, says he val-



ued Mr. Quintana's internal connections and his ability to keep him informed about day-to-day issues at the lab. When a problem arose several years ago with tracking inventories of materials, Mr. Quintana alerted him to it and suggested possible solutions, says Mr. Kearns, who is currently Argonne's acting director.

"Being able to bring bad news forward is a critical aspect of the role, and also giving some early thought to the first step or two toward a solution," Mr. Kearns says.

A deputy shouldn't be afraid to challenge the boss. Joseph Basile, CEO of Catania Oils, an Anya, Mass., edible-oils processor and packer, says he is more reserved than his outgoing brother Stephen, an executive vice president and the No. 2 executive, but sees the contrast as a strength. "We feed off each other in generating ideas, and we have fun doing it," Joseph says.

Stephen says Joseph's analytical approach to decision-making

drives him crazy sometimes. "He'll just spreadsheet and graph a question to death, and I'm like, 'Come on, can we make a decision already?'" He sometimes sees later, however, that his hasty decision would have been wrong. "We challenge each other," Stephen says, "and in challenging each other, everybody wins."

A deputy can have a major impact by working quietly behind the scenes. Rosy Pal worked her way up from a part-time cake-decorating job to the No. 2 spot at Saisethsons Hospitality Group Inc., a Toronto franchisee with 41 Tim Horton's restaurants. Ms. Pal, who is director of operations, measures her own success partly by tracking how many employees she coaches each week, teaching them the skills they need to rise in the ranks.

CEO Amit Seth credits Ms. Pal for the company's ability to promote 90% of its managers from within. "She has the ability to bring people up and patiently

teach them step-by-step," he says.

It is also important to figure out how serving as No. 2 fits into your career plans, Mr. Quintana says. Ask yourself: "How long do you want to stay in the role? What do you want to do after that?" he says.

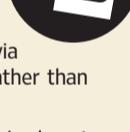
For some, it is a launchpad. The pool of experienced No. 2 executives is often the first place recruiters look for candidates for top jobs, Dr. Kelley says.

For others, it is a lifestyle. David Lassman was the No. 2 executive at six different companies earlier in his career. Being free to coach employees and help companies run more smoothly were among the biggest rewards, says Mr. Lassman, who is now a professor of organizational management at Carnegie Mellon University.

"You have to get rid of your ego. You have to be comfortable not getting all the credit—but you also typically won't get all the heat either" if things go wrong, Mr. Lassman says.

### A Good Number Two Must be Willing to...

- Bury your ego
- Help the boss avoid mistakes
- Tell the boss when he/she's made a mistake
- Carry out someone else's plans
- Be satisfied with behind-the-scenes wins
- Get things done via personal influence rather than overt power
- Translate the boss's plans in a way that motivates others
- Serve as a dumping ground when the boss is frustrated
- Step in when the boss can't lead



MUSIC REVIEW | Jim Fusilli

## ANIMATING VOCALISTS ACROSS GENRES

**GORILLAZ RESUMES** its terrifically inventive career with "Humanz" (Warner Bros.), its fifth album and first since 2011. A virtual band represented by animated characters created by Jamie Hewlett, Gorillaz has grown well beyond that original concept and established itself as a loose affiliation of musicians rather than a set lineup. Under the guidance of Damon Albarn, who plays most of the instruments and had a hand in writing all of the songs, the ad-hoc group remains free to make any kind of music it can muster. On "Humanz," Gorillaz explores deep house, hip-hop, funk and soul. The album arrives on April 28.

The infectious music often springs from early-'80s drum-machine beats and relies on modest patterns on synthesizers; thus, it manages to be retro and right now at the same time. As he was on its previous recordings, Mr. Albarn proves supremely democratic when choosing who will provide the voices on top. Guests here include rap and hip-hop's Danny Brown, De La Soul and Vince Staples; experimental pop's Kali Uchis; and soul and funk's Anthony Hamilton, Grace Jones, Kelela and Mavis Staples. Noel Gallagher and Savages' Jehnny Beth join in on "We Got the Power," while Benjamin Clementine adds Nina Simone-style melodrama to "Hallelujah Money." Carly Simon appears on a track on the deluxe edition.

Animation remains a part of Gorillaz's world: The maladapted cartoon quartet was featured exploring a haunted house in a video by Mr. Hewlett released last month to introduce "Saturnz Barz" and snippets of three other songs from "Humanz." But long ago Gorillaz's focus shifted to the music



made largely by Mr. Albarn, who has fashioned an admirable career following his stint as the leader of the 1990s Britpop group Blur (which reunited briefly in 2015 for the album "The Magic Whip"). He has wide-ranging musical interests, having recorded in various settings with African musicians and formed the Good, the Bad & the Queen with Nigerian drummer Tony Allen, ex-Clash bassist Paul Simonon and guitarist Simon Tong.

His eclecticism and openness give Gorillaz a distinctive approach that is too imaginative and spirited to be confined to recordings by a virtual group. Concerts feature all-star lineups: One version of the live band, with

Mr. Albarn on guitar and keyboards, included Mr. Simonon, former Clash colleague Mick Jones and guest vocalists Neneh Cherry, Lou Reed, Snoop Dogg and Bobby Womack. Thus, a Gorillaz concert is like an old-fashioned variety show with an emphasis on quality music, entertainment and good fun.

And so it is on "Humanz." The diversity and sheer number of vocalists give the album its freshness and swagger. Engaging performances abound. Over popcorn synths and a wobbly chorus, Kelela sings with seductive strut on "Submission," which features a comedic rap by Mr. Brown. "Charger," the next track on the album, builds on a battery of harsh sounds as Ms. Jones,

"Humanz" is the new album by Gorillaz, the virtual band started by Jamie Hewlett and Damon Albarn

whose voice drips with defiance, provides the counterpoint. Over skittish high-energy rhythms, Mr. Staples spits a politically charged rap in "Ascension," an ironic title for a song whose hook is "the sky is falling, baby." Like much of "Humanz," the song rushes by and is so jammed with musical ideas that it all but demands an immediate second play.

Mr. Albarn goes to the source for authentic soul and funk vocals, though not with the best success. He deploys the 77-year-old Ms. Staples and the soul singer Mr. Hamilton on "Let Me Out" and "Carnival," respectively, but their contributions are overwhelmed by a riot of synthetic percussive sounds. Peven Everett, though, is out front in the extra-funky dance number "Strobelite," and he excels. Mr. Albarn sings "Andromeda," a track inspired by a dance club of his youth that sways nicely.

"Humanz" has modest political overtones in its lyrics, particularly in Mr. Staples's "Ascension," a dizzying harangue against racism. In some new promo videos, the animated Gorillaz wander a landscape so grim it appears post-apocalyptic. Yet the album emerges as another example of how Mr. Albarn deploys his contact list and musical toy box to indulge in his gift for whimsy. Whatever problems there may be in the world, on "Humanz" his counsel is to continue to dance with joy. Gorillaz's new music makes it possible to do so.

Mr. Fusilli is the Journal's rock and pop music critic. Email him at [jfusilli@wsj.com](mailto:jfusilli@wsj.com) and follow him on Twitter @wsjrock.

## OPINION

## REVIEW &amp; OUTLOOK

## Theresa May's Election Opportunity

**T**heresa May surprised her countrymen Tuesday by calling for a new British election on June 8, and it's a reasonable if daring bet. The Prime Minister wants a new and larger majority in Parliament as she negotiates Britain's departure from the European Union. Let's hope she uses the campaign to offer a vision for a competitive Britain that meets the post-Brexit challenge.

The next election wasn't scheduled until 2020, and the safer play was to negotiate Brexit first. But Mrs. May is still living with David Cameron's pre-Brexit Tory majority, and she figures she'll be in a stronger negotiating position if she can win a larger majority in her own right. You have to admire her nerve, and her faith in democracy, especially in this era of populist surprises.

Mrs. May continues to be popular since taking over from Mr. Cameron last year, and her Tories lead in the polls. Markets reacted well to Mrs. May's election news, with the pound rising on expectations that she will be able to grow the current 17-seat Tory majority.

She is also striking when the Labour Party is divided under Jeremy Corbyn. The unreconstructed socialist is nostalgic for nationalized railroads and a union-dominated economy that modern Britain long ago left behind. His foreign policy is of the global left, with a soft spot for Hamas and dislike for NATO. Many Labour MPs think Mr. Corbyn didn't do enough to fight Brexit last year, so he has his own challenge laying out a coherent post-Brexit policy.

Then again, anything can happen in a democracy, especially these days. Britain has more than a little post-Brexit anxiety and even buyer's remorse. Some of this is the uncertainty of change but some relates to real economic developments since the Brexit vote.

## Not Lawless in Seattle

**S**eattle's attempt to unionize the drivers of ride-share companies like Uber and Lyft has careened into the guardrail known as the law. A federal judge has granted a preliminary injunction against the ordinance, with nationwide implications.

"The Court is cognizant of the fact that the public is interested in this litigation and its outcome," Judge Robert Lasnik wrote. "[T]he issues raised here may well impact not only for-hire transportation, but also other sectors of the economy that have come to rely heavily on independent contractors instead of employees."

Under the Seattle ordinance, the Teamsters union had the right to organize ride-share drivers through a public card-check process that allows them to prevent secret elections and set up collective bargaining. The companies that coordinate drivers, including Uber and Lyft, were required to hand over their drivers' contact information to the union by April 3.

The preliminary injunction came in response to a lawsuit brought by drivers and another by the

A judge stops the city's bid to unionize Uber and Lyft drivers.

U.S. Chamber of Commerce alleging the law violates the National Labor Relations Act and breaks antitrust laws by endorsing a system in which independent contractors can band together to set prices for their services. That's typically called price fixing.

To issue the injunction, Judge Lasnik had to conclude that the plaintiffs may win on

the merits. He wrote that the suit had "raised serious" antitrust questions and that forcing the companies to turn over drivers' personal information presented a risk of irreparable harm. While Seattle might have an interest in regulating the ride-share economy, the judge wrote, "the public not only has an interest in safe and reliable transportation networks, but also in the enforcement of the laws Congress has passed."

Judge Lasnik is a Bill Clinton appointee, and his opinion sometimes reads as if he would have preferred to rule differently but that the law simply didn't allow it. Kudos for putting politics aside to rule in the public interest.

## Trump's Deregulation Project

**U**.S. health reform may be on life support and tax reform uncertain, but one part of the Donald Trump economic growth project is succeeding: deregulation. The question is whether the President will now rev up the effort.

Mr. Trump last week signed the 13<sup>th</sup> bill repealing regulations through a potent tool called the Congressional Review Act (CRA), which allows Congress to reject rules in a majority vote within 60 legislative days of publication. The 1996 law had previously been used only once, when Congress and George W. Bush nixed an ergonomics directive from the Occupational Safety and Health Administration. Two other repeal resolutions have passed the House and are pending in the Senate.

The list of rejects includes the Interior Department's Stream Protection Rule, which would have eliminated a third of coal-industry jobs and usurped state authority over mining, for little environmental improvement. Awaiting Senate repeal is the Bureau of Land Management's venting and flaring rule for natural-gas fracking. That aimed to reduce methane emissions, though they have already dropped more than 15% since 1990 even as U.S. energy exploration has doubled in a decade.

Other worthy targets: A Federal Communications Commission regulation that would have forced Comcast to abide by consumer-privacy standards that Amazon and Google could ignore. Sen. Ben Sasse (R., Neb.) moved a bill to deep-six a teacher-training mandate that features incentives for teachers to avoid struggling schools that need talented instruction most. The left is spreading panic about potential sludge rivers or killer toys, but these reversals merely restore the status quo of six months ago.

Congressional Review actions don't include Mr. Trump's executive orders, which have directed agencies to reconsider the trillion-dollar Clean Power Plan, the Labor Department's financial advice diktat known as the fiduciary rule, among many others.

Then there are the rules that agencies have delayed and may eventually scrap, from micromanaging ceiling-fan efficiency to organic-farming standards. Sam Watkins at the American Action Forum estimates that 15 delayed rules alone

Thirteen Obama rules are gone so far, but there's much more to do.

would require 10 million hours of paperwork. That time could be devoted to activities that produce wealth and innovation, and the main losers would be compliance lawyers.

The White House and Senate Republicans have said the 60-day review period for Congressional Review Act measures will end next month. But our colleague Kimberley Strassel has explained how the law applies to past rules that agencies failed to report to Congress as required. The same is true for "guidance" letters, such as the Education Department's sexual assault "Dear Colleague," that were imposed with the force of law without having to go through a public-comment period.

The Administration could require agencies to work up lists of rules that weren't properly reported, and send them up for rejection. Bonus: If Congress disproves a rule, the CRA stipulates that an agency cannot issue the same regulation again. That is much more powerful than perennial blue-ribbon regulatory commissions or a pledge to identify two old regulations to replace for every new one, which usually achieve less than advertised.

The minds behind this interpretation are the Heritage Foundation's Paul Larkin and the Pacific Legal Foundation's Todd Gaziano, who helped write the CRA. They are combing federal records for potential candidates. There appear to be hundreds, and here's an example: The EPA's interpretation of the Supreme Court's *Rapanos* opinion, which has let the agency pummel property owners with tenuous claims about drainage into navigable waters.

Some Republicans may want to move on to other legislative priorities, and floor time is limited. But agencies could report a handful of rules at a time so as not to swamp the House and Senate as they consider the budget or Mr. Trump's nominees. Democrats will inevitably protest, but the point of the review act was to create an accountability mechanism for agencies that refuse to follow the law.

Many Republicans campaign against regulations but then merely pump out rules at a slightly slower pace. So far the Trump Administration is a welcome improvement, rolling back more regulations than any President in history. Now we will see if he's willing to deploy the full power of the law.

Will she offer Britain a vision that meets the Brexit moment?

The plunge in the pound since last summer is expected to push inflation above 3% this year. Wages aren't keeping up, and households feel the squeeze. Business confidence is flagging as the EU's line on trade talks has hardened and the difficulty of concluding other trade deals comes into focus. Separatism is flaring again in Scotland.

Mrs. May's challenge amid this ferment will be articulating a vision of what Brexit is for. Economic liberalizers supported Brexit as a way to free Britain from EU statism, but that hasn't been Mrs. May's governing identity. She has been offering a form of Christian-democratic solidarity instead of Thatcherite reform and a new dynamic Britain. Immigration restrictionists supported Brexit to preserve Britain's national identity, but Mrs. May now admits Britain will continue to need immigrants.

Mrs. May is hoping an election victory will help her transcend those differences and present a united Tory government in talks with the EU. But to win that majority she'll need to offer a vision of a greater Britain than the kind of communitarian conservatism she has offered so far. Her politics is dominating the political center in Britain, thanks in part to Mr. Corbyn's incompetence and radicalism.

But the economic and political challenges of Brexit are so formidable that Mrs. May will need to challenge the public to take risks to meet the competitive moment. Britain can't succeed as a solo version of the EU welfare state. It can only prosper post-Brexit if it becomes a mecca for investment and human capital. Mrs. May wants a mandate to negotiate, but she'll be in a stronger position if she also has a mandate for pro-growth reform. She should ask for it.

# The Truly Dreadful Choices Facing France This Sunday

By Jeremy Black

**D**o you fancy retirement at 60, a guaranteed income, a short work-week and the abolition of fear about the future? Well, move to France and choose among the 11 candidates for the presidency.

Most of the outside world is worried about Marine Le Pen and her National Front, especially in light of her recent demand that France be absolved of responsibility for the deportation of Jews to Nazi death camps because the country was under German occupation. (For the record, the wartime French authorities were complicit.)

But focusing on Ms. Le Pen means playing down the problems posed by the other available choices. She may place ahead of the field in the first round of the election Sunday and is likely, at any rate, to be one of the two candidates that go forward to the second round on May 7.

But the conventional assumption is that the French vote for their favorite candidate in the first round and, having done so, vote for anyone in the second who will block their least favorite. That process stopped Marine's father, Jean-Marie Le Pen, in 2002, when he lost to Jacques Chirac 82% to 18%. Those on the left were willing to vote for the Gaullist in order to defeat Mr. Le Pen.

The expectation has been that this process will deliver victory to Emmanuel Macron, the center-left candidate, a former economics minister in François Hollande's lackluster (to be polite) Socialist government.

Mr. Macron is a Tony Blair-like character, strong on talk of renewal and weak on details or policies. In practice, he is part of what ails France—a range of candidates who don't want to explain to the electorate that the world doesn't owe them a living.

François Fillon, the conventional-right candidate, made moves in that direction but has been sunk by scandals about paying his family from public funds.

That leaves Mr. Macron, Ms. Le Pen and the far-left Jean-Luc Mélenchon as the front-runners. None of them have explained how they will get France to work. Ms. Le Pen and Mr. Mélenchon both promise to reduce the retirement age to 60 from 62. In a country that already protects workers' rights, they want to provide more protection and bigger pensions. They promise to tax, spend and oppose multinationals and "globalization."

Polls suggest widespread support for these views, whatever the psephology that delivers the presidential result this year. Just as British politicians cannot touch the sacred cow of the National Health Service, their French counterparts are encouraging a flight from reality that began many years ago.

That poses dangers for France and the

European Union. Similarly foolish policies—state control, redistributive taxation and social management—failed under François Mitterrand in 1981-83. That led his minister of economy and finance, Jacques Delors, to become president of the European Commission in 1985 and push through similar policies at the European level. Given the hostility in many EU states to whatever can be decried as "austerity," the renewal of this theme in France bodes ill for fiscal responsibility across the Continent.

France's position within NATO may also come into question. Paris has been stalwart in its opposition to Islamist groups in Northwest Africa, but both Ms. Le Pen and Mr. Mélenchon have tilted toward Vladimir Putin, using their countrymen's disdain for President Trump as an excuse.

## The world rightly worries about Le Pen, but leftist populism is dangerous too.

More generally, the French election underlines the extent to which the traditional parties of the right are challenged by current developments, a situation seen in 2016 in the American primaries and in former Prime Minister David Cameron's Brexit defeat.

At the same time, the left and the far right encourage the electorate not to ask hard questions about economic growth and social welfare. The principal difference between left and far right rests on competing accounts of national identity and interest. In France, as so often elsewhere, the left doesn't really offer a convincing version of either, while that of the far right is divisive and backward-looking.

For the conventional European right, the French election throws up serious questions of relevance and popularity, and that in a society in which so many wish to retire early and grumble. An inability to face up to their political situation is part of this malaise.

The focus on Brexit has distracted attention from the EU's fundamental crisis, posed by a rejection of economic literacy. There is a strong danger of populist swings around the left or the far right, and a challenge both to business and to international commitments. The pro-business moderate right is too weak, and the rest are too antibusiness.

A defeat for Ms. Le Pen appears likely. That would be welcome, but it shouldn't detract from the broader failures of a corporatist social-welfare model that has already done great harm to France and the EU.

Mr. Black's books include "Europe Since the Seventies" (Reaktion, 2009).

## LETTERS TO THE EDITOR

### Syria, the Will to Act and Intelligence Failure

Regarding your editorial "Obama WMD Intelligence Failure" (April 10): I don't think it was a question of Obama administration officials lying. What U.S. Secretary of State John Kerry and Susan Rice meant was, "to the best of our knowledge" or "it is our understanding after discussions with Russian and Syrian officials that the entirety of chemical weapons have been removed."

The administration's statement that diplomacy rather than limited strikes was so effective was intended to defuse criticism of President Obama as "ditherer-in-chief." Any intelligence reporting to the contrary would have been simply ignored by an administration eager to praise the president's diplomatic efforts. Syria's retention of poison gas wasn't an intelligence failure, but a failure by President Obama to face the fact that diplomacy can only be successful based on verification and not wishful thinking.

DAVID DAKSHAW

Munich

The magnitude of the Obama administration's WMD failure and particularly that of Ms. Rice, the national-security adviser at the time, may well be understated if other media reports are considered. First, the Syrian air base missile strike by the U.S. was originally planned during the time both were in office; second, poststrike reports indicate that chemical-weapons facilities at the targeted air base were specifically avoided by the programmed Tomahawk missiles. So to avoid the chemical weapons storage and program the missiles to do so, the administration had to know of such storage at the air base at that time. This suggests that both Ms. Rice and President Obama knew that all chemical/bacteriologic materials had not been removed and destroyed as both Syria and Russia claimed. Americans were told all the weapons had been destroyed.

NORMAN C. LERNER

Annapolis, Md.

Imagine how today's world might be if President Obama had struck Syrian air fields in 2013 after Syria crossed the president's "red line" by gassing 1,500 Syrians to death.

Regarding Paul Wolfowitz's call for President Trump to take action against Syria's Bashar al-Assad for the use of chemical weapons against his own people ("What Comes After the Syria Strikes," op-ed, April 12): Mired in a health-care debacle and bargain-basement poll numbers, the president has suddenly been handed a political distraction and a cause.

After 400,000 deaths in the Syrian Civil War, it took the last 85 to convince Mr. Trump of that war's inhumanity. These gruesome deaths gave him reason for loosening scores of cruise missiles against a Syrian government airfield, thereby demonstrating U.S. mettle to the world while making America great and first again.

Unlike Iraq in March 2003, Americans are smarter now. We want to know from the president, and from grand strategist Mr. Wolfowitz, what's next? What's your endgame? What price are you willing for others to pay to achieve whatever you are trying to achieve? Why do you always go for the gun first?

STEVEN L. HULL  
Captain, U.S. Navy (Retired)  
Reno, Nev.

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## OPINION

# Why Trump Might Win With China

By Charles W. Calomiris

In its first months, the Trump administration has pivoted on trade, backing off from threats to overhaul the North American Free Trade Agreement and reversing Mr. Trump's campaign pledge to label China a currency manipulator. Those changes are welcome, but in an interview last week with The Wall Street Journal, the president went further, saying that he might soften his trade stance in exchange for help with "the problem in North Korea."

Mr. Trump may be ceding too much ground. In fact, he may have more leverage over China than he thinks.

**Beijing may be ready to deal as it eyes slowing growth, a weakening yuan and other challenges.**

Claims that Beijing manipulates the value of the yuan never made much sense as an explanation for Chinese growth or for the persistent U.S. trade deficit with China. First, it's impossible for monetary policy (including exchange-rate policy) to produce long-run growth or trade consequences. This principle of long-run "monetary neutrality" is one of the few tenets of economics that is nearly universally accepted.

Second, the facts show that the Chinese government hasn't been

trying to keep its currency weak. The opposite is true. The yuan appreciated 26% from 1995 to 2014. And China's "real exchange rate" (which captures the relative competitiveness of the prices of goods sold by China and its competitors) increased even more, 53% over the same period.

When a country's real exchange rate appreciates, economists understand it as reflecting high productivity growth. This is called the Harrod-Balassa-Samuelson effect. Circa 1978, China's total factor productivity—a measure of how much value an economy adds to a basket of inputs—stood at roughly 3% of America's. Starting from that very low efficiency, China was able to improve quickly for more than three decades by removing some of the limits that the Communist government had placed on markets. Today China's total factor productivity stands at about 13% of America's.

Lifting restrictions on market transactions has propelled China's growing share of world exports and foreign direct investment in recent decades. China has also kept its tariffs relatively high, and government policies favor domestic producers while limiting the ability of foreigners to compete, factors that boost its trade surplus.

Since 2015, China's currency has depreciated, but Beijing has tried to limit this weakening, partly with an eye toward the possibility of a political backlash in the U.S. On Thursday, for example, government intervention in the foreign-exchange market raised the value of the yuan 1%.



REUTERS

Presidents Xi Jinping and Donald Trump at Mar-a-Lago in Florida on April 6.

Despite such interventions, it will be hard for the government to resist yuan depreciation. The weakening reflects a long-term growth slowdown—the natural diminishing returns of economic development. Autocracy contributes to China's financial fragility. As Minxin Pei predicted in his 2006 book, "China's Trapped Transition," the Communist Party ensures its survival by propping up inefficient state-owned enterprises that fund its operations. The financial system cannot truly liberalize because it must remain an instrument for channeling credit subsidies to these firms.

Moreover, as the Chinese economy cooled off over the past decade, the government juiced growth with high spending, especially on buildings and infrastructure. These investments

were also mainly funded with debt guaranteed, explicitly or implicitly, by the state. China's combined household, government and non-financial corporate debt now stands at roughly 2.5 times gross domestic product. In 1999, China paid off its banks' bad debts, but since then a combination of slow growth and high borrowing imply a nonperforming debt bill of about \$3 trillion—10 times the cost of the 1999 bailout. The likely path of least resistance would be for China to let inflation solve some of the problem.

In any case, a combination of slower growth, debt defaults and inflation will continue to weaken the yuan and reduce capital inflows. Foreign reserves, which grew for decades, have declined since 2014. The Chinese elite are cognizant of these

problems, hence their increasingly desperate attempts to smuggle wealth out of the country.

In this environment, the Chinese regime could fracture or lose popularity. That is a scary prospect for Beijing, which already faces other major challenges, such as an aging population, a lack of pension funding to support the elderly, and life-threatening levels of pollution. Despite the regime's autocratic nature, protests directed at its shortcomings are becoming common. The government is not immune to public pressures.

Negotiations between China and the U.S., which are now beginning in earnest, may actually bear fruit. Chinese leaders cannot afford a significant drop in exports to the U.S., which would be interpreted at home and abroad as evidence that the bellicose American president got the better of them.

Mr. Trump has been dealt a stronger hand than he could have asked for on trade with China, which has more incentive to negotiate than ever. He should walk away with a better deal from Beijing than any of his predecessors were able to extract. Mr. Trump may even be able to make progress on geopolitical issues, such as limiting China's military adventures in international waters and securing its help on North Korea.

If he plays his cards right.

*Mr. Calomiris is a professor of financial institutions at Columbia Business School and a fellow of the Manhattan Institute.*

## How to Say Goodbye to Europe's Negative Rates and Asset Purchases

By Richard Barwell

The era of negative rates and asset purchases at the European Central Bank will soon be over. Indeed, the ECB has already taken its first steps by slowing the monthly pace of asset purchases. Investors now need to think about the how and when and where it will ultimately end.

The ECB has consistently signalled that its first move will be tapering, or gradually reducing the pace of asset purchases to zero. Only then will it start raising interest rates. But recent leaks from within the ECB have called this guidance into question. Some policy makers apparently prefer to raise rates first or in tandem with the taper.

Such mixed messages are unfortunate. More serious still would be a sequence reversal. If investors can't rely on the ECB to do what it says it will do, the central bank will find it much harder to steer expectations in the future. Fortunately,

ECB President Mario Draghi and Chief Economist Peter Praet reaffirmed recently their belief in the taper-pause-hike strategy.

The most important thing is getting the overall policy stance right. The stock of asset purchases and the level of interest rates must between them deliver the right amount of stimulus. However, the specific exit strategy deployed will have micro implications.

Europe's banks might benefit if the ECB starts with a raise in interest rates. The rates that banks charge on loans may then rise by more than the rates they pay on deposits. But even if such a hike would help the banks, it doesn't mean the ECB should do it.

For one thing, the ECB would have a hard time justifying the strategy, as the banks' benefit would be coming at the expense of their customers. Tailoring the exit strategy to suit banks would also be hugely problematic for an institution that is responsible for supervising banks as well as

monetary policy and is supposed to keep the decision-making process in those two realms separate.

Second, markets may perceive a sequencing reversal and an early rate hike as an implicit admission

**The European Central Bank needs to send clear and consistent signals. But the sequence of moves also matters.**

that the negative-interest rate experiment was a mistake unlikely to be repeated. That would leave the impression that the ECB will have less scope to support the economy in a future downturn.

As for the question of timing, the ECB's exit hinges on three issues: what the future holds, how the ECB interprets its mandate and whether politics interferes.

Clearly, the faster the rise in underlying inflation, the sooner the ECB can exit. But the temptation for the prudent policy maker is to be overly cautious. The ECB could face economic and legal constraints on cutting rates further or buying more bonds down the road should the economic outlook deteriorate. Better to overstimulate the economy now than to find itself unable to act tomorrow.

The central bank's ambitions also matter. When the eurozone was flirting with outright deflation, the ECB insisted that it would drive inflation back to target as fast as possible. Now that the ECB's emphasis is on the more modest ambition of avoiding deflation, an exit is more likely. But if the bank is serious about not pulling back until underlying inflation is back on track, then it shouldn't even be thinking about exit.

The wild card in this debate is the potential for political interference. There is constant pressure from the

core of Europe to exit prematurely in order to strong-arm politicians in the periphery into implementing reforms. Now there may be pressure from outside, too, with the Trump administration questioning whether ECB policy puts European companies at an unfair advantage by undervaluing the euro.

The ECB will ultimately raise rates back to normal levels and reduce the size of its balance sheet, ideally in that order. Some European central bankers are so squeamish about buying bonds that it may take a full-blown crisis to force them to resume purchases. If the ECB wants to guarantee that it will have the capacity to ease policy in the future, it needs to raise rates rather than reduce the balance sheet at every opportunity. The balance sheet should stay big for the foreseeable future.

*Mr. Barwell is a senior economist at BNP Paribas Investment Partners.*

## Complexity Is the Root of All Evil (at Least in the U.S. Tax Code)

By Nina E. Olson

As America's national taxpayer advocate, I oversee an independent unit within the Internal Revenue Service that has helped more than four million individual and business taxpayers resolve their IRS account problems, and I am required to report to Congress annually on the most serious problems encountered by U.S. taxpayers.

If I had to distill everything I've learned into one sentence, it would be this: The root of all evil is the complexity of the tax code.

There is currently considerable support in Congress to take up corporate-tax reform, and corporate reform is certainly needed. But I urge policy makers to remember that, as compared with about two million taxable corporations, there are 151 million individual taxpayers, including 27 million who report sole-proprietor or farm-business income with their individual returns.

There are also nearly nine million pass-through entities (S corporations and partnerships), the income

from which is reported on individual income-tax returns. These taxpayers desperately need relief from the extraordinary compliance burdens the tax code imposes.

I have long believed comprehensive tax simplification is achievable by following the model of the landmark Tax Reform Act of 1986. Skeptics point out that asking taxpayers to give up tax breaks from which they currently benefit will generate pushback, and that's certainly true.

But if policy makers pair substantial reductions in tax expenditures with substantial reductions in tax rates, and maintain current tax-burden levels by income decile, I believe taxpayers will appreciate that their tax burdens on average won't change much—and they will actually end up better off because they will save money on compliance costs. That approach prevailed 30 years ago, and despite some significant differences in circumstances, it could prevail again today.

I recommend that policy makers consider the following core principles in developing tax-reform legislation:

First, the tax system shouldn't be so complex as to create traps for the unwary.

Second, the tax laws should be simple enough so that most taxpayers can prepare their own returns and compute their tax liabilities on a single form, and simple enough so that IRS customer-service personnel can accurately answer taxpayers' questions over the phone.

Third, the tax laws should anticipate the largest areas of noncompliance and minimize the opportunities for such noncompliance.

Fourth, the tax laws should provide some choices, but not too many, since choices can be confusing and lead to taxpayer errors.

Fifth, when the tax laws provide for refundable credits, they should be designed in a way that is minimally burdensome both for the taxpayers claiming the credits and for the IRS in administering them.

Sixth, the law should incorporate a mandatory periodic review of the tax code—a sanity check to guard against creeping complexity.

If policy makers decide comprehensive simplification is too heavy of a lift, there are still many steps Congress could take to simplify the tax code in smaller bites. Among them:

Consolidate and simplify the six "family status" provisions in the tax code. These include filing status, personal and dependency exemptions, the child tax credit, the earned-income tax credit, the child- and dependent-care credit.

**As U.S. Congress takes up reform, it should consider radically simplifying the rules for individuals.**

and the separated spouse rule. Every individual taxpayer is affected by at least two of these provisions, and many taxpayers are affected by five. I have proposed a family credit and a worker credit to replace them, which would have the added benefit of reducing improper EITC payments.

Simplify other provisions that govern taxation of the family unit, including "joint and several liability" and the "kiddie tax."

Consolidate the incentives that encourage savings for education. There are now at least 12—far too many for most parents and students to make an informed choice.

Consolidate the incentives that encourage savings for retirement. There are now at least 15—again, far too many.

Reduce procedural incentives for Congress to use tax "sunsets." More than 70 provisions currently in the tax code are temporary and require periodic renewal.

Minimize income phase-outs, which affect roughly half of all returns each year. They introduce inflated marginal "rate bubbles" and add considerable complexity to tax computations.

Streamline the penalty regime. In 1955, there were 14 civil penalties in the tax code. Today, there are more than 170, many of which are rarely assessed.

U.S. taxpayers have been struggling under the weight of the current tax code for far too long. The Bush and Obama administrations both produced reports with many good simplification proposals, as have the House Ways and Means and Senate Finance committees and others. There is no shortage of good ideas. Now is the time for the administration and Congress to seize the moment and finally, this year, carry tax reform across the goal line.

*Ms. Olson has served as the national taxpayer advocate since 2001.*

*Mike Ludwig reporting at Truthout.org, April 11:*

In a sweeping move that follows a wave of divestment activism in Portland, Oregon, and across the country, the Portland City Council voted last week to pull all of the city's investments in corporate bonds and securities.

The decision was a major victory for a broad coalition of activists who have pushed for the city to end its investments in corporations that have questionable records on the environment and human rights,

including ties to the Dakota Access pipeline, the private prison industry and the Israeli occupation of Palestine.

"As their decision stands now, it's permanent.... We can rest assured in Portland that our money won't be funding prisons, pipelines and the occupation of Palestine," said Amanda Aguilar Shank, an organizer with the racial justice group Enlace, in an interview with Truthout.

Portland's City Council had originally considered adding Caterpillar, Wells Fargo, JP Morgan Chase and

six other companies identified by a volunteer committee on socially responsible investing to a so-called "Do Not Buy" list, but the council was unable to come to an agreement on which companies to blacklist from the city's investment portfolio. Instead, in December, they voted to place a temporary halt on all new corporate investments until permanent decisions could be made.

After activists organized rallies and packed council meetings with hours of testimony, the council agreed last week to end corporate investments altogether.

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## LIFE &amp; ARTS

MY RIDE

## Coast to Coast on Ancient Harleys



*Steve DeCosa, 67, a retired high school teacher from Oswego, N.Y., with his Harley-Davidsons, as told to A.J. Baime.*

I had never ridden a motorcycle at the time I retired. Shortly after leaving teaching in 2011, I bought a late-model Harley-Davidson. I passed my road test on a Thursday, and by Saturday, my wife Joan and I were on a 2,500-mile ride.

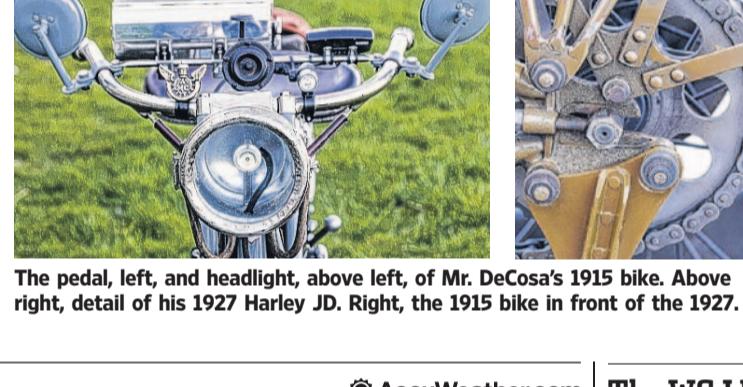
The following year I saw the

send-off of the 2012 Motorcycle Cannonball, a coast-to-coast ride for antique bikes. I thought, I need to be a part of this. Joan and I bought a 1927 Harley JD and began a restoration, with a hard deadline—the 2014 Cannonball.

In our two-car garage, we did our own painting, pinstriping and nickel-plating. We did the mechanical assembly ourselves, too. Anything we did not know how to do, we learned from YouTube videos.

(I joke that we're graduates of YouTube University.)

With Joan as my crew chief, we made the ride successfully from Daytona Beach, Fla., to Tacoma, Wash. But the experience made us

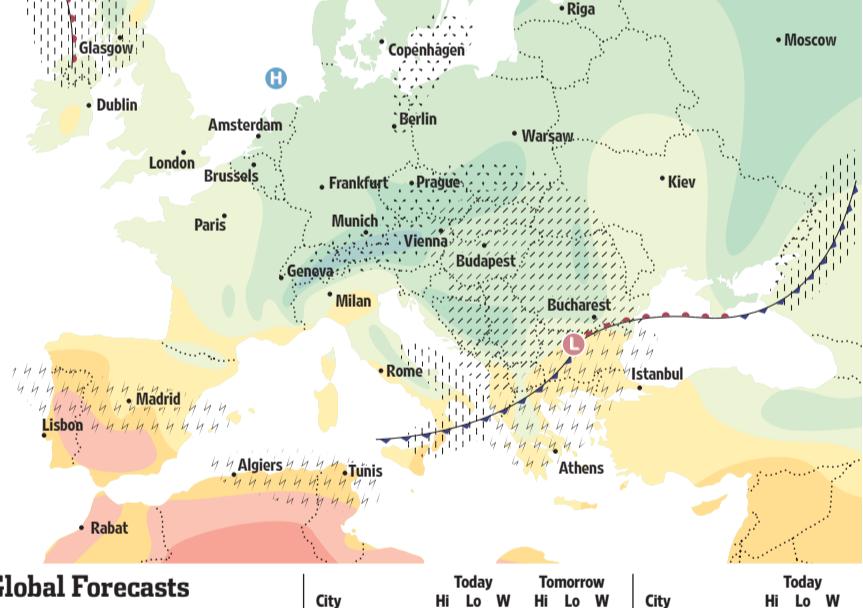


The pedal, left, and headlight, above left, of Mr. DeCosa's 1915 bike. Above right, detail of his 1927 Harley JD. Right, the 1915 bike in front of the 1927.



CARIE NILAND FOR THE WALL STREET JOURNAL

## Weather



## Global Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers; t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	10	0	pc	12	7	pc
Anchorage	9	0	s	9	1	s
Athens	22	15	pc	22	12	pc
Atlanta	28	18	pc	29	18	s
Bahrain	28	15	s	31	17	s
Baltimore	15	12	pc	26	16	pc
Bangkok	36	26	c	36	27	t
Beijing	21	8	c	21	11	pc
Berlin	7	-3	c	9	2	pc
Bogota	18	9	r	18	10	r
Boise	18	7	pc	14	3	c
Boston	11	7	c	14	9	c
Brussels	9	-1	pc	11	4	pc
Buenos Aires	21	14	c	24	13	pc
Cairo	30	17	s	32	19	s
Calgary	14	0	pc	15	2	sh
Caracas	31	25	pc	31	25	pc
Charlotte	22	14	t	27	17	pc
Chicago	20	11	t	19	8	t
Dallas	29	20	pc	30	19	c
Denver	23	4	s	18	4	sh
Detroit	23	13	t	24	7	t
Dubai	36	29	s	34	27	pc
Dublin	13	6	c	14	6	sh
Edinburgh	13	9	c	14	8	c
Frankfurt	10	-2	c	11	0	pc

AccuWeather.com

## The WSJ Daily Crossword | Edited by Mike Shenk



## TAKE A BITE OUT OF CRIME | By Ned White

Across		
1 "Dear" advice source	28 Criticize harshly	61 Collar
5 Regarding	32 I, in Ingolstadt	62 "Chandelier" singer
9 Snazzy	35 100-cent currency	63 Glove material
14 Bernanke's predecessor	37 Notable period	64 Where those involved in the starred crimes may end up?
16 Some rail riders	38 *Fish caught illegally?	66 Gather
17 *Shoplifted spud, ready to be fenced?	44 Assorted collection	68 Original title of Shakespeare's "Henry VIII"
18 Site of a wave, at times	45 Sp. lady	69 Full of attitude
19 Little tunneler	46 Sixth Greek letter	70 Modernize, say
20 Walter Scott title	48 Teri's "Young Frankenstein" role	71 Match units
21 Gamer's likeness	50 Knocks over	Down
22 *Heisted Hershey's treats?	54 *Illegal scheme to sell zucchini?	1 More than taken aback
26 Giga-times 1000	58 Bright entrance hall	2 Literary sister
27 "Vamoose!"		3 Person in a pool

► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).

**Steve DeCosa of Oswego, N.Y., with the 1915 Harley-Davidson 11F he rode across the U.S. in the 2016 Motorcycle Cannonball.**

long for more. So we pieced together a 1915 Harley 11F from parts we bought from all over the country, with a goal to finish in time for the 2016 Motorcycle Cannonball.

The 1915 Harley is a wonderful bike. It was the first Harley with a three-gear transmission and the last with a bicycle pedal-type start. (You pedal like on a bicycle to start the engine.) The motor thumps out a whole 11 horsepower.

The 2016 Cannonball went from Atlantic City, N.J., to Carlsbad, Calif., on a particularly grueling route. I trained for months—treadmill, crunches, etc.—so I could make the 16-day journey, with seven to eight hours of riding each day. I rode through rain and cold in Missouri, over mountain passes in Colorado and through searing heat in the Mojave Desert.

Just 15 miles from the finish, someone cut me off and I slammed on the brakes, busting the Harley's brake linkage. For the last 15 miles, I cruised through surf towns on the Pacific Coast Highway, stopping the bike Fred Flintstone-style by dragging my feet on the pavement. I won the Cannonball in my class.

Joan and I are already planning for the 2018 event, which will run from Portland, Maine, to Portland, Ore.

Contact A.J. Baime at [Facebook.com/ajbaime](http://Facebook.com/ajbaime).



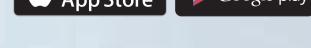
WSJ City

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# BUSINESS & FINANCE

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Wednesday, April 19, 2017 | B1

Euro vs. Dollar 1.0699 ▲ 0.52%

FTSE 100 7147.50 ▼ 2.46%

Gold 1291.70 ▲ 0.18%

WTI crude 52.41 ▼ 0.46%

German Bund yield 0.158%

10-Year Treasury yield 2.177%

## Facebook's Augmented-Reality Bet

By DEEPA SEETHARAMAN

To Mark Zuckerberg, "Pokémon Go" wasn't just a fad from last summer. It was a sign that augmented-reality technology was coming more quickly than he expected.

The mobile game was among the factors that helped the Facebook Inc. chief executive realize that augmented reality might catch on sooner than rival virtual reality technology—where Mr. Zuckerberg had placed his biggest bet. On Tuesday, Mr. Zuckerberg announced at Facebook's annual F8 developers' conference that Facebook would make its augmented-reality tools, which mix the physical and digital worlds, available to third parties to create custom masks, filters and other

effects. Early partners include Nike Inc., Electronic Arts Inc. and Warner Bros.

"I think people look at this stuff and think: OK, that's kind of fun, kind of primitive, this is just what kids like doing today," Mr. Zuckerberg said in an interview last week at Facebook's headquarters in Menlo Park, Calif. "But we look at that and we see the beginning of a platform."

Facebook's focus on augmented reality at F8, which takes place Tuesday and Wednesday in San Jose, Calif., is a major new salvo in Facebook's competition with Snap Inc.'s Snapchat. Facebook's smaller rival popularized simple augmented reality tools, such as Snapchat filters, which overlay masks or dog noses on users' faces.



Facebook CEO Mark Zuckerberg was inspired by 'Pokémon Go.'

Also on Tuesday, Snapchat introduced a new feature to capture backgrounds.

In Mr. Zuckerberg's view, Facebook's nearly two billion users favor more immersive

mediums like photos and videos, and will increasingly use their cameras to interact with the world. Last month, Facebook tried to make the camera more central to the use of the

app by adding a "swipe right" move to open the camera. But Facebook is still most popular for its news feed, the stream of information whose design hasn't changed significantly in a few years and where text still plays a significant role.

Facebook had seized on virtual reality to vault the company into the next generation of technological interaction. By buying virtual-reality company Oculus VR for more than \$2 billion in 2014, Facebook was seen to have placed its chips on virtual reality, in which users are fully immersed in a fabricated world, over augmented reality. Mr. Zuckerberg said virtual reality

Please see FOCUS page B4

♦ Snapchat unveils augmented-reality feature..... B4

## Weetabix Cereal Is Sold To Post

By BEN DUMMETT

**Post Holdings** Inc. agreed Tuesday to acquire **Weetabix** Food Co., maker of the iconic U.K. breakfast brand, for £1.4 billion (\$1.76 billion), a move that allows the U.S. cereal maker to expand in the U.K. and other international markets as it targets a broader customer base.

The deal, which confirms a Monday Wall Street Journal article, is the latest in a string of acquisitions by Post to help it offset a slow-growth environment for many packaged foods. St. Louis-based Post beat out a number of other bidders, including **Associated British Foods** PLC and Italy's **Barilla Group**.

Post, whose cereal brands include Honey Bunches of Oats and Great Grains, is acquiring Weetabix from China's **Bright Food** Group Co., a Chinese conglomerate operating across Asia Pacific, and minority shareholder **Baring Private Equity Asia**. Bright acquired 60% of Weetabix in 2012 from London-based buyout company **Lion Capital LLP**, in a deal that valued the U.K. cereal company at £1.2 billion, including debt. Baring has owned the remaining stake since 2015.

Bright had bet it could expand Weetabix's customer base by introducing the whole-grain biscuit cereal to Asia, but it underestimated consumer preference in the region for the more traditional rice-based porridge. In Hong Kong, for example, Weetabix's share in 2016 of the breakfast cereal market was almost the same as 2012 levels when Bright acquired its stake, according to Euromonitor. That said, Post said it agreed in principle to establish a joint venture with Bright and Baring to manage Weetabix's China operations.

With Weetabix, which was founded in 1932 and is widely known for its biscuit-shaped cereal, Post gains a global breakfast brand and the top seller in the U.K. Weetabix has also expanded into products such as breakfast drinks and healthy snack bars.

Together Post and Weetabix would own three of the top 10 cereal brands with a combined global market share of about 6.5%, according to Euromonitor. Still, that is below **Kellogg** Co.'s Kellogg's cereal brand, which has about a 22.2% share.

Post is partly betting on Weetabix's distribution export business to more than 90 countries and its presence in such markets as Africa, where it operates through two joint ventures, to help the U.S. company reach a broader customer base for its cereal brands. Weetabix hopes to accomplish the same in the U.S. market by tapping Post's strong presence in that country.

The combination generates "international cross-selling opportunities through the expansion of Post products in select international markets and further expansion of Weetabix...in North America," Post said in a statement.

## INSIDE

### OFFICE TREND: ADD A PENTHOUSE

PROPERTY REPORT, B9

## Sterling Suggests Softer Ride In Brexit

It is hard to put probabilities on political outcomes, but the reaction of sterling on Tuesday to the calling of a snap U.K. election offers one rough measure: It is now about 10% less likely that British politicians will take

the economy outside and shoot it in the head.

The pound had its second-best day against the dollar since last sum-

mer's vote to leave the European Union, after Prime Minister Theresa May went back on repeated promises not to call a sudden election. At a time when investors are obsessed with politics, this calls for some explanation.

It starts with the slim majority Mrs. May commands in Parliament, and the fractious nature of many of the Leave members of her party. They have been calling for a "hard Brexit," leaving the EU quickly even if it means falling back on unfavorable World Trade Organization tariffs and cumbersome customs procedures. The smaller her majority, the more power these back-benchers—and like-minded ministers—have.

The election offers a chance to shake things up in her party. The Conservatives are way ahead of the imploding opposition Labour Party, and while the pro-European Liberal Democrats will put up a fight, Mrs. May's majority is likely to increase substantially.

The 2.4-cent rise in the pound from the New York level late Monday recovers almost one-tenth of the loss since the Brexit vote, to leave sterling buying \$1.28 by the evening in London. Hence the rough estimate of a 10% lower chance of Conservative rebels forcing Britain to swallow a hard Brexit and all the disruption—and weaker currency—that would come with it.

There are three big drawbacks to the calculation. First, it doesn't tell us the actual probability, only the change. One way to estimate the level is to look to the options market. An extreme outcome might be the pound dropping below \$1.10 in the next year, which Alan Ruskin, co-head of foreign exchange research at Deutsche Bank AG, calculates the options market puts at less than one in 10.

Second, the election provides another benefit in the form of time. The next election had been due in 2020, with the Conservatives wanting to be out of the EU by

Please see STREET page B2



This week's vehicle expo in Shanghai offers an opportunity for companies to spotlight technical proficiency of their newest models.

## China's Car Makers Still in Slow Lane

In striving for global growth, marketing challenges include an SUV called Trumpchi

By TREFOR MOSS

SHANGHAI—China's auto makers hope to shed their reputation as builders of cheap, second-rate cars as they spotlight their newest models at this week's Auto Shanghai, the country's main yearly vehicle expo that opens to the public Friday.

But building good cars is only part of the challenge of turning Chinese vehicles into global best-sellers, according to people in the auto industry. Top Chinese manufacturers have become technically proficient, they say, but are still in the slow lane when it

comes to selling cars to a global audience.

"The market strategy might be more important than the quality of the car" where exports are concerned, said Truls Thorstensen, chief executive of EFS Business Consultancy, which organizes the annual Xuanyuan Award honoring China's automobile industry.

**Guangzhou Automobile Group** Co. is one of the auto makers recently forced to confront the nuances of marketing: It makes a sport-utility vehicle called the Trumpchi.

Guangzhou Auto says the name is an Anglicization of its Chinese name, chuānqì, or "legend," and has nothing to do with U.S. President Donald Trump. At the Detroit auto show in January, a Guangzhou executive said the company was debating

### Stalled Sales

China has struggled to increase its auto exports.

1.2 million



Source: China Association of Automobile Manufacturers

THE WALL STREET JOURNAL

whether it should use that name when the vehicle hits U.S. shores in 2019.

The company has now decided against using the Trumpchi name in the U.S., a

company spokeswoman confirmed Tuesday, but she didn't elaborate on the reasons why.

The Trumpchi is considered one of China's best hopes of exporting cars in volume to the U.S., a long-held dream of the manufacturers. "As Chinese cars go, the Trumpchi brand's design inside and out is more mature and mainstream than most," Motor Trend magazine said of the marque.

But bold forecasts for overseas sales have been made for a decade, and have yet to happen. Chinese firms exported 708,000 vehicles last year, according to the government-backed China Association of Automobile Manufacturers—about 1% of the global market outside China, and short of the record 1 million in 2012.

Even in China, the world's

Please see CARS page B2

## Samsung Galaxy S8: Evolutionary Milestone

Samsung has figured out what we really want: A giant smartphone. That's also small.

The \$720 Galaxy S8, which arrives in stores Friday, boasts more gorgeous screen area than the gargantuan iPhone 7 Plus—and is nearly as capable as my office computer. Yet it isn't hard to hold the S8 in one hand while riding the train. My

thumb can crush all the candy on its far side. And it doesn't look like a paperback settled into my jeans.

The S8 is a milestone in the evolution of the phone. Instead of just getting big-



Samsung's Galaxy S8, above, boasts ergonomic improvements. It has a 5.8-inch screen in a form that is taller than the S7.

ger, the phone is becoming more useful by fitting you.

How did they accomplish this? The S8 and its larger sibling S8+ (which costs \$840 at Verizon) are nearly all screen. Sure, phones already have a lot of screen.

But Samsung attacked the face of this phone with the gusto of a Beverly Hills surgeon. It snipped all but a sliver of the metal forehead and chin and replaced them with screen to make it taller. Then it tucked the OLED

screen into the left and right edges, making it spill over like an infinity pool.

Yet I'm torn. To buy the S8 now requires a leap of faith in Samsung. Its software is incomplete: The hyped talking assistant Bixby won't be functional at launch, and we don't know how it stacks up to the Assistant in Google's excellent Pixel phone. There is a decent chance whenever Bixby is ready, Apple will be close to launching a 10th-anniversary iPhone with an improved Siri—and a whiz-bang screen of its own. Besides, Samsung hasn't made me forget how, for months, every airline in America warned passengers Samsung phones catch fire.

This is an important moment for screen tech, which

Please see FOWLER page B4



OFFICE TREND: ADD A PENTHOUSE

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A Maersk container ship under construction at the Daewoo yard in Okpo, South Korea. Daewoo recorded a narrower loss for 2016.

## Daewoo's Shipyard Is Thrown a Lifeline

BY KWANWOO JUN

SEOUL—South Korea's debt-ridden **Daewoo Shipbuilding & Marine Engineering Co.**, the world's second-biggest shipyard, was given a lease on life after creditors agreed to a massive debt-for-equity swap as part of a bailout plan.

The agreement came after South Korea's National Pension Service, which holds a quarter of Daewoo's outstanding bonds, decided to convert its bonds into equity as part of a fresh 2.9 trillion Korean won (\$2.6 billion) rescue plan, leading the other bondholders—some of whom were previously undecided—to follow suit during two days of voting that ended Tuesday.

Creditors overwhelmingly voted for the rescue plan that obliges them to convert half of the \$1.4 billion in unpaid bondholdings into equity and roll over the remaining debt until 2020, according to the ballot results.

The ailing shipyard, seen by some in South Korea as too big to fail, will stay afloat for now with the debt rescheduling and fresh cash injections, and may be able to return to profitability in 2017 after two straight years of massive losses, but its survival is uncertain unless it wins high-margin ship orders even as the industry faces one of its toughest periods.

Daewoo has secured around \$1.5 billion of new orders so far this year.

But getting new ones will

be challenging. Contracts at China's top 50 yards fell 25% in the first quarter, compared with the year-earlier period, according to the China Association of the National Shipbuilding Industry.

South Korea's National Pension Service, which holds more than 40% of Daewoo's 440 billion won of debt due for repayment later this month, said Monday that "accepting the debt-rescheduling plan will be more favorable in enhancing the profits of the pension fund" than letting Daewoo go into receivership or bankruptcy.

The NPS had earlier demanded a guarantee of full debt repayment but later softened its stance after negotiations with Daewoo's largest shareholder, state-run Korea Development Bank, which is leading the bailout effort.

Daewoo epitomizes the trouble of the global shipbuilding industry that is still reeling from stagnating ship orders and a slowdown in China. Since the global economic crisis in 2008, Korean shipyards have been suffering as lower-cost Chinese rivals bite into their profits.

Daewoo recorded a 2.7-trillion-won loss for 2016, following a 3.3-trillion-won loss a year earlier.

The latest bailout would allow Daewoo to stay afloat and avoid risking an estimated 50,000 jobs at Daewoo units and subcontractors, the loss of which could damp a recent economic recovery.

chine. It is hard for speculators holding what are still very large bets against sterling impartially to weigh the probabilities, so the instant votes likely were just to join the buying in order to close out the trade. Such short-covering briefly pushed the pound above \$1.29 for the first time since October.

If the election delivers Mrs. May her expected big majority, it will narrow the range of outcomes from the U.K. side of the Brexit talks, and mean Mrs. May's own—unknown—views will matter more. Unfortunately for sterling investors, the election does nothing to change the outcomes from the European side, where tough talk is the order of the day.

Continued from the prior page then. After the snap June vote, Mrs. May won't have to go to the voters again until 2022, easing the pressure from the British side to rush through the talks (although there may still be pressure from Brussels to get it over before the earlier European Parliament elections.)

A third reason for caution is that this is a snap judgment from markets on the snap election. Benjamin Graham, Warren Buffett's mentor, famously said that markets in the long term are a weighing machine, but in the short term, a voting ma-

## BUSINESS & FINANCE

# United's Clients Seek Fixes

Recent passenger incident prompts calls for airline management 'to do the right thing'

BY SUSAN CAREY

**United Airlines**'s lucrative corporate clients are pushing the airline to fix its customer service, the carrier's president said on Tuesday.

"There has been concern from corporate accounts, which is totally appropriate," said Scott Kirby, president of **United Continental Holdings Inc.**, on Tuesday. "They want us to fix things. They want us to do the right thing."

Keeping lucrative business travelers happy is key amid public outrage over the airline's handling of an April 9 incident in which police removed a paying passenger from United Express Flight 3411 in Chicago.

Mr. Kirby said United has reached out to some corporate clients to explain the airline's procedures in instances of overbooked flights and reassured them that it is making changes to its policies. Frequent fliers, many of whom are traveling on business, generate about half of United's revenue. Chief Executive Oscar Munoz, on the conference call on Tuesday following the announcement of United's first-quarter earnings a day earlier, reiterated that the company will no longer call for law enforcement to remove a passenger from a plane except for reasons of safety and security.

He also said crew members traveling as passengers must check in an hour before a flight's departure time.

Some analysts this week criticized United executives for ignoring customers as they worked to improve other parts of the business.

Roger King, an analyst at



A Trumpchi sport-utility vehicle on display at the Detroit auto show in January.

CreditSights, said the incident revealed that "weak management requires rigid rules that eventually blow up."

While United has assigned executives to turn around labor relations and operations, Mr. King said it lacks a retail specialist to improve passenger experience.

Mr. Munoz said a full review of other operational and customer policies is under way, with the results expected at the end of this month. He said front-line employees and some customers are participating in the review.

"It's clear we have further to go to elevate our customer experience," Mr. Munoz said, and declined to comment more specifically on those changes until the review is complete.

United reported strong profit in the first quarter, a period that ended before passenger David Dao's forced removal from flight 3411 last week. The nation's third-largest airline by traffic beat ana-

lyst expectations for the fifth consecutive quarter even as profit fell from the same period a year ago on higher fuel costs.

United disclosed that it expects its unit revenue to grow between April and June to between 1% and 3% year-over-year, an improvement from the first quarter when it was flat. Unit revenue measures the amount taken in for each passenger flown a mile.

After rising on Monday, United shares gave up 4.2% on Tuesday, trading at \$67.78.

Mr. Kirby said it is too early for United to say whether the furor over the mistreated passenger has hurt bookings. He noted that the company hasn't changed its expectations in the current quarter to account for any fallout and said the week before Easter normally is a low booking period, making it harder to detect any effects.

Backlash against United had been particularly intense in China, a key market for the

carrier, after media there identified Dr. Dao as Chinese. He is Vietnamese-American.

Mr. Munoz said he met with officials at the Chinese Consulate in Chicago and will visit China in a few weeks on a previously scheduled trip.

United wouldn't say when its executives learned of the altercation. But when passenger videos surfaced online the evening of the incident, the airline's social-media team alerted corporate communications, said two people familiar with the matter. United put out a brief statement to reporters who inquired.

The debacle also has drawn scrutiny to how the airline handles other passenger-seating disputes. On Saturday, for instance, United asked a couple boarding a flight to Costa Rica from Houston to leave the aircraft. The airline said the two travelers were given a discount at a Houston hotel and rebooked on another flight to Costa Rica.

## Big Companies Resist Boardroom Entry

BY JOANN S. LUBLIN

Several big businesses, including **International Business Machines Corp.** and **Charles Schwab Corp.**, are resisting investors' demands for greater boardroom clout ahead of this year's annual shareholder meetings.

Those firms oppose proxy access, which grants shareholders the right to list board candidates on ballots, giving them greater power to oust directors and influence corporate strategy.

This governance change has been embraced by 408 U.S. companies, according to ISS Corporate Solutions, a unit of Institutional Shareholder Services, a major proxy-advisory firm.

Nearly all such firms made the change in the past few years.

About 58% of S&P 500 companies have adopted proxy access, according to ISS. That is up from about 21% in early

2016 and about 1% in 2014.

In coming years, virtually every company will have to decide whether to "give shareholders a voice in director elections or risk investors' ire," said New York City Comptroller Scott M. Stringer, who manages \$170 billion in pension funds.

Since December, companies such as Texas Instruments Inc., Phillips 66 and Consolidated Edison Co. have agreed to give investors the keys to their boardrooms.

Companies typically change their corporate bylaws so owners holding at least 3% of their shares for at least three years can propose a significant portion of board members.

At IBM, proxy access would undercut the board's role "in evaluating director nominees," the computing giant said in its latest proxy statement. And special-interest groups could "promote their own agendas, potentially at the expense of the long-term interests of stockholders,"

the statement continued.

IBM investors will vote on proxy access at its annual meeting.

IBM investors will vote on proxy access at its annual meeting.

Charles Schwab also dislikes proxy access. The shareholder resolution "risks disruption in unforeseen ways," the discount brokerage said in its latest

proxy. "Contested director elections could occur every year, leading to high turnover [and] inexperienced directors."

If proxy access passes at Schwab's May 16 annual meeting, directors will consider what is in shareholders' best interest, a company spokeswoman said.

they are now targeting specific markets with much better cars, Ms. Chow said.

Great Wall, Guangzhou Auto and Geely appear to be following that playbook by pitching their best models overseas, or even launching new brands thought to have global appeal.

In Shanghai on Sunday, Geely—which acquired Sweden's Volvo Cars in 2010—unveiled a new model in its Lynk & Co. marque, billed as a connected car platform allowing subscribers to use Lynk vehicles on demand as an alternative to buying the cars outright.

The cars will go on sale in China this year, and in the U.S. and Europe in 2019.

Touting the vehicle's Swedish technology and giving it a non-Chinese-sounding brand "does improve the odds" that Geely can make Lynk an international seller, said Robin Zhu, a senior analyst at Sanford C. Bernstein & Co.

Geely's absorption of Volvo's know-how means its best vehicles are of "the same quality as a top German car" in some of their engineering and design aspects, according to Mr. Thorstensen. But Geely will struggle to sell cars in the West, he predicted, until it achieves the same level of competency in branding and marketing.

## CARS

Continued from the prior page biggest car market, local auto makers are overshadowed by popular foreign marques from Europe, Japan and the U.S., seen by Chinese buyers as having greater pedigree.

Chinese brands only accounted for 43% of the 28 million cars sold in China last year, CAAM's data shows.

However, the nimblest do-

mestic players are gaining ground, outperforming a China market that grew 13.7% last year in volume terms, according to CAAM. They include three companies with big ambitions to sell abroad:

—Trumpchi maker Guangzhou, which sold 1.65 million vehicles, up 27%;

—Great Wall Motor Co., which sold 1.07 million vehicles last year, up 26%; and

—Zhejiang Geely Holding Group, whose sales rose 50% to 766,000 vehicles.

The trio are among Chinese car makers that "have been improving impressively," said Mr. Thorstensen.

Measured against the global competition, the top Chinese cars are now average or above average, he said.

Chinese auto makers have learned from past exporting failures, said Namrita Chow, automotive analyst at IHS Markit.

Whereas before they rushed to sell inferior products in dozens of countries, only to achieve weak sales in each,

they are now targeting specific markets with much better cars, Ms. Chow said.

Great Wall, Guangzhou Auto and Geely appear to be following that playbook by pitching their best models overseas, or even launching new brands thought to have global appeal.

In Shanghai on Sunday, Geely—which acquired Sweden's Volvo Cars in 2010—unveiled a new model in its Lynk & Co. marque, billed as a connected car platform allowing subscribers to use Lynk vehicles on demand as an alternative to buying the cars outright.

The cars will go on sale in China this year, and in the U.S. and Europe in 2019.

# To the Shareholders of Credit Suisse Group AG

## Annual General Meeting of April 28, 2017

### Adjustment to the Proposals and Recommendation of the Board of Directors with regard to the compensation related agenda items

Following the CEO and Executive Board proposal to voluntarily reduce their variable compensation by 40% and the Board decision not to increase the total Board compensation for 2017, Credit Suisse Group AG has published an update to the 2016 Compensation Report, which can be found at [www.credit-suisse.com/agm](http://www.credit-suisse.com/agm).

To implement this update, the Board further adjusted its recommendation and proposals with regard to the compensation related agenda items to be submitted to the 2017 Annual General Meeting of Shareholders on April 28, 2017 as follows:

#### 1.2 Consultative Vote on the 2016 Compensation Report

##### **Recommendation of the Board of Directors**

The Board of Directors recommends that the 2016 Compensation Report, **as updated**, be accepted.

#### 4.1 Approval of the Compensation of the Board of Directors

##### **Proposal of the Board of Directors**

The Board of Directors proposes approving a maximum amount of compensation of the Board of Directors of **CHF 12.0 million** (*instead of the originally proposed CHF 12.5 million*) for the period from the 2017 Annual General Meeting of Shareholders to the 2018 Annual General Meeting of Shareholders.

#### 4.2 Approval of the Compensation of the Executive Board

##### 4.2.1 Short-Term Variable Incentive Compensation (STI)

##### **Proposal of the Board of Directors**

The Board of Directors proposes approving the aggregate amount of **CHF 17.01 million** (*instead of the originally proposed CHF 25.99 million*), comprising the short-term variable incentive compensation of the Executive Board for the 2016 financial year.

##### 4.2.3 Long-Term Variable Incentive Compensation (LTI)

##### **Proposal of the Board of Directors**

The Board of Directors proposes approving the maximum amount of **CHF 31.2 million** (*instead of the originally proposed CHF 52.0 million*), comprising the long-term variable compensation of the Executive Board for the 2017 financial year.

All other proposals of the Board of Directors, which can be found at [www.credit-suisse.com/agm](http://www.credit-suisse.com/agm), remain unchanged.

#### **Administrative Note on Power of Attorney and Instructions to the Independent Proxy**

Due to the nature of the update, shareholders who have already issued electronic instructions to the independent proxy can change their instructions electronically via the web service <https://gvmanager.ch> until Tuesday, April 25, 2017.

Shareholders who have already issued instructions to the independent proxy in writing using the Instructions/Proxy Card can change their instructions by requesting a new form from Credit Suisse Group AG, Share Register, P.O. Box, 8070 Zurich, Switzerland, [share.register@credit-suisse.com](mailto:share.register@credit-suisse.com), +41 44 332 02 02.

Any changes to instructions issued to the independent proxy may be submitted until Tuesday, April 25, 2017.

If a shareholder issues instructions both electronically and in writing, the latest issued instruction applies.

Shareholders who have already issued instructions and do not wish to change them do not need to do anything. Their respective instructions to the independent proxy are deemed to also be valid for the updated recommendation and proposals.

Zurich, April 19, 2017

For the Board of Directors



Urs Rohner, Chairman

 CREDIT SUISSE

## TECHNOLOGY

WSJ.com/Tech

# Foxconn Steps Beyond Apple

Taiwanese company shifts focus from iPhones to creating its own brands, products

By EVA DOU

SHENZHEN, China—In a corner of a Foxconn Technology Group warehouse in this southern Chinese city, the secretive maker of iPhones is looking beyond Apple Inc. to its own future.

Dozens of young workers sit before computers in blue plastic chairs, drawing up battle plans for Foxconn's sales initiative for its new Sharp-branded television sets. "Sell Sharp with all your might," a red banner hanging from the ceiling commands.

Foxconn's acquisition of Japan's Sharp Corp. last year was the Taiwanese company's first big effort toward transforming itself from a contract manufacturer to a technology powerhouse, with its own brands and product lines.

It is now bidding \$27 billion for Toshiba Corp.'s memory-chip business, underscoring just how seriously Foxconn—formally known as Hon Hai Precision Industry Co.—wants to reinvent itself.

Behind both the Sharp and Toshiba plays is the conviction of Foxconn Chairman Terry Gou that the company he started 43 years ago must have its own components and brands if it is to survive to become what he has called a "100-year company."

With sales of Apple's iPhone, Foxconn's bread-and-butter product, declining for the first time last year, analysts endorse Foxconn's new direction. But they caution that going up against bigger,



Foxconn, which bought Sharp last year, is aiming to double the brand's TV sales to 10 million units.

established competitors such as Samsung Electronics Corp. won't be easy.

Acquiring the Toshiba business could help Foxconn shave costs by giving it an in-house supply for memory chips for Sharp TVs and other electronics. But the bid is already hitting headwinds from some Japanese government officials, who see the chip business as a strategic asset, people familiar with the matter say.

That opposition is driving pressure for a Japanese company or a joint U.S.-Japan team to end up with the winning bid, these people say.

Foxconn had faced similar resistance in its bid for Sharp, which it ultimately overcame.

But the jury is still out on whether the \$3.5 billion Foxconn paid for its 66% ownership of Sharp was a good investment.

The Sharp brand was once an industry leader, but has lost its shine in both Asia and the West, says Mark Stocker, managing director of Taiwan-based brand consultancy DDG. "In the past five years, Sharp hasn't really been part of consumers' consideration," he said.

Sharp's global TV market share was 2% last year, and even lower in China where local brands such as Hisense and TCL dominate, said Eric Chiou, senior research director of TrendForce WitsView.

The challenge could be seen

at a Suning electronics outlet in Beijing, where Sharp's display was tucked away in the back. A salesman said shoppers preferred either budget Chinese brands or upscale models with curved screens.

Freddie Yuan, Foxconn's new chief marketing officer, says he recognizes the Sharp brand needs a reboot.

"In our designs, we need to appeal to younger consumers," said Mr. Yuan, at his temporary office in the Foxconn warehouse.

Foxconn is aiming to double Sharp's TV sales to 10 million units this year—and China is the primary market, because U.S. rights were previously sold to China's Hisense. The company is

sponsoring Chinese reality shows and rolling out billboard and TV ads with the slogan "Sharp powered by Foxconn."

"We'll be launching new products every month," said Mr. Yuan, who declined to disclose the advertising budget. "That's the only way we can adapt to the fast China market."

Foxconn's key advantage is its manufacturing scale, which allows it to slash Sharp's prices, said Jacob Chen, Foxconn's vice chairman overseeing the brand's China push.

"We can make most key components ourselves," Mr. Chen said. "This has a big effect on our efficiency and costs."

The company has offered deep promotional discounts, such as a buy-one-get-one-free TV sale on Nov. 11, China's annual shopping day.

But cost-cutting itself isn't enough to build a brand. Some longtime Foxconn executives privately express doubts that a company known for penny-pinching would ever lavish big money on marketing.

A longer-term challenge for Foxconn could involve launching its own brands without annoying longtime customers such as Apple. Taiwanese manufacturers Acer Inc. and Asustek Computer Inc. previously faced a similar challenge, and ultimately split their businesses to avoid client conflicts.

For now, Foxconn has carefully steered the Sharp business to avoid conflicts with Apple, which still supplies more than half of its revenue, says Fubon Securities analyst Arthur Liao. But Foxconn last year also quietly acquired the Nokia phone brand, a potential conflict if the company pushes its own phones in the future.

—Yang Jie in Shenzhen and Takashi Mochizuki in Tokyo contributed to this article.

## Snapchat's New Tool Augments Reality

By GEORGIA WELLS

Snapchat is looking beyond the selfie.

On Tuesday Snapchat launched an augmented-reality feature that allows users to add special effects to background scenes and surroundings of photos and videos they shoot on their smartphones. Previously, the feature was largely limited to images of faces. The new "lenses" consist of images such as hearts, clouds and short words such as "cute."

The benefit for parent company Snap Inc. is that it can obtain more data on products users have around them—potentially valuable to advertisers.

Snap could also generate revenue by selling sponsorships for the lenses, as it does now with those users apply to their faces.

A spokeswoman for Snap said there would initially be no sponsored lenses and declined to comment on whether the company would consider offering them in the future.

Snap has an interest in learning what products users have near them: The company wants to be able to tell marketers whether their ad campaigns on Snapchat actually influence the behavior of its users.

Snap could also discover whether its users visit certain locations, such as stores or restaurants, or whether they like certain products, such as a bottle of Pepsi or a Nike jersey.

## Labor Unrest Hits Tesla Unit in Germany

Elon Musk is getting a quick introduction to the bare-knuckle world of German labor unions as the country's largest industrial union mulls a strike at Tesla Inc.'s recently acquired industrial robotics subsidiary.

"We don't want to strike," Mr. Georg said. "We will only do so if Tesla refuses to agree to a wage contract with us."

The threat of labor unrest in Germany looms over Tesla as the electric-car company prepares to begin initial production of the Model 3, a \$35,000 sedan that holds the promise of giving the auto maker a broader appeal beyond its niche luxury market.

Disruptions to Mr. Musk's plans to boost annual production to 500,000 next year from

about 84,000 last year could shake investor confidence, which has pushed shares to new heights and lifted Tesla's market value to rival General Motors Co. as the largest U.S. auto maker. Grohmann, rebranded Tesla Grohmann Automation, is part of Mr. Musk's plans to boost the young auto maker's production capabilities for the Model 3 sedan and his vision of creating a highly automated and efficient factory able to quickly adapt production to rising demand that he likes to call "machine that builds the machine."

Tesla disputes that it pays Grohmann workers 30% below union wages following changes made by the auto maker after

taking over. It noted an announcement last week that everyone would be granted €10,000 (\$10,644) of Tesla shares that vest over four years. Plus, employees were given a €1,000 cash bonus. Those changes were described as among the first made by Tesla as it reviews compensation compared with industry standards and the local cost of living.

The auto maker also disputes a surge of union interest among its German employees, saying more than 100 employees have signed a petition against the union. Grohmann employs 700 people, and more than half of them are union members, according to IG Metall.



A Tesla dealership in Munich last year. The electric-car maker disputes that it pays Grohmann workers 30% below union wages.

"We continue to work directly with Tesla Grohmann employees and are prepared in the event there is an action

initiated by the union," Tesla said. "We don't anticipate any impact on the Model 3 timeline."

## FOWLER

Continued from page B1

Samsung does better than any other phone maker. Because it no longer needs that frame ("bezel" in nerd-speak), Samsung squeezed a 5.8-inch screen in a form that is taller than the S7 with a 5.1-inch screen. Diagonal measurements can be misleading, but there is a lot more total screen area for reading or watching movies.

This is an ergonomic improvement: A taller phone is preferable to a wider one, because it interferes less with your thumb's ability to grip. And that is relief, because thumbs aren't evolving as fast as phones.

LG's G6 phone actually went long-screen first—the S8 goes further by curving it all the way down. In past Samsung designs, like the S7 Edge, the curved screen made the phone feel slippery, but the S8's new symmetrical shape is easier to grip. Still, I wish the phone's back weren't made of glass.

There are new annoyances. It took me a while to get used to the pressure-sensitive home button in the screen, which remains lit up when the phone is locked, but isn't carved into the glass like on an iPhone. And since the fingerprint reader is on the back next to the camera, I smudge the lens a lot. (This is a serious crime against photography, Samsung.) I would use the new iris reader or facial recognition capability to unlock, but they just aren't fast enough on the fly.

Even with that extra screen real estate burning up battery, Samsung managed to improve battery life. In my S7 test last year, I got over seven hours. This year, using the same test and parameters on the S8, I got under 10 hours. That's still short of the iPhone 7, however. (For people who go for a bigger phone, even at the cost of some grip, the S8+ matches performance in most ways and its battery lasted about half an hour longer.)

The S8's evolution in usefulness isn't just about shape. It's got a magic trick for those times when even 5.8 inches aren't sufficient to get work done: It can transform into a fully featured desktop computer.

Yeah, you read that right. I wrote this column on the phone with a keyboard, mouse and a 32-inch monitor. There are resizable windows, a file manager, even the Android equivalent of a Start menu.

With Android, this desktop has access to apps that are core to my life. Some, including Microsoft Office and Adobe Lightroom, are updated to take advantage of desktop mode. Most other apps are just stuck as vertical windows, but are still somewhat usable. The only app that wouldn't open for me at all was Spotify.

These fundamental evolutions might be enough to make me overlook that the S8 costs \$50 more than last year's S7, and has only a marginally improved rear camera (which was already great).

But—and this is a super awkward "but"—it is hard to recommend the S8 when it is incomplete. It is increasingly clear the future involves operating smartphones (and lots of other things) with our voices. Bixby's voice control, which Samsung bills as an improvement on Google's Assistant and Apple's Siri, won't be in the phones arriving in the U.S. Friday. And Samsung has a checkered history with software sometimes making its phones more confusing. Software is what gives an edge to Apple's iPhones and Google's own upstart Android phone, the Pixel. (Google's Assistant works on the S8, but is limited. For ex-



The Samsung Galaxy S8 arrives in stores Friday.

ample, you can't call "OK Google" while the phone is locked and unplugged.)

And I wish Samsung would be more transparent about the changes it has made to ensure the S8's batteries don't catch fire. It has a new 8-point plan to test for manufacturing defects, but it's difficult to evaluate its impact in the secretive electronics industry. Samsung says it has an advisory group of outside experts, yet it hasn't been able to put any of them on the phone with me.

As strong presales of the S8 have shown, loyalty to Samsung phones seems to be relatively fireproof. The S8, like its predecessor, allows you to add your own storage for far less than makers like Apple charge to build it in. It hasn't messed with the standard headphone jack. The company's proprietary payments service, Samsung Pay, works at cashiers sporting new tech, and old magnetic card-swipe tech. And the S8 plugs into Samsung's newest Gear VR headset and controller (sold separately for \$130 or free with some phone deals), by far the best way to dabble in VR games and experiences without investing thousands in a home VR rig.

Customers are also loyal because—despite Apple's reputation—it is actually Samsung that has been on the leading edge, particularly with evolving the design of phones. That is clearly the case with the S8, which pushes the whole smartphone game forward in ways I expect will soon become the new normal.

## FOCUS

Continued from page B1

would become the next major computing platform after mobile devices.

But virtual reality has struggled to take off, at Facebook and at other companies developing the technology. Oculus built a headset to experience virtual reality, but it faced production delays and was expensive to purchase. In addition, no game or application has caught on as a must-have that would make a broader audience buy into virtual reality.

"Pokémon Go" did that for augmented reality last July. Mr. Zuckerberg declared himself a fan of the game that displayed characters on a sidewalk through the smartphone screen.

"I think VR and AR are two sides of a coin," Mr. Zuckerberg said in the interview.

In recent months, augmented reality has figured more prominently in his vision of how people will communicate, shop and consume information in the future. Mr. Zuckerberg said both technologies would serve as the next computing platform over the next 10 to 15 years.

Last year, Mr. Zuckerberg said his biggest takeaway from Pokémon's success was that most people would be introduced to augmented reality through their phones, not through glasses, as he previously expected. That made the barrier to using augmented reality much lower than virtual reality, which leans heavily on costly hardware. (Facebook is still developing augmented-re-

ality glasses.)

"If you look at how we use our screens today, about half the time is TV—so pretty immersive—and then half the time is phones and computers—so more just like transitory, utility," he added. "Even in that long-term case, maybe half of the use case will be virtual reality."

Facebook's focus on virtual reality means it has devoted much less time and investment to augmented reality. It made a minor acquisition last year of a startup called MSQRD, which also creates face filters. Facebook's embrace of augmented reality faces competition from companies like Snap; Microsoft Corp., which is developing an augmented-reality headset called HoloLens; and Magic Leap Inc., an augmented-reality startup backed by Alphabet Inc.'s Google.

Mr. Zuckerberg said he eventually hopes to offer a much broader range of services through the app's camera using augmented reality, such as displaying purchase information for a bottle of wine or a tour of the Colosseum, along with illustrations of what it would have looked like during the Roman empire. Augmented reality could open the door to new styles of art, Mr. Zuckerberg says.

Facebook could even combine its augmented-reality tools with its facial-recognition technology to help users who need to be reminded of someone's name, Mr. Zuckerberg said. But that raises thorny privacy issues. "There are many, many things to figure out," Mr. Zuckerberg said.

## MANAGEMENT

# This CEO's Bottom Line: Lives Saved

Susan Desmond-Hellmann guides the Bill &amp; Melinda Gates Foundation in fighting poverty, disease

By BETSY MCKAY

As chief executive officer of the Bill & Melinda Gates Foundation, Susan Desmond-Hellmann steers an organization with a lofty goal: ending global poverty and disease.

The 59-year-old physician came to her post nearly three years ago from the University of California, San Francisco, where she had been chancellor. Previously, she was president of product development for Genentech, now part of Roche Holdings AG. There, her work on gene-targeted cancer drugs such as Herceptin and Avastin put her on the leading edge of the precision medicine movement.

Now, she says, she measures return on investment not by profit but "by number of lives saved; number of people who have a chance at a healthy, productive life; how much students can aspire to in their lives."

Her experience helps her lead the foundation's roughly 1,400 employees and marshal its \$39.6 billion endowment.

She is applying the concepts of precision medicine to public health, pushing for better data to target the right interventions to people who need them. She has stressed the importance of U.S. foreign aid to White House officials; the Trump administration has proposed federal budget cuts that could reduce it. She says she has seen firsthand how those investments lead to "lives saved around the world and a safer America."

Dr. Desmond-Hellmann talked with The Wall Street Journal recently about what it is like to lead charitable work. Edited excerpts:

**WSJ:** You're the first Gates Foundation CEO to come from outside Microsoft. What do you bring to the job that your predecessors did not?

**Dr. Desmond-Hellmann:** I had a life-sciences background. I'm a product developer. It is not difficult for me to say, "I don't understand why we do it that way." I think an outsider has an opportunity, particularly early on in your tenure, to ask questions



Susan Desmond-Hellmann has headed the foundation for nearly three years. It has roughly 1,400 employees and a \$39.6 billion endowment.

about why—and couldn't we try something different.

**WSJ:** What have you done differently?

**Dr. Desmond-Hellmann:** The most important thing I've really pushed us to look at is how we think about investment. When you have, as we do in malaria, some opportunities for regionally controlling it, there may be a need for an uptick in investment while we're working on a backup strategy for something that needs a little bit more work in tuberculosis. We can maximize use of the money by thinking across our portfolio of investments rather than one at a time.

**WSJ:** When your job is saving the world, how do you prioritize?

**Dr. Desmond-Hellmann:** When they hired me, they didn't say, "Come in and figure out our strategy." I knew that the foundation has ambitions in global health, especially infectious diseases that affect the poor disproportionately. I knew that there was a big focus on agriculture. Very importantly, there is a focus on mobile money, financial services for the poor,

water sanitation and hygiene, and in the U.S., our education programs.

**WSJ:** You work with some powerful co-chairs and trustees, including [founders Bill and Melinda Gates and] Warren Buffett. Who's the better boss?

**Dr. Desmond-Hellmann:** Warren will say, "Tell me about head count. Tell me about how you spend the money. Tell me about overhead." He reads every number. Bill will ask the incredibly deep, hard question. "What problem are you trying to solve?" Melinda asks the question that brings in the humanity of what we do. I love trying to solve a problem so that Bill thinks it's technically sound and Melinda thinks it's got humanity and Warren's happy with me running a tight ship.

**WSJ:** How do you keep people engaged in mission-driven jobs?

**Dr. Desmond-Hellmann:** You've got sleeplessness, overwork, burnout. It's hard work. There's a lot of stress and strain on families involved in global work. We are working on how people take care of

## How I Work

**Sitting or standing desk?** Standing.

**Secret vice?** Fashion.

**On the ski slopes?** Powder or moguls? Deep powder.

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was from 2005 to 2007, when HIV was undergoing this incredible shift and Nick just went all in. He worked like crazy. It was life-changing for him. He said, "You've really got to get your head set, so you show up with great energy and passion."

**WSJ:** A recent employee survey showed morale among some to be lower than you would like. What are you doing to improve it?

**Dr. Desmond-Hellmann:** We've increased the ability to do question and answer. When Bill and Melinda told the foundation about the annual letter, we added a big, open Q&A piece because the employees wanted to talk to Bill and Melinda about their current thinking. The world's got a lot going on right now, so transparency is really important. We made sure every employee in the foundation talked about the survey and what it meant for them.

**WSJ:** You use a Mac and wear an Apple Watch. That's OK at the Gates Foundation?

**Dr. Desmond-Hellmann:** There's no rule. We can have whatever technology.

themselves. We have put in place a lot of different programs. One I'm extremely proud of is we have a 52-week family-leave program. Interacting with employees who have come back from their 52 weeks—skipping down the hall with a big smile on their face, I think, "Can I just bottle this experience?"

**WSJ:** Your husband, Nicholas Hellmann, is an HIV scientist who once worked at the Gates Foundation. What was his advice on becoming the CEO?

**Dr. Desmond-Hellmann:** It

## BUSINESS WATCH

VOLKSWAGEN

### New Model Sales Boost Earnings

Volkswagen AG on Tuesday reported higher-than-expected pretax profit as first-quarter earnings at the namesake VW brand beat expectations on the back of strong sales of new models and cost cutting.

The world's biggest auto maker by sales released a few preliminary figures that show the results of a massive restructuring at the VW brand, the company's biggest business by sales, and revamping of models



Cost cuts helped VW's profit.

to tap global demand for SUVs are beginning to generate higher earnings in its core business. In the three months ended

March, operating profit for the entire Volkswagen company was €4.4 billion (\$4.71 billion), up 29% from the previous year and beating analysts' forecasts.

—William Boston

VIVENDI

### Italy Orders Bolloré To Drop One Stake

Italian antitrust regulators threw a wrench into Vincent Bolloré's quest to expand his media empire, ruling the French billionaire cannot keep both of the large stakes he has built up in **Mediaset** SpA and **Telecom Italia** SpA.

Agcom said Tuesday stakeholding by Mr. Bolloré's **Vivendi** SA in the two companies breaches Italian antitrust regulations banning companies from having an excessive share in both the domestic telecommunications and media markets.

Vivendi must rid itself of its stake in one of the companies within a year, according to the ruling. Agcom ordered Vivendi to present a plan within 60 days as to how it would comply with the order.

Mr. Bolloré's stake in **Telecom Italia** stands at 24%. He has a nearly 30% stake in **Mediaset**.

—Deborah Ball

TCS

### Profit Rises Amid Visa Plan Scrutiny

**Tata Consultancy Services** Ltd. reported a slight rise in profit for the first three months of 2017 amid fears President Donald Trump will clamp down on the visa program it uses to send its workers to the U.S.

Mumbai-based software exporter TCS said profit in its fourth quarter rose 4.2% to 66.08 billion rupees (\$1.03 billion), from 63.41 billion rupees a year ago. Revenue grew 4.2% to 296.42 billion rupees.

—Newley Purnell

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## FINANCE &amp; MARKETS

# Bitcoin Exchange Glitches Disrupt Trading

By GREGOR STUART HUNTER

Bitcoin suffered a series of setbacks over the past few days, when the biggest exchange said it couldn't enable customers to withdraw or deposit money except in other virtual currencies, while another exchange said a technical glitch sparked a crash in prices that caused investor losses.

Hong Kong-based Bitfinex—which handles nearly one-quarter of all bitcoin trading, according to cryptocurrency data provider bitcoinity.org—said Monday that its Taiwanese banks, which are responsible for handling transactions in currencies such as U.S. or Hong Kong dollars, were blocking all incoming transaction requests.

Bitfinex asked customers to refrain from withdrawing or depositing funds in anything other than another cryptocurrency such as Ether or Zcash for an indeterminate period, keeping investors from putting money in or taking money out of the most active bitcoin exchange.

Bitfinex said it is working on ways for customers to deposit or withdraw funds.

The exchange said Friday that it is a victim of banks reducing their risks by limiting exposure to money-service businesses in general and virtual-currency exchanges in particular.

It didn't respond to requests for comment on Tuesday.

Bitfinex has recently suffered from withdrawal delays and was hacked last year in a high-profile incident.

**The problems at Bitfinex follow a crackdown on bitcoin trading in China.**

The problems at Bitfinex follow a crackdown on bitcoin trading in mainland China, previously the currency's biggest market.

China regulators ramped up oversight and tightened anti-money-laundering controls at the start of the year.

Three of the biggest mainland exchanges said they would suspend withdrawals of bitcoin into Chinese yuan in March, after China's central bank told them to follow its rules on money laundering and foreign-exchange management.

Volumes on Chinese exchanges have plummeted this year.

Separately, the No. 4 bitcoin exchange by trading activity, San Francisco-based Global Digital Asset Exchange, said a technical problem after system maintenance resulted in low numbers of buyers in its market.

The problem caused the currency to trade briefly at 6 cents on Sunday, compared with an earlier price of \$1,182.

Within five minutes, the problem was resolved and the price recovered to \$1,178.85.

Global Digital Asset Exchange said on its blog that it would "compensate traders who were affected by this low liquidity."

But the selloff pummeled the value of an index that tracks bitcoin prices across several exchanges, causing a crash in the price of bitcoin swaps and futures traded on bitcoin-derivatives exchange BitMEX.

BitMEX said on its blog that positions for "a number of users" were liquidated as a result of the problem.

The exchange said the problem wasn't related to its own trading systems or prices.

Fewer than 100 users were affected, involving contracts valued at \$2 million, according to BitMEX Chief Executive Arthur Hayes.

The exchange said it would refund money to the affected investors.

# BofA's Earnings Increase

Lender's first-quarter profit beats estimates as jump in trading and interest rates helps

By RACHEL LOUISE ENSIGN

**Bank of America** Corp. said its first-quarter profit beat expectations as trading jumped and the lender started to see the benefits of a long-awaited rise in interest rates.

Some analysts and shareholders cheered the results as a sign the bank's turnaround plans are finally coming to fruition. But the recent reversal in U.S. Treasury yields threatens the expected future benefits from higher interest rates.

Quarterly profit at the Charlotte, N.C.-based bank rose 40% to \$4.86 billion from \$3.47 billion a year ago. Per-share earnings of 41 cents exceeded the 35 cents expected by analysts.

Revenue was \$22.25 billion, up from \$20.79 billion a year ago. On an adjusted basis, revenue of \$22.45 billion compared with analysts' expected figure of \$21.61 billion. The results benefited from the comparison to a particularly weak quarter one year ago.

After heavy loan losses during the financial crisis and debilitating legal fees in its wake, the bank has set out to reshape itself as a stable lender focused on responsible growth. Investors have recently cheered the approach: Through Monday, Bank of America shares had risen



Some investors say the results vindicated the strategy taken by Chief Executive Brian Moynihan.

about 61% over the past year, among the best of the six largest U.S. banks, buoyed by the prospect of a stronger economy and an election result that led to optimism about regulatory and tax relief. For a period earlier this year, the stock traded above its book value for the first time since the financial crisis.

Some investors said the first-quarter results vindicated the strategy taken by Chief Executive Brian Moynihan, a lawyer who took the helm of the bank in 2010 as it struggled. "You're talking about a guy who everyone said, 'How is this lawyer going to turn this around?'" said Bank of America shareholder Bill Smead of Smead Capital Management. He's "done exactly what we

would have wanted him to do."

The bank got a bigger boost from rising interest rates than peers. The lender's net interest income increased 7.4% to \$11.058 billion during the quarter from the prior quarter, surpassing the lender's projection that the income metric would advance about \$600 million.

Most consumer banks' lending businesses benefit from a Federal Reserve rate increase. But Bank of America's balance sheet—full of deposits and mortgage securities—is particularly well-positioned.

But the bank warned that the recent decline in longer-term bond yields could hamper future gains in net interest income. Banks generally earn more when rates rise. While

the Fed raised a key short-term rate in March, the 10-year U.S. Treasury, an important long-term interest rate, has fallen in the first weeks of the second quarter and dropped further Tuesday.

The gains in net interest income will be "much more modest" next quarter, Chief Financial Officer Paul Donofrio said. He pointed to the bank's earlier disclosures that indicate that the Fed's short-term rate increase would boost the metric by about \$150 million.

Trading has started 2017 strong, compared with a weak 2016 start. Trading revenue at Bank of America, excluding an accounting adjustment, rose 22.5% to \$4.03 billion from \$3.29 billion in the first quarter of last year.

# U.S. Bank Shares Decline

By AKANE OTANI AND MIKE BIRD

Major stock indexes fell Tuesday, weighed down by a slide in shares of banks and health-care companies.

The Dow Jones Industrial Average lost 113.64 points, or 0.6%, to 20523.28. The S&P 500 fell 0.3%, and the Nasdaq Composite lost 0.1%.

In Europe, the Stoxx Europe 600 index fell 1.1% to 376.35 and U.K.'s export-heavy FTSE 100 lost 2.5%, weighed down by a rally in the pound.

In the U.S., investors have backed away from stocks in recent weeks while picking up government bonds as tepid economic data, as well as flaring political tensions around the world, have stoked demand for haven assets.

A series of disappointing earnings reports contributed to the retreat in stocks Tuesday, investors and analysts said. With investors' expectations for pro-growth policies from the Trump administration waning, many say continued signs of corporate health will be key to stocks moving higher.

"The market's taken a bit of a pause lately, and part of that has to do with markets in the U.S. being at the high end of valuations," said Mark Watkins, regional investment strategist at the Private Client Group at U.S. Bank in Park City, Utah.

"If we see earnings that miss or are below expectations, that could be a warning sign."

Bank stocks slid after a disappointing earnings report from Goldman Sachs Group, whose first-quarter trading results fell short of those posted by its rivals. Shares of Goldman Sachs fell 4.8%. The KBW Nasdaq Bank Index of leading U.S. commercial lenders lost 0.8% by late afternoon.

Bank of America shares initially traded higher, but were later down 0.5%, after the company reported a higher-than-expected first-quarter profit and revenue that beat analysts' expectations.

Declines in health-care stocks put further pressure on major indexes, with Johnson & Johnson shedding 3.1% after the company posted underwhelming sales in the latest quarter. Health-care stocks fell 0.9% in the S&P 500 by late afternoon.

Government bonds gained, with the yield on the 10-year U.S. Treasury note falling to 2.177%, according to Tradeweb, from 2.248% Monday. Yields fall as bond prices rise.

# PayPal Signs Android Pay Deal

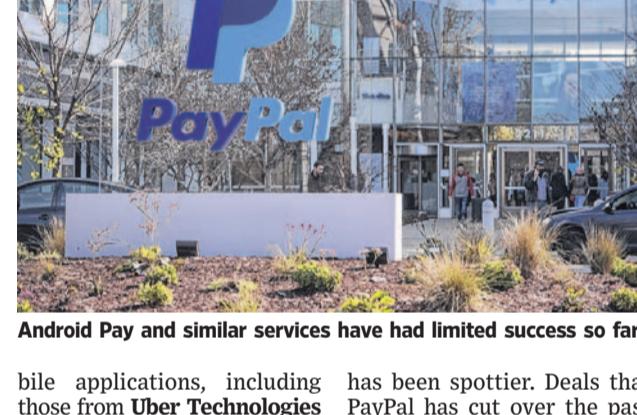
By PETER RUDEGEAIR

**PayPal Holdings** Inc. said it would make its offerings available on **Alphabet** Inc.'s Android Pay, marking one of the payment company's biggest steps to bringing its digital wallet to physical stores.

Starting in a few weeks, customers of the San Jose, Calif.-based company will be able to use their PayPal balances to shop at store locations of **Walgreens Boots Alliance** Inc., **Dunkin' Brands Group** Inc., and other traditional retailers that enable in-store payments through Android devices, said Bill Ready, PayPal's chief operating officer, in an interview Tuesday.

Over the ensuing months, PayPal users who link credit cards to their accounts will be able to use them on Android Pay, thanks to agreements PayPal reached last year with Visa Inc. and Mastercard Inc., its former parent company.

Android Pay is also accepted within a number of mo-



Android Pay and similar services have had limited success so far.

cess in persuading customers and merchants that tapping a smartphone is less hassle than swiping a debit or credit card. Those types of transactions account for only 5% of the volume of payments sent via mobile devices, lagging far behind online purchases and domestic money transfers, according to Juniper Research.

PayPal is in a unique position to encourage more people to sign up for in-store mobile payments because it can more easily deploy the payment information on the 197 million customer accounts it maintained at the end of 2016 onto those services.

"The initial barrier for a user to try an experience like that, this makes it lower," said Mr. Ready.

Pali Bhat, global head of payment products for Alphabet's Google unit, says the new feature will be appearing in Android Pay and PayPal apps within the next few weeks, helping users to "speed through checkout."

bile applications, including those from **Uber Technologies** Inc.

Last year, PayPal processed \$102 billion in mobile payments in large part through transactions for millions of internet sellers, including eBay Inc., its former parent company.

But its traction among mer-

chants that rely on store visits has been spottier. Deals that PayPal has cut over the past few years to offer its payment methods at the checkout terminals of Home Depot Inc., Macy's Inc. and other large merchants proved hard to scale and met resistance from other payments processors.

Meanwhile, Android Pay, Apple Pay and other similar services have had limited suc-

## FINANCE WATCH

TOSCAFUND

### Hedge-Fund Firm Reports a Rebound

Hedge-fund company Toscafund Asset Management, whose flagship portfolio was hit in the wake of the U.K. vote to leave the European Union last summer, is among the top-performing hedge funds globally this year thanks to bets on rising European stocks, according to investor information reviewed by The Wall Street Journal.

Toscafund, set up by trader Martin Hughes, the former chief executive of Tiger Management Europe, has told investors that its Tosca fund, run by Johnny de la Hey, gained 7.8% in the first three months of the year. Last year, the fund lost 7.45%. The average hedge fund is up 2.3% in the first quarter of this year, according to Chicago-based data firm HFR.

The chief economist of Toscafund, which manages around \$2.6 billion in assets, argued vocally for Brexit last year. But its Tosca fund was nevertheless caught off guard by the sharp selloff that followed the surprise result in June.

—Laurence Fletcher

CABELA'S

### Outdoor Retailer Sells Banking Assets

Synovus Financial Corp. said it had agreed to buy the banking assets of Cabela's Inc., allowing the outdoor retailer's

\$4.2 billion sale to rival Bass Pro Shops to proceed.

Capital One Financial Corp. will buy Cabela's credit-card portfolio, while Synovus, a small lender in the southeastern U.S., will acquire the bank's \$1.2 billion in deposits.

Capital One had planned to buy both financial pieces, but ran into trouble with its regulator. That raised concerns it wouldn't be able to complete the deal quickly enough, and left Bass Pro and Cabela's seeking an alternative buyer for the bank.

Synovus will receive \$75 million for stepping in.

—Liz Hoffman,  
AnnaMaria Andriots

### FIDELITY & GUARANTY

### Insurer Gives Up On Anbang Deal

After spending more than a year locked into a deal, U.S. life insurer Fidelity & Guaranty Life terminated an agreement to be purchased by **Anbang Insurance Group** Co., freeing it to pursue other offers.

Fidelity & Guaranty said Monday that it would continue to evaluate strategic alternatives despite not completing the \$1.6 billion deal with China's Anbang. Monday was the deadline for the purchase to clear hurdles from state insurance regulators in Iowa and New York.

Anbang agreed to buy Fidelity & Guaranty in November 2015 for \$26.80 a share.

—Bowdeya Tweh,  
Leslie Scism

U.S. financial markets have enjoyed a bounce after the election of President Donald Trump, with investors hopeful the businessman would cut regulations and enact business-friendly policies. Reacting to increasing optimism about the U.S. economy, the Federal Reserve raised interest rates in March, the third such increase since the end of the financial crisis.

In all, Schwab said Tuesday

it posted a profit of \$564 million for the quarter, up from \$412 million a year earlier. On a per-share basis, earnings grew to 39 cents from 29 cents.

Revenue rose 18% to \$2.08 billion. Analysts surveyed by Thomson Reuters anticipated earnings of 36 cents a share on revenue of \$2.06 billion.

Schwab shares were down 0.2% in late afternoon trading.

# Schwab Profit Rises 37%

By EZEQUIEL MINAYA

**Charles Schwab** Corp. Chief Executive Walt Bettinger said engaged investors helped drive growth during the first quarter as more clients opened new accounts, lifting profit 37% from a year earlier.

New retail brokerage accounts tallied 235,000 during the quarter, up 44%. The San Francisco discount brokerage said about 38,000 clients held financial-planning conversations during the period, up 12% from a year earlier.

U.S. financial markets have enjoyed a bounce after the election of President Donald Trump, with investors hopeful the businessman would cut regulations and enact business-friendly policies. Reacting to increasing optimism about the U.S. economy, the Federal Reserve raised interest rates in March, the third such increase since the end of the financial crisis.

In all, Schwab said Tuesday



Discount brokerage Schwab saw strong gains in new retail accounts.

Net interest revenue, which gauges the difference between interest earned on assets and interest paid out on deposits, climbed 30% to \$1 billion. Asset-management and administration fees rose 18% to \$823 million. Trading revenue fell 17% to \$192 million.

Schwab shares were down 0.2% in late afternoon trading.

## INTERNATIONAL INVESTMENT FUNDS

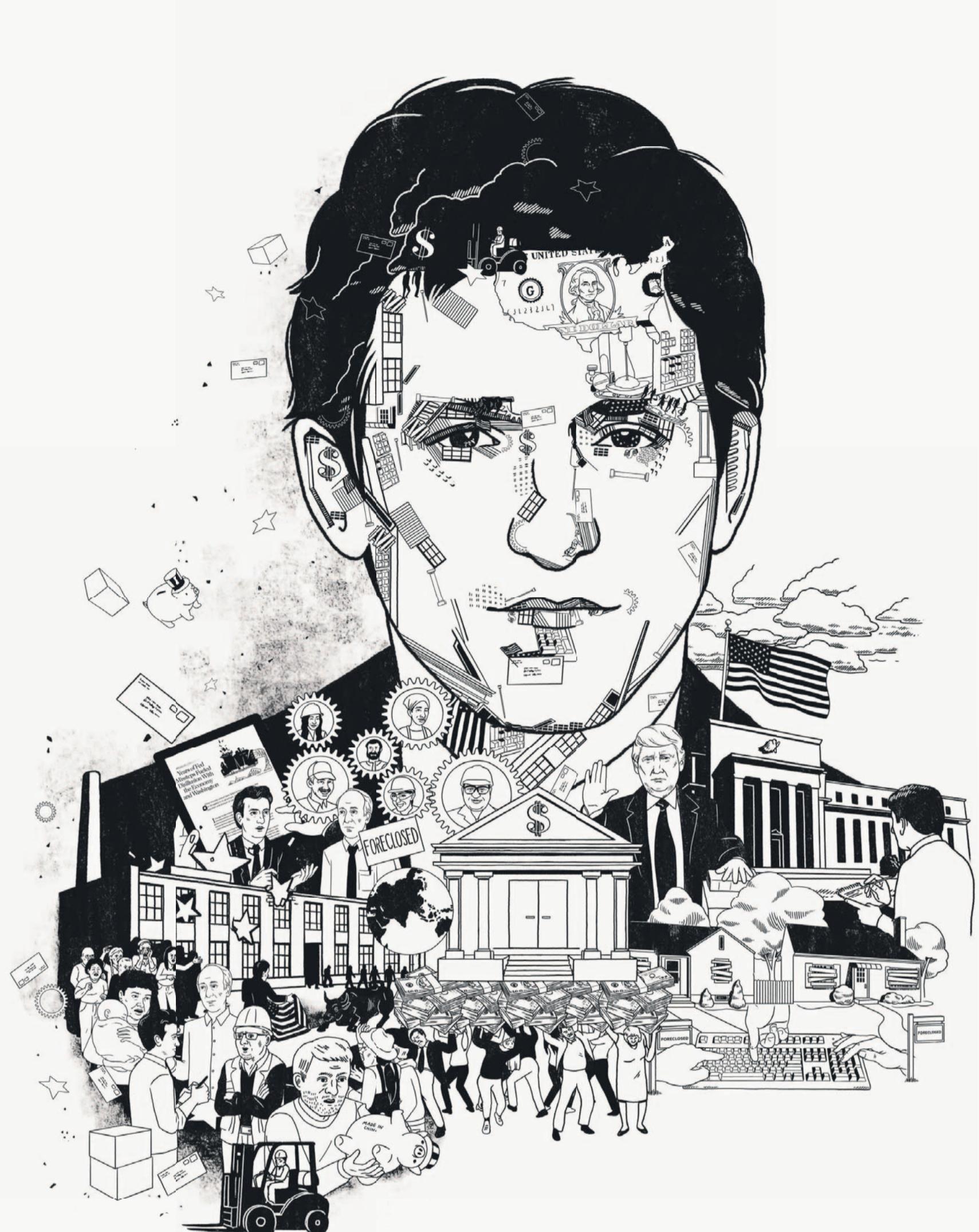
[Search by company, category or country at europe.wsj.com/funds]

### MORNINGSTAR

FUND NAME NAV GF AT LB DATE CR NAV -%RETURN- YTD 12-MO 2-YR

■ Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8865, Website: www.cam.com.sg Email: cam@cam.com.sg OT MUS 04/13 USD 31348.35 3.8 -3.5

For information about listing your funds, please contact: Freda Fung tel: +852 2831 2504; email: freda.fung@wsj.com



JON HILSENRATH ECONOMICS EDITOR

## The Face of Real News

Jon Hilsenrath's investigation into the economic workings of America's heartland uncovered the brewing dissatisfaction that led to the election of Donald Trump.

Real journalists and real news from America's most trusted newspaper.

**WATCH HIS STORY AT WSJ.COM/JON**

#TheFaceOfRealNews

**THE WALL STREET JOURNAL.**  
Read ambitiously

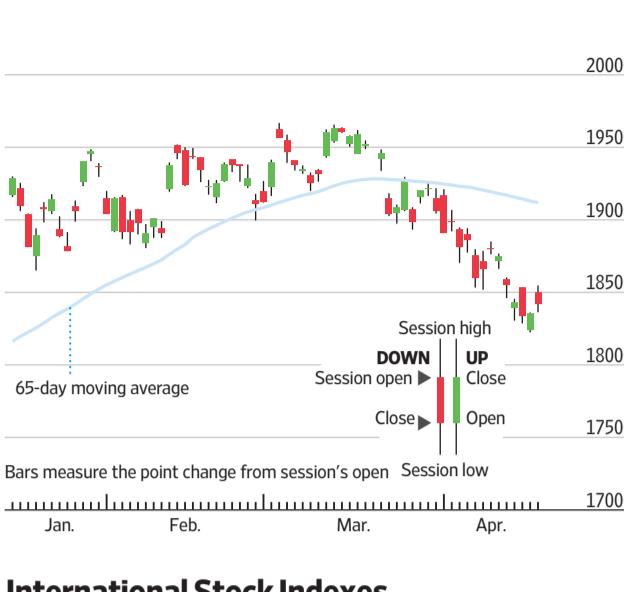
## MARKETS DIGEST

**Nikkei 225 Index****18418.59** ▲ 63.33, or 0.35%

High, low, open and close for each trading day of the past three months.

Year-to-date  
52-wk high/low  
All-time high

19633.75 14952.02  
38915.87 12/29/89



Bars measure the point change from session's open Session low  
Session high  
Close  
Open  
Session open  
Session low

Jan. Feb. Mar. Apr.

**STOXX 600 Index****376.35** ▼ 4.23, or 1.11%

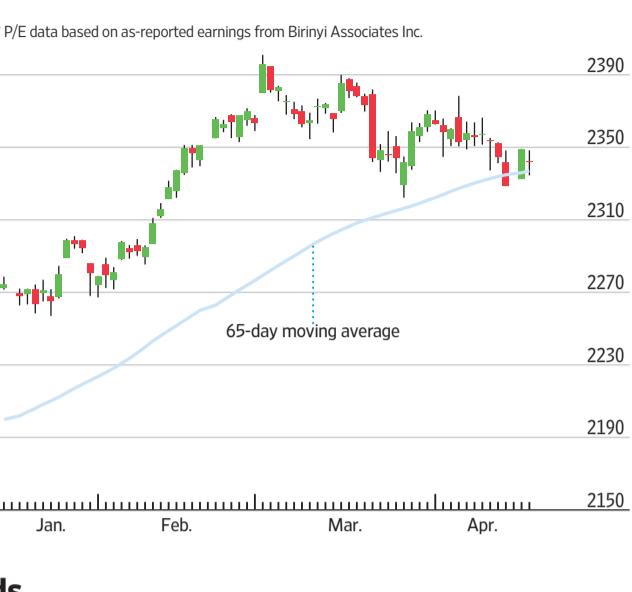
High, low, open and close for each trading day of the past three months.



Jan. Feb. Mar. Apr.

**S&P 500 Index****2342.19** ▼ 6.82, or 0.29%

High, low, open and close for each trading day of the past three months.



Jan. Feb. Mar. Apr.

Data as of 4 p.m. New York time

Last Year ago

Trailing P/E ratio \* 24.45 24.15

P/E estimate \* 18.25 18.50

Dividend yield 1.98 2.19

All-time high: 2395.96, 03/01/17

\* P/E data based on as-reported earnings from Birinyi Associates Inc.

**International Stock Indexes**

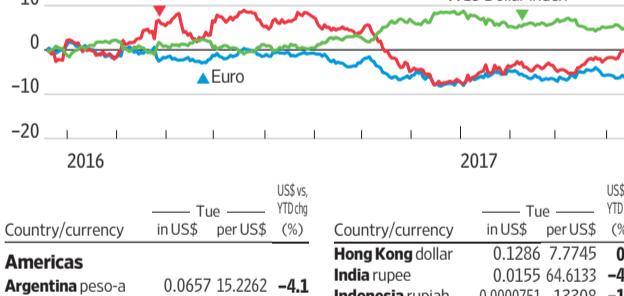
Data as of 4 p.m. New York time

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	<b>2646.21</b>	-20.10	<b>-0.75</b>	2193.75	2193.75	2720.47	2720.47	4.7
	<b>MSCI EAFE</b>	<b>1776.15</b>	-11.43	<b>-0.64</b>	1471.88	1471.88	1956.39	1956.39	3.5
	<b>MSCI EM USD</b>	<b>956.80</b>	-5.91	<b>-0.61</b>	691.21	691.21	1044.05	1044.05	20.5
<b>Americas</b>	<b>DJ Americas</b>	<b>564.17</b>	-3.13	<b>-0.55</b>	480.90	480.90	577.65	577.65	4.4
Brazil	<b>Sao Paulo Bovespa</b>	<b>64151.74</b>	-183.19	<b>-0.28</b>	48066.67	48066.67	69487.58	69487.58	6.5
Canada	<b>S&amp;P/TSX Comp</b>	<b>15592.41</b>	-92.48	<b>-0.59</b>	13535.54	13535.54	15943.09	15943.09	2.0
Mexico	<b>IPC All-Share</b>	<b>48636.49</b>	-375.07	<b>-0.77</b>	43902.25	43902.25	49753.57	49753.57	6.6
Chile	<b>Santiago IPSA</b>	<b>3740.57</b>	-11.26	<b>-0.30</b>	2998.64	2998.64	3786.05	3786.05	16.1
<b>U.S.</b>	<b>DJIA</b>	<b>20486.51</b>	-150.41	<b>-0.73</b>	17063.08	17063.08	21169.11	21169.11	3.7
	<b>Nasdaq Composite</b>	<b>5834.04</b>	-22.75	<b>-0.39</b>	4574.25	4574.25	5936.39	5936.39	8.4
	<b>S&amp;P 500</b>	<b>2337.31</b>	-11.70	<b>-0.50</b>	1991.68	1991.68	2400.98	2400.98	4.4
	<b>CBOE Volatility</b>	<b>15.23</b>	0.57	<b>3.89</b>	9.97	9.97	26.72	26.72	8.5
<b>EMEA</b>	<b>Stoxx Europe 600</b>	<b>376.35</b>	-4.23	<b>-1.11</b>	308.75	308.75	381.90	381.90	4.1
	<b>Stoxx Europe 50</b>	<b>3107.09</b>	-39.56	<b>-1.26</b>	2626.52	2626.52	3182.84	3182.84	3.2
Austria	<b>ATX</b>	<b>2830.01</b>	-31.18	<b>-1.09</b>	1981.93	1981.93	2913.76	2913.76	8.1
Belgium	<b>Bel-20</b>	<b>3745.95</b>	-44.81	<b>-1.18</b>	3127.94	3127.94	3827.15	3827.15	3.9
France	<b>CAC 40</b>	<b>4990.25</b>	-80.85	<b>-1.59</b>	3955.98	3955.98	5142.81	5142.81	2.6
Germany	<b>DAX</b>	<b>12000.44</b>	-108.56	<b>-0.90</b>	9214.10	9214.10	12375.58	12375.58	4.5
Greece	<b>ATG</b>	<b>677.30</b>	-6.27	<b>-0.92</b>	517.10	517.10	686.23	686.23	5.2
Hungary	<b>BUX</b>	<b>32521.58</b>	-100.82	<b>-0.31</b>	25126.36	25126.36	34334.92	34334.92	1.6
Israel	<b>Tel Aviv</b>	<b>1380.24</b>	1.58	<b>0.11</b>	1372.23	1372.23	1504.42	1504.42	-6.2
Italy	<b>FTSE MIB</b>	<b>19442.71</b>	-330.97	<b>-1.67</b>	15017.42	15017.42	20540.39	20540.39	1.1
Netherlands	<b>AEX</b>	<b>509.73</b>	-6.04	<b>-1.17</b>	409.23	409.23	521.48	521.48	5.5
Poland	<b>WIG</b>	<b>58762.99</b>	67.63	<b>0.12</b>	42812.99	42812.99	60631.65	60631.65	13.5
Russia	<b>RTS Index</b>	<b>1077.21</b>	-17.06	<b>-1.56</b>	873.58	873.58	1196.99	1196.99	-6.5
Spain	<b>IBEX 35</b>	<b>10264.50</b>	-61.60	<b>-0.60</b>	7579.80	7579.80	10534.50	10534.50	9.8
Sweden	<b>SX All Share</b>	<b>559.46</b>	-3.57	<b>-0.63</b>	443.66	443.66	565.81	565.81	4.7
Switzerland	<b>Swiss Market</b>	<b>8529.28</b>	-99.74	<b>-1.16</b>	7475.54	7475.54	8710.26	8710.26	3.8
South Africa	<b>Johannesburg All Share</b>	<b>52672.75</b>	-837.47	<b>-1.57</b>	48935.90	48935.90	54704.22	54704.22	4.0
Turkey	<b>BIST 100</b>	<b>91373.78</b>	719.98	<b>0.79</b>	70426.16	70426.16	91982.28	91982.28	16.9
U.K.	<b>FTSE 100</b>	<b>7147.50</b>	-180.09	<b>-2.46</b>	5788.74	5788.74	7447.00	7447.00	0.1
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	<b>1541.44</b>	-5.21	<b>-0.34</b>	1308.52	1308.52	1570.38	1570.38	8.3
Australia	<b>S&amp;P/ASX 200</b>	<b>5836.70</b>	-53.20	<b>-0.90</b>	5103.30	5103.30	5934.00	5934.00	3.0
China	<b>Shanghai Composite</b>	<b>3196.71</b>	-25.45	<b>-0.79</b>	2806.91	2806.91	3288.97	3288.97	3.0
Hong Kong	<b>Hang Seng</b>	<b>23924.54</b>	-337.12	<b>-1.39</b>	19694.33	19694.33	24593.12	24593.12	8.7
India	<b>S&amp;P BSE Sensex</b>	<b>29319.10</b>	-94.56	<b>-0.32</b>	25101.73	25101.73	29974.24	29974.24	10.1
Japan	<b>Nikkei Stock Avg</b>	<b>18418.59</b>	63.33	<b>0.35</b>	14952.02	14952.02	19633.75	19633.75	-3.6
Singapore	<b>Straits Times</b>	<b>3137.54</b>	-0.76	<b>-0.02</b>	2729.85	2729.85	3187.51	3187.51	8.9
South Korea	<b>Kospi</b>	<b>2148.46</b>	2.70	<b>0.13</b>	1925.24	1925.24	2178.38	2178.38	6.0
Taiwan	<b>Weighted</b>	<b>9746.56</b>	30.16	<b>0.31</b>	8053.69	8053.69	9972.49	9972.49	5.3

Source: SIX Financial Information; WSJ Market Data Group

**Currencies**

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



US\$ vs.  
Yen  
Euro

US\$ vs.  
Country/currency  
in US\$ per US\$ (%)

Country/currency  
in US\$ per US\$ (%)</

# THE PROPERTY REPORT

## Office Penthouses Arise in Manhattan

Builders get creative in producing luxury spaces atop city's older skyscrapers

By KEIKO MORRIS

At the top of the MetLife Building towering above New York's Grand Central Terminal, construction workers a few years ago removed fans, piping and other equipment for the building's water, heating and electrical systems to make way for a more profitable use of the space: a penthouse addition.

The landlord, **Tishman Speyer Properties**, revamped the former mechanical room and a long-vacant space that had been a lounge for a defunct helipad at 200 Park Ave., creating an airy 24,000-square-foot, glass-walled penthouse on the 58th floor with dramatic views of Manhattan's iconic peaks. The project cost \$24 million, according to a person with knowledge of the matter.

"You feel like you can reach out and grab the spire of the Chrysler Building," said Tishman Chief Executive Rob Speyer.

The space was quickly leased by a private-equity firm, and now Tishman is under way with another office penthouse addition, this time with a terrace, at 520 Madison Ave. That project is expected to cost \$35 million, according to the person with knowledge of the matter.

Though often a tricky feat to accomplish, the addition of glass-walled office spaces atop older buildings is an investment a number of owners are making in hopes of boosting



**Landlord Tishman Speyer Properties built a 24,000-square-foot office space atop the MetLife Building on Park Avenue in Manhattan. The project cost \$24 million.**

income and competing with newer office buildings on the rise on the far West Side and in downtown Manhattan.

Such penthouse spaces, many coupled with landscaped decks, often command \$10 to \$20 a square foot above rent for other space in the building, said Mitchell Konsker, vice chairman at real-estate-services firm JLL.

"I am talking to a lot of landlords who want to add an additional structure on top, because if you add a structure you are competing with new product, and new product today is getting over \$90 a square foot," said Mr. Konsker. "Because there are so few available, it commands a premium."

Typically, the penthouse additions feature high ceilings,

lots of light through glass facades or large windows and connecting outdoor space. Landlords often have to be creative in finding the space to build these structures, sometimes moving mechanical equipment to another part of the building, tapping undeveloped space or transferring air rights from adjacent lots, said real-estate lawyer Jonathan Mechanic.

New office penthouse structures are cropping up throughout New York, but for owners of older Midtown buildings, it is a way to stay relevant, said Ed Wood, a principal at architecture and design firm Genster.

"That's why we're seeing people reskinning buildings, replacing windows and architecture being added to the

tops," Mr. Wood said. "It's basically to entice tenants to stay in those zones."

These office-penthouse additions are part of a broader push by owners to carve out more dynamic amenity spaces to appeal to tenants looking to embellish their brands and recruit top employees, said Brian Waterman, vice chairman at real-estate-services firm Newmark Grubb Knight Frank. Mr. Waterman is part of the team representing One SoHo Square, the redevelopment joining two buildings and creating more than 100,000 square feet of glass penthouse office space.

Creating penthouse space is logically challenging. At 787 11th Ave., **Georgetown Co.** and its partners are adding a two-story, 90,000-square-foot glass box with terrace space, a ten-

nis court for its top-floor tenant, Pershing Square Capital Management LP, and a separate 13,000-square-foot rooftop deck for the now eight-story building.

The owners are able to do this by using floor space removed between floors six and seven to create a double-height space, said Adam Flatto, Georgetown's chief executive.

The roof had to be demolished, waterproof roofing materials installed on the sixth floor and a crane lifted to the top of the building to haul up and maneuver steel beams from below. Because the lower floors house Jaguar Land Rover Manhattan, Infiniti of Manhattan and Nissan of Manhattan dealerships, the construction process is a delicate

one, Mr. Flatto said.

Likewise, Tishman has had to carry out its renovations at the top of 200 Park Ave. and 520 Madison Ave. without disrupting service to tenants below. At 200 Park Ave., advances in technology allowed Tishman to bring in smaller mechanical equipment and stack it on top of other equipment on other floors within the building. On the 43rd floor of 520 Madison Ave., the company plans to build a 21,000-square-foot penthouse with a 2,200-square-foot terrace.

Mr. Speyer traces the inspiration for the two projects back to Tishman's addition of a profitable observatory, Top of the Rock, at Rockefeller Center. "It's an art form we've been evolving for decades," Mr. Speyer said.

## Corporate Space Grows Less Costly in Big Cities

By PETER GRANT

The U.S. office market became more tenant-friendly in the first quarter in many big cities as a seven-year expansion slowed.

In San Francisco, vacancy rose for the fourth consecutive quarter amid a surge of new supply, according to real-estate-services firm **Cushman & Wakefield**. A mixed-use development at 181 Fremont St. hasn't announced any leases for its 432,000 square feet of office space, even though it is scheduled to open later this year.

Asking rents in the Midtown Manhattan neighborhood of New York City, meanwhile, averaged \$80.45 a square foot annually in the first quarter, compared with \$81.16 at the end of the first quarter in 2016, according to real-estate-services firm **CBRE Group Inc.** The vacancy rate crept up to 11.9% from 11.6%.

Overall, average asking office rents increased 1.8% be-

tween the first quarter of 2016 and 2017, the slowest annual rate of growth since 2011, according to data firm Reis Inc.

Meanwhile, tenants occupied 5 million square feet more at the end of the first quarter than at the beginning of the year, compared with an average of 9.4 million square feet per quarter in 2016.

The office market generally tracks growth in the job market. But in the current economic expansion it has lagged behind, in part because tenants have learned to use space more efficiently.

"The office market has yet to see a bounce or accelerating growth in this recovery and few signs suggest it will do so this deep into the expansion," Reis said in a first-quarter report.

Lately, in some top markets, rents and occupancy rates have been pressured by new supply.

More than 3 million square feet of new space is expected to be delivered in San Fran-

cisco this year, the most since 1987, according to Robert Sammons, Cushman & Wakefield's head of research for that market.

In Boston, about 1.4 million square feet is under construction or renovation, according to real-estate-services firm JLL.

A 1.5-million-square-foot mixed-use development at the site of the old Boston Garden being developed by Boston Properties Inc. includes 150,000 square feet of "speculative" office space, meaning it is being built without preleasing.

The rent and occupancy trends have disappointed investors who bet on a stronger recovery. Shares of public companies that are big New York office building owners—like **SL Green Realty Corp.**, **Vornado Realty Trust** and **Paramount Group Inc.**—have been trading at close to 20% discounts to the value that the private market puts on their properties, according to Jed

Reagan, an analyst at real-estate research firm Green Street Advisors.

The market is still reasonably healthy. Brokers in many cities report that tenants are optimistic in their outlook and moving ahead with deals.

In San Francisco, the soaring Salesforce Tower under construction in the South of Market district is about 70%

preleased, according to Mr. Sammons.

The Bay Area market also is seeing strong demand from companies getting into the self-driving-car business, as evidenced by **General Motors Co.**'s announcement this month that it would add more than 1,100 new jobs in a new research and development facility in the city for its Cruise

Automation division.

In Boston, **Related Cos.** has leased about two-thirds of Congress Square, the old Fidelity Investments headquarters building that it is overhauling, according to Benjamin Heller, a managing director in JLL's Boston office. Tenants include **Publicis Groupe**, a French marketing and communications firm.



**The Salesforce Tower, seen here under construction in San Francisco, is about 70% preleased.**

## Retail Landlords Use Tech to Lure, and Keep, Shoppers

By ESTHER FUNG

Mall landlords, faced with declining sales and disappearing stores, are deploying smartphones, social media and other technology to lure customers—and then keep them spending.

In the past, malls dished out paper coupons or reward cards for shoppers to carry around. Now, as mall anchors such as **Macy's Inc.** are shutting stores and retailers including **Payless ShoeSource Inc.** are filing for bankruptcy reorganization, mall owners are getting more sophisticated.

These landlords are introducing phone apps and credit-card-linked programs that identify individual customers' spending habits and then target them with special offers on their favorite brands.

At the Chicago Ridge Mall, a shopper can swipe his or her credit card at a kiosk to sign up for the Oh So Simple Rewards Program. For every \$250 spent in total at the mall's stores the consumer receives a \$10 reward that can be redeemed at the next purchase.



**The Shops at Crystals in Las Vegas is part-owned by Simon Property Group, which is among the mall companies using smartphones and other technology to try to boost customer loyalty.**

**Starwood Retail Partners**, the mall's owner, tapped the services of **Spring Marketplace Inc.**, which creates rewards programs for malls that link online and mobile marketing to in-store sales through credit cards that shoppers already use.

"It's a competitive market out there in retail," said Chelsie Peterreit, vice president of marketing at Starwood Retail. "People have got a computer in their pockets and these rewards are just enough to tip them over to make the purchase, especially if they are al-

ready in the center."

By tracking customers' purchases at a mall, Spring is able to send coupons for neighboring stores via text messages that can prompt shoppers to fan out to other retailers. For instance, shoppers getting a coffee at a Starbucks using a

credit card might get a text message with a \$5 coupon for a nearby J. Crew store.

"You get an SMS congratulating you in real time. It's very engaging and it makes you want to do it again," said Jonathan Dyke, chief operating officer at Spring Marketplace, which also counts mall real-estate investment trusts such as **Simon Property Group**, Taubman Centers Inc. and **Pennsylvania Real Estate Investment Trust** as its clients.

Customers choose whether or not to opt in to the loyalty program; no shopper's purchases are tracked across a mall without an agreement to participate. Spring Marketplace said the credit-card data is encrypted in its database and the information is shared only with the mall's landlord and the retailers in the mall, and not sold to others.

In Gretna, Neb., a 350,000-square-foot outlet mall invested \$2 million to install fiber-optic lines as well as \$10 million in an app that has racked up 300,000 downloads since it was launched three years ago.

Nebraska Crossings Outlets uses the app as a tool to segment customers by the brands they shop for, said Rod Yates, principal at **OTB Destination LLC**, a closely held real-estate firm that operates the mall.

Retailers at first were wary because they were protective of their brands, according to Johanna Boston, chief marketing officer at OTB Destination. But the outlet mall positioned itself as a laboratory for new marketing techniques, including sending messages through email and Facebook.

The mall also plans to roll out a loyalty program that would collect data on shoppers' purchases and offer personalized promotions. That helped win over skeptical retailers, said Ms. Boston.

The app also has been helpful in the landlord's leasing efforts, as the information gleaned from shoppers' interactions with the app gives retailers a better idea of how many customers they can reach in the area.

"Is it becoming more competitive to get tenants? You bet," Mr. Yates said.

## MARKETS

## Just 10 Stocks Fuel Half of S&amp;P's Gains

Investors' focus on these few large shares show herd mentality thrives on Wall Street

By CHRIS DIETERICH

Ten big stocks are exerting an unusually large influence on the S&P 500 in 2017, the latest sign that the herd instinct is alive and well on Wall Street.

Those 10 large stocks have powered nearly 53% of the S&P 500's 4.7% advance this year, according to Fundstrat Global Advisors' data through the middle of last week. During an average year, the 10 stocks with the greatest impact typically account for only 45% of the market's price moves, according to analysis of data from AQR Capital Management.

Technology-oriented companies dominate the list: **Apple Inc.**, the world's largest company by market capitalization, is up more than 22% this year through Monday.

Social-media company **Facebook Inc.** has risen nearly 23%, while e-commerce powerhouse **Amazon.com Inc.** has climbed 20%.

Combined, shares of these three companies account for almost one-third of the S&P 500's 2017 advance through this past Wednesday.

The recent strength in tech and internet companies marks a reversal from late last year, when investors piled into banks, industrials and small-cap stocks in the weeks following U.S. elections. They bet that Republican control of Congress and the White House would lead to pro-growth policies. But as investors began to lose confidence that the policies would be enacted quickly, these sectors have trailed the S&P 500 in recent months. Instead of focusing on compa-

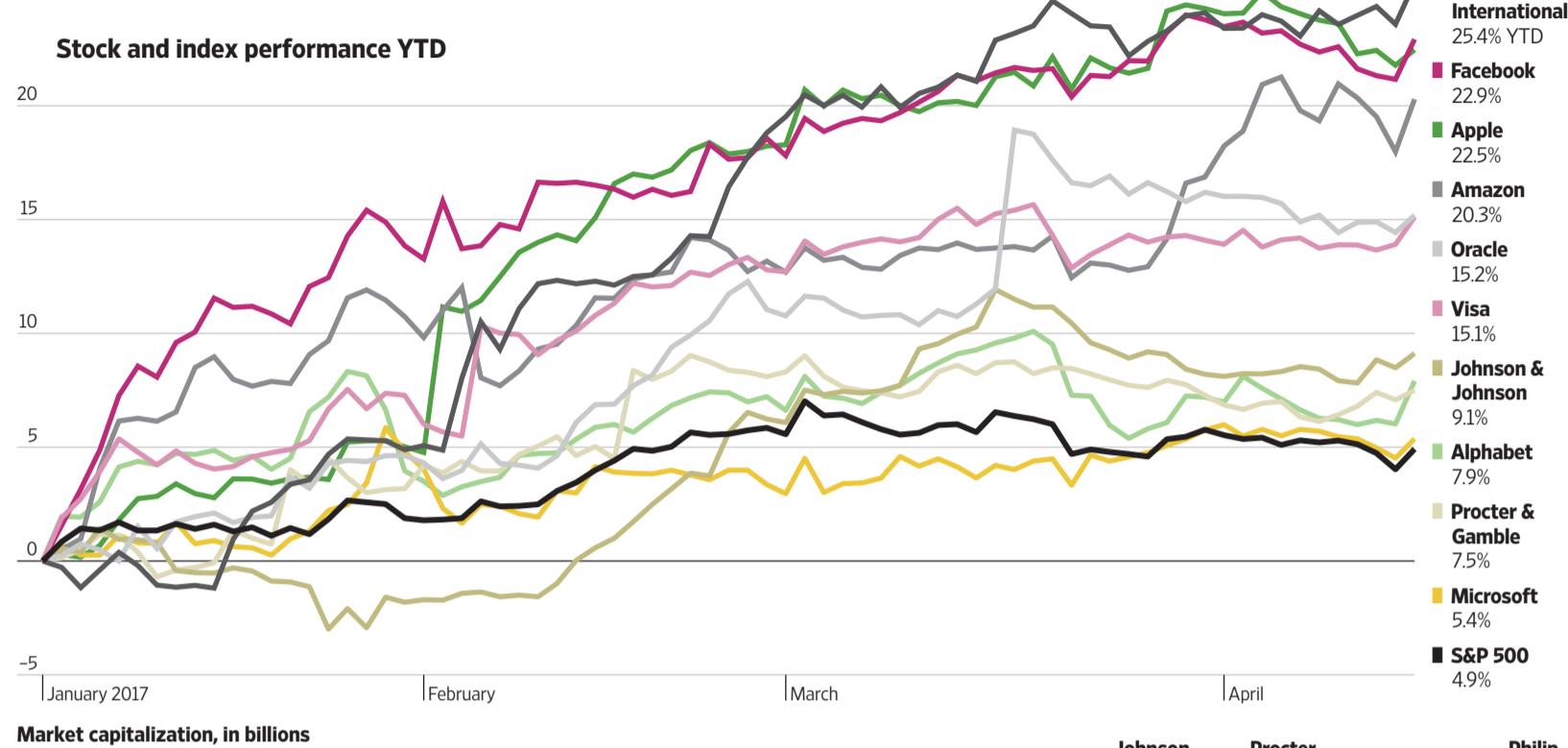
## Shoulders of Giants

Gains in a handful of stocks, mostly technology and internet, are responsible for 52.5% of the S&P 500's advance in 2017 through Wednesday. Apple, Facebook and Amazon.com by themselves account for nearly a third of the increase.

## Share of S&amp;P 500's percentage change\*



## Stock and index performance YTD



## Market capitalization, in billions

Apple	Alphabet	Microsoft	Amazon	Facebook	Johnson & Johnson	Procter & Gamble	Visa	Oracle	Philip Morris
\$744.1 billion	\$582.3	\$506.0	\$431.1	\$409.2	\$340.8	\$231.1	\$208.9	\$182.2	\$178.0
3.7%	2.9%	2.5%	2.2%	2.0%	1.7%	1.2%	1.0%	0.9%	0.9%

↑ Share of S&P 500 weight

\*Year-to-date through Wednesday  
Sources: Fundstrat (share of gains); FactSet (market cap); WSJ Market Data Group (performance)

nies that could outperform during faster economic growth, many investors returned to large-cap favorites with a track record for boosting revenue during slower growth periods.

"If these businesses keep growing, then the stocks are

going to keep going," said Doug Foreman, chief investment officer and portfolio manager at Kayne Anderson Rudnick.

Big-cap tech and internet stocks have been popular even though they look pricey based on earnings expectations.

Facebook, for example,

trades at a multiple of 24.3 times analysts' earnings expectations over the next year, well above the 17.6 for all tech stocks in the S&P 500, according to FactSet.

But Facebook is also fore-

cast to grow sales in 2017 by 37%, the most of any company

in the technology sector, according to analysts at Goldman Sachs Group. Another highflying stock, Netflix, has a forward price/earnings ratio of 109, but analysts expect the video-streaming company's sales to rise 27% and earnings to more than double. Netflix

late Monday reported that sales grew 35% in the first quarter from a year earlier.

Some investors say that the popularity of index-tracking funds that assign greater heft to the market's largest companies helped boost the most widely held stocks.

Source: European Banking Authority, World Bank; Bloomberg News (photo)

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## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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## A Way to Play Ireland's Rebound

Ireland's economy is recovering well. A good way to play that could be **Allied Irish Bank**'s stock-market homecoming. It might even work as a hedge against Brexit.

The country's second-biggest lender, which is 99.9% government-owned since its €21 billion (\$22.35 billion) bailout in the financial crisis, hopes to launch an initial public offering for about one-quarter of its shares in London and Dublin as soon as May.

In the past three years, AIB has shored up its balance sheet, shed bad loans and slashed its cost base. As the economy and AIB itself have recovered, the bank has cut its cost of funding and boosted its net interest margin. Last month it declared its first dividend since 2008 after a third consecutive year of profits.

Like the Irish market as a whole, its loan book is still shrinking as people pay down debt faster than they take out new loans. Ireland's

## Recovery Play

Bad loans as a share of total loans at the end of 2016



Sources: European Banking Authority, World Bank; Bloomberg News (photo)

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An Allied Irish Bank branch in Dublin

gross new mortgage lending is improving, but in 2016 it was still barely one-eighth of its peak volume in 2006, according to Standard & Poor's.

It wouldn't be healthy for Ireland to go back to 2006, but there is room for recovery. And with a nearly 40% share of mortgages, current accounts and business loans, AIB will be very much hitched to economywide

growth rates. That provides room for optimism: Ireland's economy is forecast to grow at more than 3% annually over the next two years, roughly double what is expected for the U.K. and the rest of the eurozone.

On the surface, Britain's vote to leave the European Union casts a shadow over Ireland's prospects. The U.K. is one of Ireland's most important export markets and

a conduit for much of its trade with the rest of Europe.

But this is where AIB might be a good hedge. The bank has limited exposure to farming and pharmaceuticals, two of Ireland's biggest export industries. Also, London's loss from a hard break in U.K.-EU relations could be Dublin's gain as parts of the finance industry could move there. That would spur demand for new homes and mortgages.

AIB will still have a large pool of bad loans when it lists—about 14% of total loans, in line with the wider Irish market. However, AIB has cut that from more than 35% three years ago and expects to get down to the EU average of about 5% within three years.

With excess capital, clearing those bad loans opens space to fund buybacks or other payouts. Once more details on the listing are released, AIB will be worth a look.

—Paul J. Davies

## OVERHEARD

"The Fate of the Furious" isn't just another movie about fast cars.

The eighth installment in "The Fast and the Furious" franchise brought in a record-breaking \$532.5 million in global box-office proceeds last weekend. It beat out "Star Wars: The Force Awakens," which collected \$529 million during its opening weekend back in 2015.

That movie earned big profits for **Walt Disney** by hewing to a classic story line reminiscent of the original three "Star Wars" features. **Comcast's NBCUniversal** has boosted revenue on its "Fast and Furious" franchise by offering a wilder ride.

The film's finale features a submarine crashing through an arctic ice field and chasing down a fleet of high-end sports cars.

What can they do in "Fast 9" to top that?

Maybe take a page from "Star Wars" and move this automobile battle into outer space.

## U.K. Vote Won't Make Brexit Easier

U.K. Prime Minister Theresa May has called a snap election in June: This looks likely to strengthen her hand at home. But it won't make closing a post-Brexit trade deal with Europe any simpler.

Mrs. May became prime minister in July without facing a vote and is betting an election now will legitimize her mandate and give her Conservative Party a larger parliamentary majority, and thus a stronger hand to govern. An election is always a gamble. But a wide polling lead suggests she should win. Mrs. May's political opponents are weak, especially the unpopular Labour leader Jeremy Corbyn.

The real trouble for Mrs. May is that, whatever happens at home, she still must negotiate with a political bloc whose own approval process is complex and multifaceted. The initial Brexit divorce agreement requires only a qualified majority of EU member governments at the European Council and a vote in the European Parliament. That isn't too bad.

But getting a new trade deal approved will likely need to be ratified by every single member state.

The pound rose against the dollar and euro on Tuesday as investors saw a potentially stronger government as having the freedom to compromise where necessary to get a good trade deal with the EU. However, Mrs. May could use the power to take a harder line in talks, prompting greater economic disruption as the U.K. quits Europe.

The election might kill off local difficulties in the U.K., but that isn't even half the battle.

—Paul J. Davies

## Weak Trading May Mean Cost Cutting at Goldman Sachs

Goldman Sachs's strengths became weaknesses in the first quarter as its dominance in commodities trading and deal making worked against it.

Investors shouldn't be overly concerned at quarter-to-quarter fluctuations in what remains an exceptionally strong investment-banking franchise. But the bank does risk losing its halo among shareholders as a consistent outperformer.

Net profit in the first quarter was \$2.26 billion, nearly doubling from an especially weak year-earlier period. But earnings per share and revenue both came in substantially below analyst expectations, and shares

peers, but it weighed more significantly on Goldman given the importance of this business to the bank.

More worryingly, Goldman said the backlog of investment-banking business, which includes M&A as well as underwriting, decreased from the end of last year. This suggests that political uncertainty may be holding back activity to some degree. Goldman cited "legislative difficulty" for President Donald Trump's agenda and coming European elections as contributing to general uncertainty.

Goldman underperformed most dramatically in trading. Fixed income, currencies and commodities trading revenue

rose just 1% from a year earlier. That compared with increases ranging from 17% to 29% at **J.P. Morgan Chase**, **Citigroup** and **Bank of America**.

In a conference call, Goldman's new Chief Financial Officer Martin Chavez said oil market volatility fell to its lowest level in around two years, which hit Goldman especially hard given its large commodities trading business. But he also acknowledged that poor execution played a role, saying the bank "could have done a better job navigating the market."

Overall, Goldman Sachs posted a respectable 11.4% return on equity, but this was boosted by an account

ing change in the treatment of taxation on share-based awards. On a like-for-like basis, return on equity came to 8.9%, down from an already overwhelming 9.4% for all of 2016.

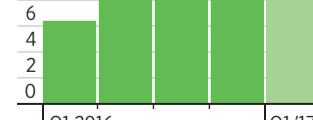
Stepped-up capital returns could help bring ROE back over 10%, and Goldman took a step in this direction by raising its quarterly dividend. But expenses are also worth a harder look. Last year the ratio of compensation and benefits to net revenues actually rose, to 38.1% from 37.5% in 2015.

If weak results continue at Goldman, the next thing to decline will be the bankers' cherished compensation.

—Aaron Back

## Not So Golden

Goldman Sachs's quarterly return on equity



\*Adjusted for an accounting change

Source: the company

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