

THE WALL STREET JOURNAL.

DOW JONES | News Corp *****

WEDNESDAY, APRIL 11, 2018 ~ VOL. CCLXXI NO. 84

WSJ.com

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DJIA 24408.00 ▲ 428.90 1.8% NASDAQ 7094.30 ▲ 2.1% STOXX 600 378.42 ▲ 0.8% 10-YR. TREAS. ▼ 4/32, yield 2.799% OIL \$65.51 ▲ \$2.09 GOLD \$1,342.00 ▲ \$5.70 EURO \$1.2356 YEN 107.20

What's News

Business & Finance

Zuckerberg was grilled by lawmakers over Facebook's handling of user privacy, as they signaled the prospect of a new era of regulation for big tech firms. A1

◆ Sprint and T-Mobile have rekindled merger talks, exploring a combination for the third time in four years. B1

◆ VW's supervisory board is expected to vote on Friday to replace CEO Müller with brand chief Diess. B1

◆ U.S. stocks climbed as remarks by Xi eased fears of a U.S.-China trade war. The Dow jumped 428.90 points, or 1.8%, to 24408.00. B1

◆ Banks are finding a backdoor path to subprime customers as loans to nonbank firms hit record levels. B1

◆ The Fed proposed retooling capital rules and annual stress tests for the largest financial firms. B12

◆ Producer prices rose more than expected in March, the latest sign inflation pressures may be building. A2

◆ Theranos laid off most of its remaining workforce in an effort to avert bankruptcy for a few more months. B2

◆ Goldman recently received a \$90 million payment from Venezuela on bonds that ignited controversy last year. B12

◆ Sinclair is encountering FCC resistance as it seeks approval for its Tribune deal. B3

◆ Exxon is in talks with Qatar on a pact that could lead to investing in U.S. natural gas. B3

◆ Icahn is selling car-parts maker Federal-Mogul to Tenneco in a \$2.5 billion deal. B8

World-Wide

◆ The White House said Trump believes he has the authority to fire Mueller, as lawmakers from both parties warned against doing so one day after the FBI raided properties tied to lawyer Cohen. A1

◆ Prosecutors asked Trump's flagship company for records relating to a \$130,000 payment by Cohen to a former adult-film actress. A4

◆ The Trump administration worked to rally international support for a possible military strike against Syria's Assad regime over an alleged chemical-weapons attack. A1

◆ Trump's homeland security adviser was forced out of his job as Bolton moved to establish power as national security adviser. A4

◆ U.S. trade officials accuse Chinese companies of routing goods through other countries to illicitly disguise their origin. A1

◆ Xi offered to further open China's markets to foreign business, though he didn't mention Trump or trade friction with the U.S. A7

◆ The U.S. is scrambling to mend a rift between Qatar and its Persian Gulf neighbors amid fears the emirate is drifting toward Iran. A8

◆ The president signed a broad executive order urging a revamp of federal government aid programs. A3

◆ The U.S. is reducing the presence of its commandos on Africa's front lines. A8

◆ "Deaths of despair," including drug abuse and suicide, drove a rise in premature deaths in 21 states. A3

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U.S. NEWS

Producer-Price Increase Suggests Rising Inflation

By SHARON NUNN

WASHINGTON—A gauge of U.S. business prices rose more than expected in March, the latest sign inflation pressures may be building.

The producer-price index, a measure of the prices businesses receive for their goods and services, increased a seasonally adjusted 0.3% in March from a month earlier, the Labor Department said Tuesday. Economists had expected a 0.1% rise.

The increase resulted from a rise in food prices and continued robust price growth in the services sector. Food prices grew 2.2% in March, the largest one-month increase in about four years. Meanwhile, prices in the services sector rose strongly for the third straight month, with price growth coming in at 2.9% in March from the prior year, the largest annual change in almost eight years.

Food prices tend to be volatile, along with energy prices

and a gauge called trade services, but when excluding these three categories, prices rose 0.4% in March, still coming in above economists' expectations of 0.2% growth.

"We're starting to see the pressures coming from an economy that's running a bit hot," said Stephen Stanley, chief economist at Amherst Pierpont Securities. "It makes sense that if a tight labor market is leading to price pressures, you'd see that mostly in the services sec-

tor because labor input is the biggest cost [there]."

Price growth in parts of the health-care industry helped drive up prices in the overall services industry. Cable- and satellite-services prices also increased.

Over the longer term, annual gains in the headline index have risen since the beginning of 2016 as the effects of falling gasoline prices have faded, while the two core measures also have drifted higher.

The producer-prices measure usually follows the same trends as other broad inflation gauges, though it doesn't always translate into what consumers pay. Signs of possible building inflation pressures have emerged in other recent reports.

In March, an index tracking raw-materials prices for manufacturers hit its highest level since April 2011, according to the Institute for Supply Management. Wages are now ris-

ing somewhat faster than they did earlier in the U.S.'s current economic expansion, the Labor Department's most recent jobs report showed.

"With the labor market continuing to tighten, and labor costs being the primary driver of inflation in the dominant service sector, we continue to expect core inflation to move higher," Joshua Shapiro, chief U.S. economist at MFR Inc. said in a note to clients Monday.

U.S. WATCH

ILLINOIS

Fake Pot Kills Three; CDC Gets Involved

Fake marijuana likely contaminated with rat poison killed three people in Illinois and caused severe bleeding in more than 100 others, including some in four other states.

The federal Centers for Disease Control and Prevention alerted doctors nationwide that patients with severe, unexpected bleeding may be additional cases.

The CDC is helping Illinois authorities investigate the outbreak in that state, which began in early March. Illinois reported seven more cases on Tuesday, bringing the nationwide total to at least 116.

Symptoms include coughing up blood, blood in the urine, severe bloody noses, bleeding gums and internal bleeding.

—Associated Press

COLORADO

Electors Must Follow Will of Voters: Judge

Colorado electors in the Electoral College must cast ballots for the winner of the state's popular vote, a federal judge ruled Tuesday in a case filed by three dissident electors who sought to vote for someone other than Hillary Clinton in the 2016 election.

It was a second setback for Polly Baca, Michael Baca and Robert Nemanich, who objected in an earlier federal lawsuit to a state requirement that they vote for Mrs. Clinton. They sued Colorado Secretary of State Wayne Williams, arguing that his enforcement of the law interfered with their freedom of speech.

Senior U.S. District Judge Wiley Daniel rejected their argument.

Jason Harrow, chief counsel for Equal Citizens, a Washington, D.C.-based activist group that filed the lawsuit, said he would appeal.

—Associated Press

ARIZONA

Six Dead in Plane Crash on Golf Course

All six people aboard a small plane were killed when it crashed on a golf course in a Phoenix suburb shortly after taking off from a nearby airport, police said Tuesday.

The identities of those killed in the Monday night crash in Scottsdale have yet to be released. The plane went down on the TPC Scottsdale Champions Golf Course.

—Associated Press

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In Pennsylvania, Cold Weather Can't Stop Spring



FLOWER POWER: Angie Dayok of Ray's Nursery watered a greenhouse display in Johnstown, Pa., on Tuesday. Warmer temperatures are expected by the end of the week.

STEEL

Continued from Page One cal, the Trump administration says. Otherwise, it says, China will keep undercutting America's steel industry despite the fact that direct imports from China account for just 2% of steel entering the U.S.

U.S. trade officials are zeroing in on Southeast Asian countries, including Thailand and Malaysia, as well, saying they are part of Chinese steelmakers' efforts to evade trade restrictions.

Vietnam, Malaysia and Thailand together sent 1.2 million metric tons of steel to the U.S. last year. South Korea and India—also named by the U.S. as large transshippers, though South Korea struck a tentative deal in March to be exempted

from the tariffs—exported 3.4 million metric tons and 743,000 tons, respectively. Together, these five countries accounted for about 15% of total U.S. steel imports.

Chinese industry officials have denounced the new U.S. tariffs and proposed their own retaliatory trade restrictions. Vietnamese companies say the Trump administration is misreading international law on transshipping.

At Hoa Sen Group, a steelmaker that has grown to about 7,000 employees in recent years from 22, executives say that under international law, a metal product's country of origin isn't where the raw steel comes from, but rather the place where the galvanizing process, which protects it, happens.

"We believe the word 'transshipping' is totally wrong for our case," said Vu Van Thanh, deputy director-general of Hoa Sen.

Some analysts agree that galvanizing steel is a significant step that usually merits a new country-of-origin designation, depending on how much work was done to the initial steel product.

"Antidumping rules are now being used to target the product even after it's been processed several times in different countries," said Tomas Gutierrez, an analyst for metal consultancy Kallanish Commodities. As these moves deepen confusion over what counts as transshipping, he said, "you're going to get into a quagmire."

Vietnam's steel boom took off in the early 2000s, with small steel factories springing up around Vung Tau, close to Ho Chi Minh, Vietnam's largest city.

But there was an unusual imbalance. Until last year, Vietnam produced almost no basic, flat-rolled sheet steel. The mills to make it need blast furnaces that could easily cost \$2 billion each, but companies were loath to invest such sums when cheap material was available from China.

Instead, Vietnamese companies set up so-called rerolling factories, where flat-rolled coiled steel is rolled into stronger, thinner products. These facilities cost as little as \$70 million to set up.

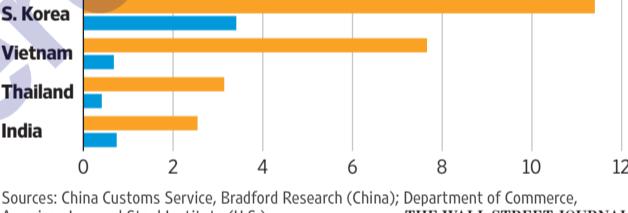
"The Vietnamese steel industry is quite simple: It just has galvanizing and rolling machinery," said Nguyen Ha Trinh, steel analyst for the brokerage Viet Dragon Securities Corp.

Hoa Sen, based in the mostly industrial Binh Duong province outside Ho Chi Minh City, was a leader in this kind

Middlemen

How much steel do the following countries trade with China and the U.S.?

In millions of metric tons, 2017



Sources: China Customs Service, Bradford Research (China); Department of Commerce, American Iron and Steel Institute (U.S.)

of production. By its third year of operations in 2004, it had begun to specialize in color-coating rolled steel, a popular way to reinforce steel via a process that dips the sheet in zinc or other metals.

As production soared, Vietnam had far more steel than it could consume. Hoa Sen told U.S. regulators it began sourcing Chinese steel as early as 2002 and started selling to the U.S. around 2014. That is when metal began flowing from China to Vietnam as Sino-U.S. tensions rose over the steel trade.

In 2015, China's exports to the U.S. fell sharply. But that year, the Commerce Department says, Chinese exports of steel to Vietnam more than tripled and Vietnam's exports of corrosion-resistant steel to the U.S. rose 11-fold.

The trend continued in 2016, when Vietnam's steel exports rose fourfold from 2015. By 2017, U.S. steel imports from Vietnam were roughly 700,000 metric tons, six times as high as 2011, the Commerce Department says.

The surge in Southeast Asian steel imports grabbed

the attention of the U.S. steel industry. Steel companies including Nucor Corp. and United States Steel Corp. complained to the Commerce Department that Chinese steelmakers were skirting U.S. tariffs.

In December, the U.S. determined that Vietnam's exports contained "a significant portion" of Chinese steel and should be treated as Chinese. The Commerce Department said Malaysia, Thailand and several other countries were doing the same thing.

"We're blazing a new trail here," said Lewis Leibowitz, a Washington trade lawyer who represents a steel importer in the case. "Corrosion-resistant steel has always been treated as a different product."

Hoa Sen said it is cooperating with the U.S. probe. But it objects to the way the U.S. calculated the value of their work on Chinese steel.

"It is a very strange allegation," Hoa Sen's Mr. Vu said.

A final Commerce Department decision on the case is expected this month.

—*Nguyen Anh Thu in Hanoi contributed to this article.*

CORRECTIONS & AMPLIFICATIONS

Lucy Peng, chief executive of **Lazada Group**, is 44 years old. A Business & Technology article on Tuesday about Ms. Peng's resignation as executive chairman of **Ant Financial Services Group** incorrectly said she is 46. The same error was made in a March 20 Business News article about Ms. Peng's appointment as Lazada's CEO.

Hyland Software has more than 3,000 employees on its staff. A Page One Article on Saturday about the U.S. jobs report for March said the firm has more than 2,000 employees.

A chart showing year-over-year change in per capita gross investment in new infrastructure by state and local governments that appeared with a March 28 Markets article about stock-market volatility showed data for the trailing 12 months ended February for 2009 through 2018. The graphic incorrectly omitted a footnote stating that the data were adjusted for inflation.

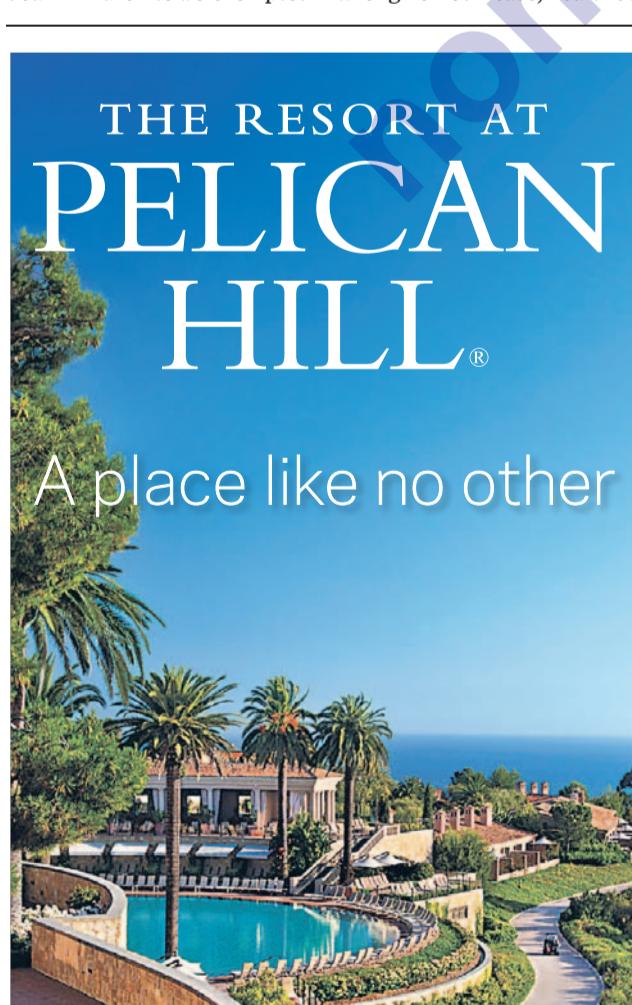
A graphic with a March 28 Banking & Finance article about pay disparity at U.S. investment banks in London showed the pay gap between men and women. The chart was incorrectly labeled as women's pay as a percentage of men's pay.

The chart of flows into U.S. exchange-traded and mutual funds that ran with a March 28 Markets article about stock-market volatility showed data for the trailing 12 months ended February for 2009 through 2018. The graphic incorrectly omitted a footnote describing the period covered.

The U.S. on March 22 threatened tariffs on \$60 billion of goods from China. The March 27 Streetwise column about U.S. trade policies incorrectly referred to \$60 billion of tariffs.

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U.S. NEWS

'Deaths of Despair' Take Toll Across U.S.

BY BETSY MCKAY
AND RENÉE RIGDON

A grim tally of "years of life lost" shows that substance abuse, suicides and diabetes drove a rise in premature deaths in nearly half of the U.S., according to researchers who mapped variations in death rates among people 20 to 55 years old.

The research offers a detailed look at the trends pulling down life expectancy among young and middle-aged Americans in recent years. "Deaths of despair," including drug overdoses, have been on the rise, especially among white Americans, according to recent studies.

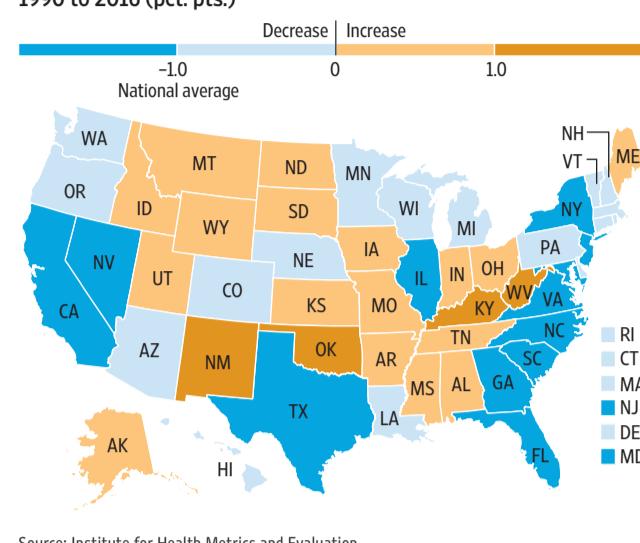
The new analysis, published Tuesday in the Journal of the American Medical Association, shows wide variation in where people ages 20 to 55 are at highest risk, and in what diseases or conditions afflict them. The risk of dying young declined in Minnesota, California and New York between 1990 and 2016, the study found. Yet it rose in 21 states, including West Virginia and New Mexico.

"We get this very divergent pattern in that middle-age area," said Christopher J.L. Murray, director of the Insti-

On the Rise

A new analysis shows an increase in premature deaths in nearly half the country, driven by 'deaths of despair.'

Change in the probability of death for ages 20-55, 1990 to 2016 (pct. pts.)



tute for Health Metrics and Evaluation at the University of Washington, who led the analysis. "We're seeing how different it is by state."

The examination of health by U.S. state between 1990 and 2016 is part of IHME's continuing Global Burden of Disease epidemiological study, which assesses illnesses and

death from major diseases and conditions globally using multiple data sources.

While the two leading causes of death for Americans of all ages nationwide—heart disease and lung cancer—remained the same for those years, "years of life lost" for several others soared, reflecting the ills of young and mid-

adults. That calculation involves multiplying the number of deaths at each age by a standard life expectancy at that age, according to IHME.

Substance use, mental-health issues, cirrhosis and diabetes accounted for most of the increases in premature death among people 20 to 55, Dr. Murray said. That shows a lack

Opioid-use disorders	343.0%
Endocrine/immune disorders	89.1
Chronic kidney disease	61.1
Suicide (not by firearm)	16.9
Chronic obstructive pulmonary disease	13.8
Alzheimer's/dementia	11.6
Cirrhosis/liver disease (alcohol use)	9.5
Cirrhosis/liver disease (Hepatitis C)	8.4
Hypertensive heart disease	2.7
Pancreatic cancer	0.4

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Hawaii had the highest life expectancy at birth in 2016, at 81.3 years, while Mississippi had the lowest, at 74.7 years, the study found.

For Americans between ages 20 and 55, the risk or probability of death over the years studied rose more than 10% in five states: West Virginia, Oklahoma, New Mexico, Kentucky and Wyoming.

Mental and substance-use disorders were the biggest driver of an increase in probability of death in West Virginia, a state hard hit by the opioid epidemic. Suicide also played a big role. The increases in mortality were so large they didn't offset declines in deaths from cardiovascular disease, accidents and HIV. In Oklahoma, those same factors, along with cirrhosis, were significant contributors.

In Minnesota, the state with the lowest probability of death for this age group in 2016, a decrease in deaths from cardiovascular disease, cancer, injuries and HIV far offset an increase in deaths from mental and substance-use disorders. New York and California also benefited from declines in deaths from suicide, cardiovascular disease, cancer and HIV.

Trump Seeks Changes in Aid Programs

BY LOUISE RADNOFSKY

WASHINGTON—President Donald Trump signed a broad executive order urging a revamp of federal government aid programs Tuesday, invigorating a contentious debate from which Republicans hope to gain momentum before the November elections.

The executive order lays out broad principles for overhauling government aid programs to require that more participants prove they are working or trying to find jobs, senior administration officials said. It also instructs federal agencies to propose changes to the pro-

grams they oversee and craft new regulations if necessary.

The order is primarily aimed at programs such as food stamps, which covers about 43 million Americans, Medicaid, which covers 74 million people, and housing programs, an official said. It doesn't include Supplemental Security Income, a means-tested welfare program providing cash assistance to some poor disabled people.

It also doesn't include a separate order the Trump administration has considered that would deny immigration benefits for people who had used a wide range of social programs.

"The Federal Government's role is to clear paths to self-sufficiency, reserving public assistance programs for those who are truly in need. The Federal Government should do everything within its authority to empower individuals by providing opportunities for work," the order says.

The president has repeatedly said he wants to see tougher requirements on beneficiaries of some of the dozens of income-based social programs in the U.S. Conservative House Republicans have encouraged Mr. Trump in that view and publicly said the issue is a winning one with vot-

ers even if it doesn't result in fast or dramatic changes.

Democratic critics of the policies have countered that many programs help low-income families that are already working, and additional requirements would increase bureaucracy for them and for local and state governments.

Administration officials have been working on a welfare overhaul for months, but top officials including Mr. Trump have at times described it as a lower priority than infrastructure. Both issues have been bogged down amid domestic-policy debates over other matters such as guns.

Cosby's Lawyer and Accuser Spar in Court

BY KRIS MAHER

NORRISTOWN, Pa.—One of Bill Cosby's longtime accusers described being sexually assaulted by him three decades ago, as prosecutors and defense attorneys offered starkly different portrayals of the entertainer and his accusers at his retrial outside Philadelphia on Tuesday.

Heidi Thomas, a music teacher from Castle Rock, Colo., testified that when she was an aspiring actress in her 20s in 1984, Mr. Cosby gave

Bill Cosby is facing a retrial on charges that he sexually assaulted a woman in his home in 2004.

her a drink that caused her to lose consciousness after she took a single sip. She said she was then sexually assaulted by him at a private residence in Reno, Nev.

As Cosby attorney Kathleen

Bliss began her cross-examination, she highlighted variations in the accounts Ms. Thomas gave investigators in the past. Ms. Bliss said she would continue when court resumed Wednesday.

The 80-year-old former star of "The Cosby Show" is charged with sexually assaulting former Temple University employee Andrea Constand after he gave her three Benadryl pills and wine at his home outside Philadelphia in 2004.

Mr. Cosby has said he had a consensual sexual relationship

with Ms. Constand and he has denied the allegations made by other women.

Mr. Cosby's retrial on sexual-assault charges involving Ms. Constand comes roughly 10 months after his first trial here ended in a hung jury and mistrial.

In this case, prosecutors claim that Mr. Cosby had engaged in a pattern of predatory behavior with women. Defense lawyers argue that the women, including Ms. Constand, fabricated the accounts of abuse.

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U.S. NEWS

Trump Company's Records Sought

Prosecutors' request is related to payment to Stormy Daniels by president's lawyer

Federal prosecutors in New York asked the **Trump Organization**, President Donald Trump's flagship company, for records relating to a \$130,000 payment to a former adult-film actress as part of an investigation into Mr. Trump's personal lawyer, according to a person familiar with the matter.

*By Michael Rothfeld,
Joe Palazzolo
and Mark Maremont*

The request came in connection with raids by the Federal Bureau of Investigation Monday on the office, hotel room and home of Trump lawyer Michael Cohen. Federal prosecutors in Manhattan are examining possible bank fraud by Mr. Cohen, among other matters, the person familiar with the matter said.

Mr. Cohen made the payment to Stephanie Clifford, a former porn star known professionally as Stormy Daniels, less than two weeks before the 2016 presidential election, in exchange for Ms. Clifford's signing a nondisclosure agreement about what she said was a sexual encounter with Mr. Trump in 2006.

The move illustrates the increased legal pressure on Messrs. Cohen and Trump, as a federal investigation into Mr. Cohen's activities delves broadly into his personal business dealings in addition to the payment to Ms. Clifford, according to people familiar with the matter.

The search warrant in Monday's seizures of Mr. Cohen's records also sought information about a \$150,000 payment by American Media Inc., publisher of the National Enquirer, to a former Playboy model who said she had an affair with Mr. Trump, said a person familiar with the matter.

Additionally, the warrant sought information about Mr. Cohen's associates in the taxi industry, a person familiar with the matter said. Mr. Cohen has been a longtime owner of New York taxi medallions, which allow cabs to pick up passengers on the street, in addition to working until early 2017 as a top lawyer at the Trump Organization.

Mr. Cohen and his lawyer, Stephen Ryan, didn't respond to requests for comment.

Mr. Ryan on Monday called the use of search warrants in Monday's raids "completely



Michael Cohen paid \$130,000 shortly before the 2016 election to a former porn star who claimed she had an affair with Donald Trump.

U.S. Attorney Recuses Himself



The interim Manhattan U.S. attorney, Geoffrey Berman, recused himself from his office's investigation into President Donald Trump's longtime personal lawyer, Michael Cohen, according to people familiar with the matter, leaving the highly sensitive inquiry in the hands of his deputy.

The deputy U.S. attorney, Robert Khuzami, whom Mr. Berman hired upon taking office in January, previously worked as a partner at law firm Kirkland & Ellis LLP and led the enforcement division of the Securities and Exchange Commission during the Obama administration. He also spent 12 years as a Manhattan federal prosecutor.

It is unclear why Mr. Berman stepped back from the Cohen matter, but some legal experts have suggested that Mr. Berman's involvement could have appeared improper, given his potential nomination by Mr. Trump to a permanent job in the post.

Inappropriate and unnecessary" and said it had "resulted in the unnecessary seizure of protected attorney-client communications between a lawyer and his clients." He added: "These government tactics are also wrong because Mr. Cohen has

cooperated completely with all government entities."

A Trump Organization representative said, "We do not generally comment on such matters, but have and will continue to comply with inquiries from proper authorities."

A spokesman for the Man-

hattan U.S. attorney's office declined to comment.

Mr. Cohen and White House representatives have denied any sexual encounter took place between Mr. Trump and Ms. Clifford. Mr. Trump said last week he was unaware of the deal Mr. Cohen made with

Now, in the wake of the multiple FBI raids executed

Monday on the Manhattan office, home and hotel room of Mr. Cohen, the White House confronts an even more complex future for that job, with a series of legal technicalities hanging over who will inherit it.

The White House could nominate Mr. Berman or another person to the post on a permanent basis, a move that would trigger the Senate confirmation process. The White House has no plans to do so, according to a person familiar with the matter, in part because Mr. Berman's candidacy is opposed by New York's two senators, Chuck Schumer and Kirsten Gillibrand.

Both Democratic senators have indicated that they harbor concerns over Mr. Berman because he personally interviewed with the Republican president before receiving the appointment, according to people familiar with their thinking.

Should the 120-day period expire without White House or Justice Department action, the district court has the power to appoint the U.S. attorney.

—Erica Orden and Nicole Hong

her, and that he didn't know where the money came from.

Trump representatives have also denied Mr. Trump had an affair with the former Playboy model, Karen McDougal.

The payment to Ms. McDougal, three months before Mr. Trump's election, was in exchange for the rights to her story of an alleged affair with Mr. Trump. AMI, run by Trump friend David Pecker, quashed the story.

The Wall Street Journal first reported the payment to Ms. McDougal, in November 2016, and that such a practice is known in the tabloid world as "catch and kill."

AMI previously told the Journal that deal wasn't a "catch and kill" pact but rather was in exchange for her appearing on magazine covers and writing fitness columns. AMI has denied paying people to kill damaging stories about Mr. Trump.

An AMI spokesman said Tuesday the company would continue to comply with requests that don't violate its sources or materials according to the First Amendment.

Ms. McDougal has alleged in a lawsuit against AMI that her Los Angeles-based lawyer at the time, Keith Davidson, and the publisher misrepresented the deal, which AMI also denies. Ms. McDougal's current lawyer, Peter Stris, said he had no comment on the FBI raid. Dave Wedge, a spokesman for Mr. Davidson, had no immediate comment.

Homeland Security Adviser Is Ousted

President Donald Trump's homeland security adviser was forced out of his job Tuesday after months of internal frustration with his leadership and as the new national security adviser moved to establish power in the White House, according to people familiar with the matter.

*By Dion Nissenbaum,
Rebecca Ballhaus
and Kate O'Keefe*

The departure of Tom Bossert, who has advised Mr. Trump on cybersecurity and counterterrorism since the beginning of his administration, marked the latest exit from the Trump administration as the president reshapes his leadership team.

The surprise move was instigated by John Bolton, the former U.S. ambassador to the United Nations and ex-Fox News commentator who officially started this week as Mr. Trump's new national security adviser, the people said.

White House press secretary Sarah Huckabee Sanders declined to discuss Mr. Bolton's role in Mr. Bossert's departure.

"He resigned," Ms. Sanders said. "The president feels he's done a great job and wishes him the best as he moves forward."

When Mr. Trump tapped Mr. Bossert for the job, he gave him authority on par with that of the national security adviser. That often put Mr. Bossert at odds with Lt. Gen. H.R. McMaster, the Army officer who held the post until recently.

Mr. Bossert came into the job with high praise from lawmakers from both parties. But his clashes with Gen. McMaster took a toll. National Security Council staff complained about Mr. Bossert's management and lengthy meetings that produced few results, the people said. Administration officials complained that Mr. Bossert didn't develop a cyber strategy or a counterterrorism policy.

Homeland Security Secretary Kirstjen Nielsen said Mr. Bossert "has provided wise counsel to the president on homeland security issues."

Mr. Bossert couldn't be reached for comment. The National Security Council didn't respond to requests for comment on Mr. Bolton's role.

His resignation was earlier reported by Bloomberg News.

PROBE

Continued from Page One

said the president was "not considering or discussing" firing the special counsel.

Ms. Sanders said the White House had consulted with legal experts, including those at the Justice Department, on the president's power to fire the special counsel. Ms. Sanders didn't say the president would take such action. Still, she said: "I think the president has been clear that he feels this has gone too far."

A Justice Department spokeswoman didn't respond to a question about whether agency lawyers had given such advice to the White House. Many legal experts outside the administration have said Mr. Trump can't fire

Sen. Chuck Schumer called for legislation to protect special counsel Robert Mueller.

Mr. Mueller directly. The exchanges came a day after Federal Bureau of Investigation agents searched properties connected to Mr. Trump's lawyer, Michael Cohen, seizing records including those related to a \$130,000 payment that Mr. Cohen made weeks before the 2016 election to former adult-film actress Stephanie Clifford, professionally known as Stormy Daniels. Ms. Clifford received the payment as part of an agreement that barred her from discussing an alleged sexual encoun-

ter with Mr. Trump in 2006.

Deputy Attorney General Rod Rosenstein, who appointed Mr. Mueller, personally approved the raids, according to a person familiar with the matter. People close to the president said that revelation was likely to increase pressure on Mr. Rosenstein, who was appointed by the president.

Mr. Trump has expressed frustration with Mr. Rosenstein in the past and has considered firing him, according to people familiar with the matter. West Wing officials in the last day have advised Mr. Trump not to fire Mr. Rosenstein or any other Justice Department officials, according to a White House aide.

The U.S. attorney's office in Manhattan has opened an investigation that it is coordinating with Mr. Mueller's office, according to a person familiar with the matter.

In a CNN interview, Mr. Cohen said Tuesday the agents who conducted the raid were "courteous and respectful." Asked if he was worried, he said: "I would be lying to you if I told you I am not."

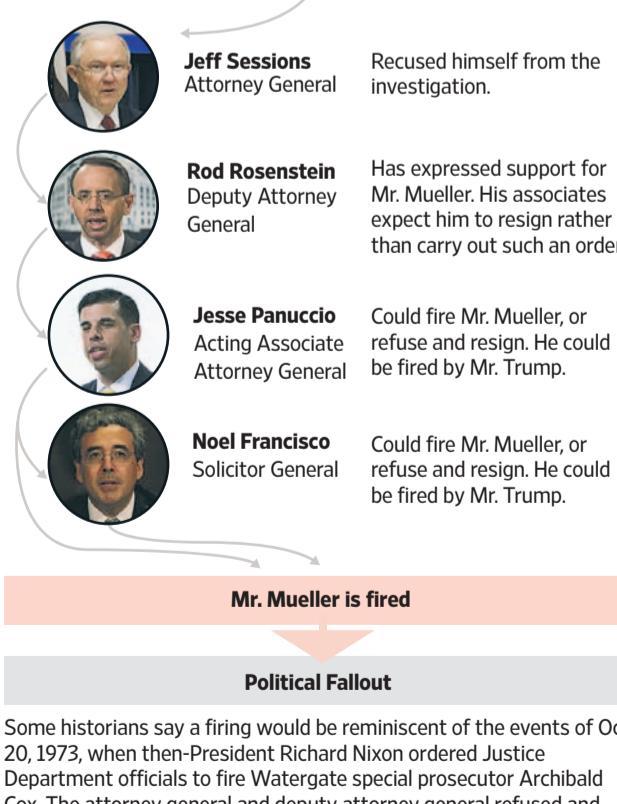
Mr. Trump was angered by news of the raids of his long-time lawyer, according to a person close to the Republican president.

Mr. Trump has been highly critical of Attorney General Jeff Sessions, blaming him for setting in motion Mr. Mueller's appointment after he recused himself from the Russia investigation. Mr. Trump's decision to fire then-FBI director James Comey last spring led Mr. Rosenstein to appoint Mr. Mueller.

"The more he looks at this investigation, the Sessions recusal becomes a deeper

Possible Endgame for Trump and Mueller

Special counsel Robert Mueller was appointed by Deputy Attorney General Rod Rosenstein in May 2017 to oversee the investigation into alleged Russian meddling in the 2016 presidential election. If President Trump should seek to fire Mr. Mueller, he could set off the following chain.



Some historians say a firing would be reminiscent of the events of Oct. 20, 1973, when then-President Richard Nixon ordered Justice Department officials to fire Watergate special prosecutor Archibald Cox. The attorney general and deputy attorney general refused and resigned. Ultimately the solicitor general carried out the order. That episode has become known as the Saturday Night Massacre.

Photos: Getty Images; Bloomberg News; Associated Press

Source: staff reports

THE WALL STREET JOURNAL

wound," a person close to the president said. Ms. Sanders' remarks were meant as a "reminder to the American people that there are constraints on Mueller," the person said.

Newt Gingrich, the former

Republican House speaker and a close ally of Mr. Trump, said in an interview that some staff members worry the president will retaliate by firing Mr. Mueller. A White House official said advisers

are counseling the president against such a move.

"This is a president who has a very strong temper and who feels he is being abused by people who are clearly his enemies," Mr. Gingrich said. "Everyone around him keeps telling him—as I would tell him any time we chat—it's a non-starter. Firing him [Mr. Mueller] would be a disaster. It would guarantee splitting the Republican Party."

Mr. McConnell said he didn't believe the president would fire the special counsel. "I haven't seen clear indication yet that we needed to pass something to keep him from being removed," he said. "I don't think that's going to happen."

Sen. Orrin Hatch (R., Utah) said he doesn't believe Congress needs to take action to protect Mr. Mueller "at this point," but cautioned the president should be careful in what he says and does about the investigation.

"I think Mueller is perfectly capable of protecting himself," Mr. Hatch said. "He's acting within legal limits in my book and I have a high regard for him."

Sen. Chuck Schumer of New York, the chamber's Democratic leader, called for legislation to protect Mr. Mueller.

"President Trump made it frighteningly clear that he may be considering firing special counsel Mueller," he said. "Our Republican colleagues must not continue ignoring the elephant in the room."

Mr. Schuler also warned Mr. Trump not to fire the deputy attorney general. "Any attempt to remove Rod Rosenstein will create the exact same constitutional crisis as if you fired special counsel

Mueller," Mr. Schuler said. "Don't do it. Do not go down this path."

Other Democrats, including Sen. Mark Warner of Virginia, said the criticism by Mr. Trump of the probe showed that Congress needed to protect Mr. Mueller's probe. "More than ever, Congress must support the rule of law and protect this investigation," he said.

Senate Majority Whip John Cornyn (R., Texas) said he doesn't think Mr. Trump will fire Mr. Mueller and that it was "pretty universally being conveyed" by lawmakers to the president not to fire him.

Many legal experts said Mr. Trump wouldn't be able to fire the special counsel himself, but he could order Mr. Rosenstein to do so. Mr. Rosenstein could refuse, and Mr. Trump could fire him and then try to replace him with someone who would terminate the special counsel.

Former federal prosecutor Jimmy Gurule said Mr. Mueller is operating under a statute enacted by Congress that "expressly provides that the deputy attorney general has the authority to fire the special counsel—but even then, only for cause."

Mr. Gurule said the president would likely argue that as the chief executive officer, he has the authority to fire anyone who works in the executive branch. But the Supreme Court has previously ruled that Congress may impose reasonable limitations on the president's authority to fire employees working in the executive branch, Mr. Gurule said.

—Peter Nicholas and Siobhan Hughes contributed to this article.

U.S. NEWS

Vacancies Dog Post Office

By HEIDI VOGT

WASHINGTON—At a time when many government agencies are relying on acting directors or making do with unfilled positions, the U.S. Postal Service may have it the worst. Its governing board has been empty since December 2016.

That means no one fills nine seats on a body akin to a corporate board of directors for an agency that is the largest civilian employer in the country after Walmart Inc.

At a February board meeting, only two people—Postmaster General Megan Brennan and her deputy—sat at the long table in the Ben Franklin conference room on the top floor of the Postal Service headquarters. They were flanked by empty chairs. The board is operating without governors for the first time since it was created in 1970.

The Postal Service is in the spotlight after President Donald Trump tweeted accusations that Amazon Inc.—a key postal system customer—exploits the service for its own gains, accusations that immediately met with controversy. A bigger issue, according to the Postal Service, is unfunded liabilities for employee bene-

Big Mailers Fear Loss of Discounts

The board of governors advises U.S. Postal Service leadership on everything from crisis management to congressional engagement.

The board also sets policies that directly affect operations at big customers, such as mail-order catalog businesses.

"It's a huge problem," said Hamilton Davison, the head of the American Catalog Mailers Association, an industry group. He said that many catalog

mailers are dealing with the expiration of discounts that need the postal governors' approval to renew.

Businesses that rely on the service are growing nervous.

Retailer Hammacher Schlemmer & Co., a seller of gifts, gadgets and housewares that has mailed catalogs since 1881, has used such discounts to send out additional catalogs.

The lack of new promotions is going to cost the company hundreds of thousands of dollars, said Steve Gustafson, marketing manager at the retailer.

"It's a de facto price increase," Mr. Gustafson said.

fits, which requires congressional legislation to fix. Bills addressing these issues have been introduced in the House and Senate.

It became clear the board would be at least temporarily without governors when President Barack Obama's nominees didn't make it through Congress before the end of his term.

More than a year has passed since then. And with so many other appointments in limbo and Congress tussling over items like the budget and

immigration, the Postal Service board doesn't appear to be at the top of anyone's agenda.

"The president, I'm sure it's not his top priority, but it doesn't seem to be Congress's top priority either," said Jim Bilbray, who was the sole remaining governor until his term expired in 2016.

Mr. Trump's tweets have been more focused on Amazon contracts, which are negotiated with the agency's sales, finance and legal departments then submitted for regulatory

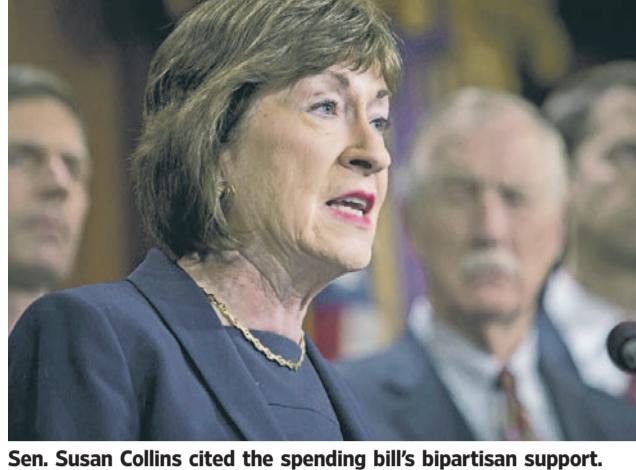
approval. The board isn't directly involved in negotiating these contracts, but it is involved in setting long-term strategy and consulting with members of Congress on legislation that might improve its cost structure.

The Postal Service has suffered from leadership shortages since well before the Trump administration. Mr. Obama nominated five people to the board, but they didn't get through the approval process. Mr. Trump nominated three people in October, but the approval process is in the early stages.

In a rare situation these days, the slate of nominees has bipartisan support. Most expect them to be approved if they ever make it to a committee hearing, but no such hearings have been scheduled.

Jack Potter, who was postmaster general from 2001 to 2010, said the status quo can't last much longer.

"It's very problematic at a period of time when the Postal Service is seeking to right-size its finances, and pricing and products are two of the key tools to do that," Mr. Potter said. "There is this shroud of doubt over how to make that happen without a board."



Sen. Susan Collins cited the spending bill's bipartisan support.

Trump Cuts Face Some GOP Doubt

By KRISTINA PETERSON AND NATALIE ANDREWS

Mitch McConnell (R., Ky.) said the idea was "worth a discussion" with the White House, but suggested it might be tough to pass in the Senate.

Democrats said the move would amount to Republicans renegeing on the bipartisan budget agreement and subsequent spending bill. "We've made an agreement. I hope they won't go back on it," said Senate Minority Leader Chuck Schumer (D., N.Y.).

The legislation passed the Senate 65-32 with the support of 25 Republicans. Republicans cheered its \$80 billion boost for military spending this year, while Democrats lauded the \$63 billion increase in domestic spending—the portion Mr. Trump is expected to target in his proposed cuts.

It is counter to the agreement that both houses and both parties and the administration reached," said Sen. Susan Collins (R., Maine), who supported the measure.

Republicans have come under criticism for the growing federal budget deficit. The Congressional Budget Office said Monday it would exceed \$1 trillion a year starting in 2020, thanks in part to tax cuts passed in December and higher spending agreed to in a two-year budget deal earlier this year.

Mr. Trump had publicly balked at the size of the spending bill. Now top White House officials are working on a proposal of spending cuts, known as "rescissions," to send to Capitol Hill. They could become law only if lawmakers agree.

Once drafted into a bill, the rescissions package would be considered in Congress under an expedited process and would need only a simple majority to pass both chambers.

Most bills need 60 votes to pass the Senate, where Republicans hold only 51 of the chamber's 100 seats.

The early GOP opposition to the proposal indicates it could face insurmountable hurdles in the Senate. With Republican Sen. John McCain recovering from brain-cancer treatments in Arizona, no Republicans in Washington can vote against the bill if all Democrats oppose it.

Senate Majority Leader

"It goes for more than half the national defense, for opioids, for national laboratories and that's not the part of the budget that is the debt problem," said Sen. Lamar Alexander (R., Tenn.), referring to the slightly less of one-third of the federal budget that Congress sets each year.

GOP leaders are taking other, largely symbolic, steps to try to rein in the national debt. The House is expected to vote Thursday on a balanced-budget amendment. The constitutional amendment is unlikely to secure the approval of two-thirds of both the House and the Senate.

Some Republicans said they welcomed the White House's effort. "I hope it gets legs. I'm embarrassed about the bill that we passed," said Sen. John Kennedy (R., La.), who voted against it.



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All nine seats on the U.S. Postal Service's governing board are now empty as the Senate hasn't confirmed nominees in years.

TRASH

Continued from Page One

of scrap paper he found when he came to work in the open-outcry pits in the 1980s. "That freaked me out at first," he said. "You wouldn't do it in your own house."

Veterans of Chicago's exchanges have watched trade slow to a trickle in the pits where they jostle to buy and sell contracts for cattle, wheat and interest rates. Many of the quirks of doing business there have faded, too.

Electronic trading has led to the closure of formerly paper-strewn trading floors around the world. At the New York Stock Exchange, the habit of tossing paper aside has waned as traders execute deals through handheld devices instead.

In Chicago, headsets and tablets long ago overshadowed the arcane language of hand signals they created to communicate their trades across the din. The platform shoes some traders wore to see over their peers fell victim to safety concerns. A strict dress code was relaxed after some traders took to slinging loose ties over polo shirts or refused to change clothes for days on a hot streak.

But amid all the change, they aren't tossing out the practice of indiscriminately tossing things out. As more trading moves online, the trash is a tangible testament to their continued presence in the pits. Traders who remain there say negotiating openly in the octagonal pits is an important counterpoint to computerized deal-making.

Discarded notes, newspapers and candy wrappers accumulate outside trash cans stationed throughout the cavernous trading floor. Some traders, brokers and clerks risk hefty fines to sneak snacks and takeout onto the floor, where food is banned, and make little effort to hide the packaging.

"It's just habit now," said P.J. Quaid, a corn-options broker

who has worked on the floor—and tossed aside ripped-up notes there—for around 20 years. "Wherever it lands, it lands."

The habit has its roots in the days when Chicago's trading pits were crammed with hundreds of shouting futures and options traders. Participants at the world's top commodity exchanges didn't have time to worry about anything other than striking the best deal for foodstuffs including pork bellies, wheat and eggs.

"These were not people who were going to take the time to wiggle and fight their way out of a crowded pit, and give up their spots, to carefully and responsibly throw something away in a trash can," said Emily Lambert, author of "The Futures," a history of commodity trading in Chicago.

Older traders remember deliberately dropping completed order tickets onto the floor rather than handing them to colleagues so they could move quickly to the next trade. Larry Schneider, a retired third-generation veteran of Chicago's commodity trade, started work as a runner in 1970, scooping up completed cards from the floor at the edge of the pits and running them back to his brokerage firm's desk. "You got a lot of exercise back then," he said.

The Chicago Board of Trade

and the Chicago Mercantile Exchange merged in 2007 to form CME Group Inc. and consolidated their trading floors into one. Trading volumes have risen to record highs, but most trading is electronic now. A cheese auction was among the most recent markets to move online from a live trading pit last June.

"We're still buying and selling corn. We're still buying and selling bonds," said Scott Sheldady, managing director of TJM Europe LLP, who started on the floor in the 1980s. "But I'm doing it right now in front of six computer screens instead of 600 traders. It's not nearly as much fun."

The pits that remain are quiet and orderly in comparison. Some traders fiddle with their phones and chat as they wait for customers to call in orders. On one day last week, one trader said many of his peers were off watching the Masters golf tournament.

Traders who remain say there is less mess than there used to be, but there are still stacks of paper on hand for recording the trades that do come in. One morning, the remnants of several hours of buying and selling derivatives of everything from hogs to stock indexes were scattered on the exchange's floor. Scraps of paper covered in arithmetic. A Red Bull can. Nut shells.

A broker halfheartedly tossed a handful of papers at a trash can, and missed. Another launched an empty gum packet at no particular target. Asked how she typically disposed of detritus in the wheat pit, Kitty Shipp said, "We just go like this—watch," and threw a handful of paper over her head.

Brad Lietzke, a clerk, said peers disabused him of his aversion to littering soon after he arrived at the dairy pit several years ago. "I've got to fit in," he said. Now he worries he couldn't shake the bad habit. "It'd be weird working at an office because I'd be throwing my papers on the ground."

CME declined to comment beyond its rule book, which explicitly prohibits the discarding of refuse on escalators, elevators, hallways and lobbies. "Commonly accepted standards of propriety and decorum apply to everyone on the trading floor," the rules state.

Some veterans said the exchange had tried to discourage water bottles, but relented amid concerns that traders shouting their orders would get hoarse.

Food is still verboten, though. Some traders sneak around guards to get snacks onto the floor. One recalled being fined \$250 for a peanut butter and jelly sandwich. In February, CME sent a reminder that food and beverages other than water, gum and hard candy were prohibited on the floor and violations were punishable by fines up to \$5,000.

A couple of months earlier, one group ducked into a corner of the exchange floor to feast on Alaskan king crab legs and prime rib sandwiches they had delivered from a downtown steakhouse.

Mr. Quaid, the corn broker, said lunching was essential to keep trading activity going, lest the few remaining traders venture out for food during the five-hour session. "You have to feed them," he said. "It's half the battle on slow days. You need to keep people here to make the market."



An open-outcry trading pit in Chicago in 2010.

SCOTT OLSON/GETTY IMAGES

U.S. NEWS

Cities Lean Toward Buses in Transit Rethink

BY ARIAN CAMPO-FLORES

After years of unsuccessful efforts to create a light-rail system in Florida's Tampa Bay area, transit leaders are falling back on an old technology—buses.

This isn't your average city bus. The service, known as bus rapid transit, would operate for long stretches on dedicated lanes and feature modern, comfortable vehicles and raised station platforms level with bus entrances for smooth boarding.

Officials envision a 41-mile system to connect the region's five main employment centers, including Tampa and St. Petersburg, at a cost of up to \$455 million and a five-year construction time frame. An alternative 9-mile rail project was projected to cost \$620 million and take up to 10 years to complete.

"It's a rapid-transit system on rubber tires," said Ramond Chiaramonte, executive director of the Tampa Bay Area Regional Transit Authority.

A growing number of U.S. cities are pursuing these bus systems as cheaper and easier-to-build alternatives to light rail. While such services have been around for years in cities like Los Angeles and Pittsburgh, they have been rolling out at a faster clip in recent years.

There are now about 10 U.S. cities, including Hartford, Conn., and Eugene, Ore., with established lines, said Michael Kodransky, director of global and U.S. initiatives at the Institute for Transportation and Development Policy in New York, which created a grading



A convoy of new buses are delivered to Albuquerque, N.M. Albuquerque is one of a number of cities that have rolled out fast-bus systems as part of their transit strategies.

system for the services. An additional dozen or so metro areas, including Miami-Dade County and Boston, are evaluating or developing them.

BRT systems, which got their start in Latin America, generally run about a quarter to a third of the cost of light-rail systems to build, with similar passenger-carrying capacities, according to Mr.

Kodransky's organization.

It is part of a broader re-thinking of bus networks in the U.S. Ridership on city buses has declined steadily in recent years, decreasing nearly 5% in the third quarter of 2017 compared with a year earlier, according to the American Public Transportation Association. Reasons include service cutbacks after the

recession and the rise of ride-share services like Uber and Lyft. Cities like Houston and Seattle have responded by completely redrawing bus routes.

While they don't involve laying new rail, the bus systems haven't been trouble free.

In New Mexico, implementation of the new Albuquerque

Rapid Transit line has been plagued with problems, including insufficient battery life for the electric buses and difficulties for pedestrians crossing bus lanes. Critics say the busway has clogged the city's main thoroughfare—the old Route 66—chewing up sidewalk space and hurting businesses during construction.

Light rail continues to have fervent fans. Though Nashville, Tenn., pursued a fast-bus plan several years ago, it died in 2015. Now, city voters will decide May 1 whether to approve tax increases to fund a \$5.4 billion transit proposal that would create five light-rail corridors and four rapid-bus corridors featuring just some elements of BRT service.

chuckles from the audience.

Mr. Durbin sought to frame the issue as a trade-off, asking how much privacy users needed to give up to be connected, to which Mr. Zuckerberg responded that "everyone should have control over how their information is used."

Mr. Zuckerberg appeared well prepared for the questioning, but many senators were skeptical. Sen. Richard Blumenthal (D., Conn.) expressed anger over whether Facebook should have spotted that Cambridge Analytica improperly obtained data, suggesting the failure could violate an agreement Facebook has with the Federal Trade Commission.

"What happened here was in effect willful blindness—it was heedless and reckless," Mr. Blumenthal said of Facebook's mistakes with regard to the data.

"No, senator," Mr. Zuckerberg said.

"We've seen these apology tours before," Mr. Blumenthal said. "You have refused to acknowledge even an ethical obligation to have reported this violation of the FTC consent decree."

In 2012, Facebook agreed to obtain user consent for collecting personal data and sharing it with others. The FTC is now probing whether Facebook violated the terms of this agreement when data of tens of millions of its users were transferred to Cambridge Analytica, which worked with the Trump campaign.

Mr. Zuckerberg also said Facebook has been "working with" special counsel Robert Mueller's probe into Russian meddling in the 2016 election.

DATA

Continued from Page One
standards to ensure transparency and understanding for the billions of consumers who utilize these products."

Mr. Zuckerberg conceded that government regulation might yield benefits, given the recent surfacing of such problems as fake news, foreign interference in elections and hate speech. "I think the real question as the internet becomes more important...is what is the right regulation?" he said.

Mr. Zuckerberg suggested openness to a few categories of potential government fixes, including transparency requirements concerning data use, mandates for user control over their data and protections for innovation.

And yet he hinted that the tech industry would resist any legislative move it thought went too far. "We still need to make it so companies can innovate," or the U.S. will risk falling behind other countries, particularly China, he said.

The widely anticipated hearing was Mr. Zuckerberg's first appearance before Congress. It involved a joint session of the Senate Commerce and Judiciary committees, with at least 42 senators attending, according to a congressional aide. He is scheduled to appear Wednesday before the House Energy and Commerce Committee.

The hearings mark a remarkable turn of events for Mr. Zuckerberg, who started in 2004 what was then called thefacebook.com at Harvard Uni-

Facebook's CEO Mark Zuckerberg, in his testimony on Capitol Hill on Tuesday:



Mark Zuckerberg suggested a few categories of legislation.

'I think the real question as the internet becomes more important...is what is the right regulation?'

versity. The platform now is used by more than two billion people a month, as a critical source of news and information from friends and family.

Employees and executives say that transformation is largely due to Facebook's corporate culture, which encourages rapid experimentation in keeping with its longtime motto, "move fast and break things."

Its friendly relationships with Washington lawmakers helped Facebook skirt past regulation, despite its growing size and a number of scandals related to user privacy and con-

tent policies over the years.

But over the past 18 months—arguably the most tumultuous in Facebook's history—the downsides of the company's approach have become increasingly apparent with users, regulators and advertisers questioning whether it should possess so much power over modern life without regulation.

"In the past, many of my colleagues on both sides of the aisle have been willing to defer to tech companies' efforts to regulate themselves," Commerce Chairman

John Thune (R., S.D.) said during Tuesday's hearing. "But this may be changing."

Senators touched on a number of concerns that have been growing in the public, including privacy, a lack of transparency, and Facebook's dominance of social media.

"You don't think you have a monopoly?" Sen. Lindsey Graham (R., South Carolina) asked, to which Mr. Zuckerberg responded: "Certainly doesn't feel that way to me."

Ultimately, Mr. Zuckerberg didn't promise basic changes to the design of its platform and

advertising business, including Facebook's reliance on users' personal information to show relevant ads in their news feeds. Facebook instead is promising to enforce its policies more stringently.

Of overwhelming concern was Facebook's failure to protect privacy. Sen. Dick Durbin (D., Ill.) asked whether Mr. Zuckerberg would be comfortable sharing the name of his hotel in Washington, or the names of people with whom he has messaged through social media.

"Uh, no," Mr. Zuckerberg deadpanned, drawing a few

Zuckerberg Hints at Paid Service

BY GEORGIA WELLS

While parrying questions from lawmakers over Facebook Inc.'s commitment to user privacy, Chief Executive Mark Zuckerberg dropped several hints about how the social network may change in an era of tougher scrutiny.

During one notable moment early in his Senate testimony, Mr. Zuckerberg seemed to leave open the possibility the social network could introduce a paid version of its service following the latest furor over Facebook's handling of users' personal information.

Mr. Zuckerberg was pressed by Sen. Orrin Hatch (R., Utah) over whether the service will always rely on targeted advertising using personal data. The Facebook co-founder replied that "there will always be a version of Facebook that is free."

By not rejecting the possibility of a paid product, Mr. Zuckerberg's comment could be interpreted as endorsing the idea that Facebook might experiment with a version that relies on subscription revenue instead of advertising. Facebook didn't have an immediate comment.

Mr. Zuckerberg has long insisted that Facebook will always be free and supported by advertising, so any suggestion otherwise would be a marked change.

Facebook makes nearly all of its revenue from advertising, relying less over the years on payments from developers using the company's platform. More than 98% of last year's total of \$40.7 billion came from advertising.

A premium service could appeal to people who don't want to see ads in their news feeds and possibly allow them to better control their per-

sonal information.

Subscription models are common among web companies offering content, but Facebook, Twitter Inc., Snap Inc. and other popular social networks have long shied away from premium accounts. Professional-networking site LinkedIn, owned by Microsoft Corp., does offer several paid plans with more features.

The notion of a Facebook paid service cropped up last week after the company's chief operating officer, Sheryl Sandberg, said in an NBC News interview that allowing users to opt-out of all data collection wasn't consistent with a free service. "We don't have an opt-out at the highest level," she said. "That would be a paid product."

Some viewers took that as a signal that Facebook was considering some sort of paid service.

How to See If Your Data Was Shared

Check Facebook for signs of Cambridge Analytica's access

Facebook said that in most cases, the information shared with Cambridge Analytica was limited to users' public profiles, page likes, birthdays and current cities.

The notification doesn't specify which friends might have shared your information. Facebook says it would violate the privacy of those users.

One part of the notification that jumped out to those affected was a line saying a small number of users shared their own "News Feed, timeline, posts and messages which may have included posts and messages from you. They may also have shared your hometown."

Facebook says this was part of a feature, discontinued in 2015, that was activated only if a user gave explicit consent.

Cambridge Analytica tweeted on Tuesday that it has never handled the content of private Facebook messages.

If you were affected, Facebook will tell you what was shared, but notifications don't include advice for dealing with misused information.

Facebook also recently refreshed its Apps and Websites settings page. Even if you weren't affected by the Cambridge scandal, you can find a list of your active apps and what information you've shared with them. It also now shows apps you haven't used in a while that are now "expired" and others you've removed.

You can edit what information you share with your current apps, or delete them. You also can edit the data that your expired apps can ask for when you log in next.

If you want these app developers to remove any personal info they may have, Facebook recommends contacting them, and provides links to company privacy policies.

—Katherine Bindley

In a notification reviewed by The Wall Street Journal,

WORLD NEWS

China Pledges More Open Market

Xi outlines easier access to financial sector, tariff cuts; Trump isn't mentioned

By LINGLING WEI

BOAO, China—President Xi Jinping offered to further open China's markets to foreign business, though he stopped short of proposing the thoroughgoing changes the Trump administration says it is seeking to avert a trade fight.

In a speech Tuesday that Chinese officials billed as packed with policy initiatives, Mr. Xi promised increased imports, accelerated access to China's insurance and other financial sectors, greater protections for intellectual property and lower tariffs and reduced ownership restrictions for foreign car makers.

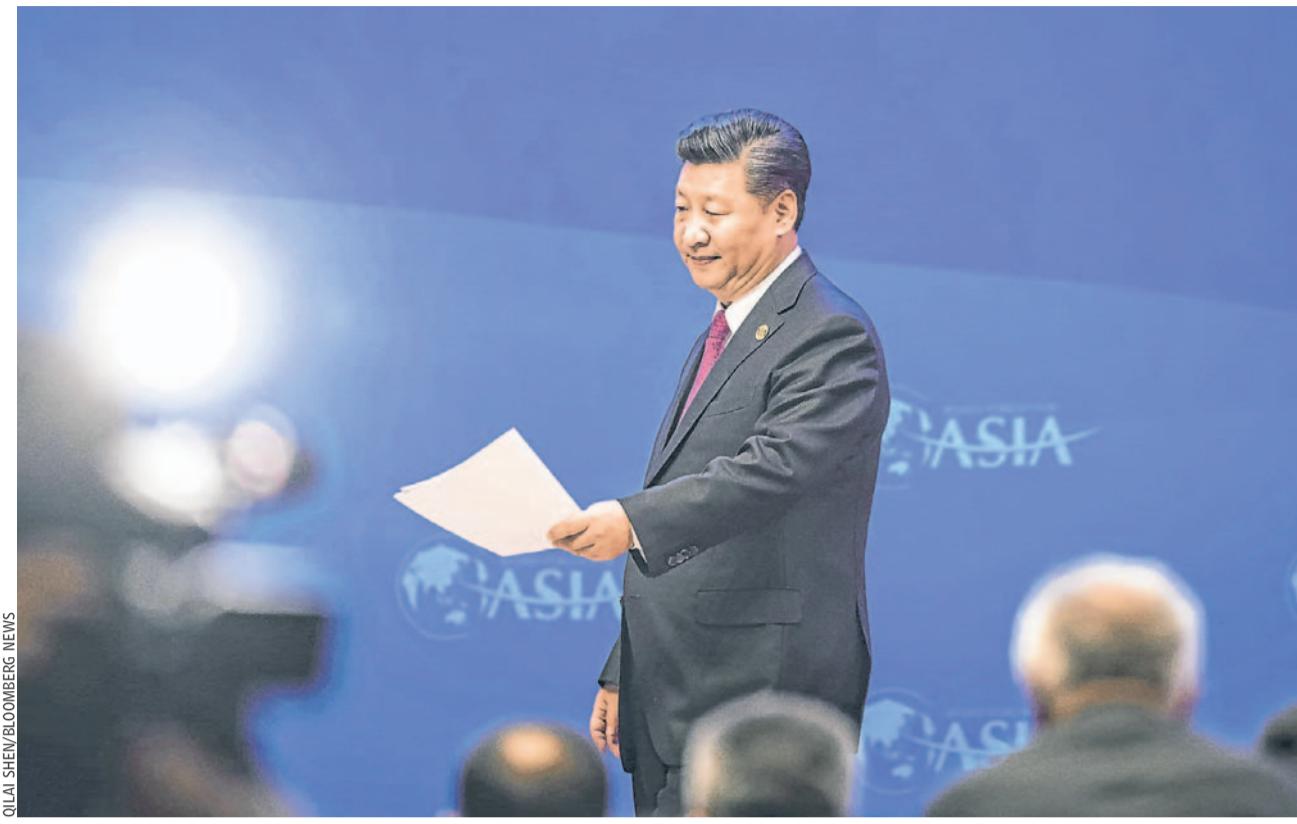
While Mr. Xi didn't mention President Donald Trump or the trade friction with the U.S. in his 40-minute speech, his proposals offered an olive branch to Washington, addressing some of the persistent criticisms leveled at Beijing by the Trump administration.

Markets surged following the remarks. The Dow Jones Industrial Average rose almost 429 points, or 1.8%, to 24408, and the S&P 500 climbed 1.7%.

Mr. Xi's initiatives, however, included some previously offered policy changes, left out a definite timetable for action, and skirted core complaints by the U.S. about China's industrial policies that the White House says favor domestic companies and force the transfer of U.S. technology.

Overall, Mr. Xi's address to political and business leaders attending a government-backed conference signaled that any market opening will be gradual, with Beijing keeping a heavy hand in managing the process.

"While we're crossing the



Xi Jinping speaking at the government-sponsored Boao Forum on Tuesday. Analysts were unenthusiastic about the policy measures.

river by feeling the stones, we're also strengthening top-level planning," Mr. Xi told the annual Boao Forum on China's island province of Hainan.

Business executives and policy analysts described Mr. Xi's offers as at best a missed opportunity to tamp down U.S. criticism and at worst likely to be read as the kind of holding action the Trump administration says Beijing has long used to defer substantive concessions.

"This speech was about modestly expanding market access, not constraining industry policy," said Scott Kennedy, a deputy director at the Center for Strategic and International Studies, a Washington think tank. "I expect the Trump administration to criticize the speech as too little, too slow."

The U.S. has in recent months imposed some limited penalties on imports of Chi-

nese steel, aluminum and other goods and threatened tariffs on \$150 billion of other Chinese products to reduce a \$375 billion trade deficit with China. Beijing has mirrored those actions and threatened stern measure-for-measure retaliation. Prospects for an outright trade war between the

the Trump administration says it wants too.

"China has shown its muscle," said Chen Deming, former Chinese commerce minister while attending the Boao Forum. "But at the end of the day, both sides will have to sit down and talk."

A question, some analysts

liberalization of the 1980s and 1990s, when the leadership closed legions of state plants, laying off tens of thousands of workers, to prepare for an influx of foreign capital. Rather, reform today means continued fine-tuning of a government-led model, those analysts suggested.

"President Xi's remarks do not represent a dramatic departure from existing Chinese policy, but rather a reiteration of the same themes Xi has promoted throughout his tenure," said Zhu Chaoping, a Shanghai-based global market strategist at J.P. Morgan Asset & Wealth Management. That means China "will gradually open up at its own pace and in the manner the government believes is most suited for China," he said.

For some analysts and economists inside and outside China, Mr. Xi's remarks are further proof that when Beijing talks of reform today, it doesn't mean the economic

'We're crossing the river by feeling the stones...'

Chinese President Xi Jinping on trade concessions

world's largest economies have rattled global markets, and Chinese officials have said in recent days that current tensions and rhetoric preclude negotiations.

Ultimately, Beijing is aiming for a negotiated settlement to the disputes, Chinese officials and analysts said—something

said, is whether Mr. Xi's speech provides any opening—or whether he is taking a hard line to wait out the U.S.

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WORLD NEWS

U.S. Worries Qatar Is Drifting Toward Iran

Trump administration is trying to ease a dispute between Doha and its Gulf neighbors

BY IAN TALLEY
AND GORDON LUBOLD

WASHINGTON—The Trump administration is scrambling to mend a diplomatic rift between Qatar and its Persian Gulf neighbors and has grown increasingly worried that the emirate is drifting into Iran's political and economic orbit, according to U.S. officials.

Such a shift, U.S. officials fear, would represent a major political realignment and a potential national security threat as Tehran challenges America and its Middle Eastern allies in the region, heightening the stakes of the Gulf dispute.

Months of shuttle diplomacy by U.S. officials have yielded what they consider significant concessions by the Qataris to ease tensions with its adversaries, chiefly Saudi Arabia, Bahrain, the United Arab Emirates and Egypt. But few U.S. officials or analysts expect an imminent end to the impasse.

The administration hopes a series of high-level visits to Washington by Gulf leaders may lessen the dispute. Qa-



President Donald Trump discussed a Gulf rift with Qatar's Emir Tamim bin Hamad Al-Thani.

United Arab Emirates, Bahrain and Egypt severed diplomatic ties with Qatar and imposed a land, sea and air embargo. Mr. Trump fanned the feud at first by siding with Qatar's critics.

U.S. officials have grown concerned that the protracted conflict is endangering Washington's strategic interests by pushing Qatar, a global financial hub, more deeply into Iran's sphere of influence.

Trade between Iran and Qatar has surged in recent months as Doha has sought alternative trade routes and as exports from Saudi Arabia plunged to near zero.

Iranian non-oil exports to Qatar through September were up 127% on the year, according to Iran's Trade Promotion Organization.

Meanwhile, the head of Iran's National Civil Aviation Organization said last year it had seen an immediate 17% increase in air traffic as flights in and out of Qatar were forced to reroute through friendly airspace.

Qatar and Iran also share and jointly manage the world's largest natural-gas field, the South Pars/North Dome reservoir.

U.S. officials say they are worried a shift by Doha into Iran's political and economic orbit would give Tehran access to U.S. money it could funnel to Hezbollah in Lebanon,

Houthi rebels in Yemen and other militants in the region.

Deeper ties with Qatar also could provide Tehran a pretext to send undercover agents into the country as merchants, making it harder to combat Iran's illicit fundraising and influence operations in the region, U.S. officials believe.

U.S. military officials, worried about implications for security arrangements, have taken on a major role. Gen. Joe Votel, head of U.S. Central Command, has held extensive talks with Gulf counterparts since last summer. Mr. Mattis traveled to Bahrain last month and held talks on the issue during visits by Gulf leaders in Washington in recent weeks.

U.S. officials believe there is room for compromise. Still, even if Qatar were to address most of the complaints, officials say a long-running personal animosity will likely continue to fester.

Washington has been able to address some of the Gulf's differences through shuttle diplomacy, and the State Department has drafted plans for a meeting of leaders at Camp David. But Mr. Trump has signaled more progress is needed before a summit can be held.

◆ Exxon in talks with Qatar on natural-gas deal B3

SYRIA

Continued from Page One with the Syrian military.

Mr. Trump has vowed to punish Russia and Iran if the U.S. concludes they helped with the strike that killed more than 40 people, including women and children. But there was no indication that the U.S. would target Russian and Iranian forces in Syria.

Instead, the U.S. and its allies are looking at ways to cripple Mr. Assad's ability to carry out more chemical attacks. Russia's United Nations ambassador, Vassily Nebenzia, warned Tuesday of the "confrontational potential" of what he termed an "illegal military venture."

French President Emmanuel Macron said strikes could target the Syrian regime's chemical-weapons storage facilities, though doing so poses the risk of triggering a release of deadly gases that could kill civilians in the area. Mr. Macron said he expected the small group of leaders crafting a response to take action "in the coming days."

Joining Mr. Macron on Tuesday for talks in Paris was Saudi Arabia's day-to-day ruler, Crown Prince Mohammed bin Salman, who pledged his country's support for the evolving U.S. plans. Prince Mohammed suggested the kingdom could participate in any military action taken against the regime, though it remains unclear what role his country would play.

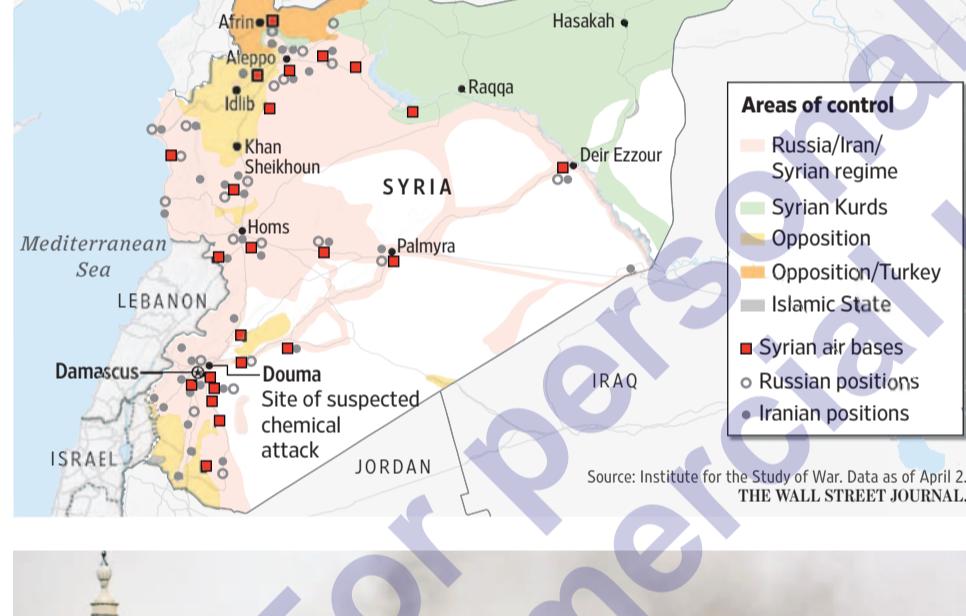
"If our alliance with our partners requires it, we will be present," he said at a joint news conference with Mr. Macron.

As the U.S. conferred with its allies, the U.S. and France moved warships armed with cruise missiles through the eastern Mediterranean, and the vessels were in position to launch an attack if ordered. Britain has an air defense destroyer in the same area and more than a dozen fighters armed with a variety of missiles that could be used in an attack.

U.K. Prime Minister Theresa

Patchwork Control

Military strongholds of Syria and its allies, Russia and Iran, and where opponents of the regime hold sway.



Source: Institute for the Study of War. Data as of April 2. THE WALL STREET JOURNAL.



Smoke rose behind destroyed buildings Tuesday on the outskirts of Damascus, the Syrian capital.

May, who spoke with Mr. Trump on Tuesday, wouldn't say explicitly that Britain would join in any military response. "We believe that those responsible should be held to account," she said.

The military movements and international consultations suggest the possibility of broader strikes than last April, when the U.S. fired nearly 60 cruise missiles at a Syrian airfield used to carry out a chem-

ical attack that month that killed scores of people.

At the time, the U.S. avoided any strikes aimed at suspected chemical-weapons storage sites and focused its firepower on planes and hangars. The U.S. gave Russian forces in Syria advance notice to ensure that those working at the base could get out of harm's way.

The 2017 attack appeared to

deter Mr. Assad from using

deadly nerve gas in its weapons

for several months, but the airfield was quickly back in operation and the Syrian regime continued to fill weapons with less-lethal chlorine for its attacks.

Faced with growing international pressure, Syria and Russia offered to allow a fact-finding team into the country to investigate the weekend attack. The Organization for the Prohibition of Chemical Weapons, which is responsible for monitoring violations of an interna-

tional accord banning chemical weapons, said it was preparing to send a team to Syria.

U.S. officials made it clear that they weren't going to base their decision on whether to carry out a strike on waiting for the results of the independent investigation, which would only determine if deadly chemicals were used, not who was responsible for the attack.

Some U.S. officials expressed skepticism about the Syrian and Russian offer of an inspection, saying that those countries initially blocked access to the site of the alleged attack and that some of the evidence might have been destroyed.

"We don't have much credibility in the offers the regime put forward," a U.S. official said shortly before the OPCW announcement. "We don't know if the evidence has been tampered with."

Intelligence officials around the globe have been working to pinpoint the type of chemicals used in the weekend strike, and what role, if any, was played by Moscow and Tehran.

Medical professionals and human-rights groups say that Syrian military helicopters dropped weapons containing poison gas that caused symptoms consistent with exposure to chlorine and a nerve agent. Dozens of people, including families hiding in basements, died and hundreds were injured.

The prospects for a U.S.-led action increased Tuesday after Russia vetoed a U.S.-crafted resolution before the United Nations Security Council that called for creation of a new group to investigate chemical attacks in Syria and determine who carried them out.

Nikki Haley, the U.S. ambassador to the United Nations, said the vote marked a decisive moment in the council's history to hold perpetrators accountable and the council had failed due to Russia's repeated vetoes. Russia accused the U.S. of using the debate as a pretext for military strikes.

—Farnaz Fassihi, Jason Douglas and Matthew Dalton contributed to this article.

Saudis Drum Up Business In France

BY STACY MEICHTRY AND MARGHERITA STANCATI

PARIS—Saudi Arabia's Crown Prince Mohammed bin Salman capped a three-day visit to France by breaking out the kingdom's check book, unleashing a flurry of deals worth billions.

The accords, in sectors ranging from aerospace to energy, were part of an effort to thaw relations between Prince Mohammed and French President Emmanuel Macron. The two men held talks Tuesday in the Élysée Palace.

Ties between the leaders have grown tense over the Saudi leader's sweeping purge of royal family members and business leaders with ties to France as well as Mr. Macron's steadfast support for the international nuclear accord that provides sanctions relief to Saudi rival Iran in exchange for restrictions on Tehran's nuclear program.

The French leader applauded Prince Mohammed's efforts to modernize Saudi Arabia, saying French companies aimed to "accompany" the transformation.

Saudi Arabia's low-cost carrier Flynas signed a \$6.3 billion deal Tuesday with jet-engine supplier CFM International to purchase engines for 80 new aircraft supplied by Airbus.

Also on Tuesday, Saudi Aramco signed a \$5 billion nonbinding agreement with French energy giant Total SA to build a petrochemical complex next to a refinery they jointly own in the Saudi city of Jubail.

Pentagon Cuts Back America's Presence on Africa's Front Lines

By MICHAEL M. PHILLIPS

NIAMEY, Niger—The U.S. is reducing the presence of American commandos on Africa's front lines, a move U.S. officers believe will make troops less vulnerable to the type of militant attack that left four U.S. soldiers dead in this West African country last fall.

American Green Berets, Navy SEALs and Marine special operators serving as advisers to African forces will largely stay closer to the rear, working from command centers and battalion headquarters, rather than accompanying African troops on hazardous operations against militant groups.

"It should reduce our risk," Maj. Gen. Mark Hicks, commander of U.S. special-operations troops in Africa, told The

Wall Street Journal on Tuesday. "But," he added, "life here is not without risk."

Gen. Hicks said his intention is to put U.S. special-operations troops to work at a higher level, helping African commanders tackle logistics, intelligence, artillery support, medevac and other aspects of large-scale operations against Boko Haram, al-Shabaab and other local Islamic State and al Qaeda affiliates.

"We're looking to advise as far up the chain [of command] as our assistance is desired and feasible," Gen. Hicks said. "It's not just about reducing risk—it's about increasing our return on investment."

Gen. Hicks said the shift began well before the Oct. 4 ambush of a joint U.S.-Nigerien patrol by militants allegedly aligned with an Islamic State



U.S. service members carry the casket of a soldier killed in Niger.

branch, ISIS in the Greater Sahara. The attack killed two Green Berets, two U.S. soldiers assigned to assist special-operations forces and five Nigerien soldiers.

In the coming weeks, the military is expected to release its internal investigation into the ambush. Commanders have promised to release it first to the families of the sol-

diers killed.

The ambush has focused congressional and public attention on the shadowy role of U.S. commandos in Africa. About 1,200 special-operations forces are regularly deployed to a dozen countries from Niger to Somalia, where armed groups often take advantage of vast expanses of poorly governed land, porous borders and populations alienated from their own capitals.

In March, militants from Jama'a Nusrat ul-Islam wa al-Muslimeen—a collection of former al Qaeda groups—stormed army headquarters and the French Embassy in Ouagadougou, the capital of Burkina Faso.

"My sense is that we're still on the defensive across the Sahel," Gen. Hicks said, referring to the band stretching east-

west just south of the Sahara.

Nigerien forces exchange fire almost daily with Boko Haram militants around Lake Chad to the east, or with militants crossing from Mali in the west, said Col.-Maj. Moussa Salaou Barroum, commander of Niger's special operations. Since the October ambush, American special-operations forces in Niger have pulled back, offering advice from inside relatively secure bases.

President Donald Trump has generally delegated more decision-making authority to lower levels across the military, including in U.S. Central Command, which oversees the Middle East, and in U.S. Africa Command.

—Gordon Lubold in Washington contributed to this article.

GREATER NEW YORK

Speaker Presses Cheap Fares For Poor

By PAUL BERGER

New York City Council Speaker Corey Johnson is pushing for a \$200 million program to provide half-price MetroCards to hundreds of thousands of low-income residents.

The National Assessment of Educational Progress, also known as the "Nation's Report Card," found the district's average score for fourth-graders in math fell to 229 last year, down from 236 in 2013, out of a possible 500 points.

"We are not where we need to be on math education," said Chancellor Richard Carranza, who took office on April 2, in an email.

In one of his first moves, he pledged to increase professional development in elementary math instruction and identify schools that are beating the odds so they can share their strategies.

Children across New York are preparing to start state tests in grades three through eight on Wednesday in English, with math tests later this spring. Many families complain standardized tests waste time and narrow the subjects taught.

New York has been a hotbed of boycotting, with roughly one in five eligible test-takers opting out in recent years. In an interview with cable news television channel NY1 last week, Mr. Carranza called opting out an "extreme reaction."

The national test is given every two years in states and in large urban school dis-

tricts, in grades four, eight and 12, to allow for comparisons across the country.

A city Department of Education spokesman said the department was concerned by statistically significant declines since 2015 in fourth-grade math among the district's Hispanic children, students with disabilities, and students who are eligible for subsidized lunch.

About 28% of New York City fourth-graders performed at or above the level deemed proficient in math last year, which was roughly in line with large cities overall, according to the federal report. About 51% of the city's Asian students met that bar, along with 48% of white students, 17% of Hispanic stu-

dents, and 16% of African-American students.

The Nation's Report Card found average New York City scores held roughly steady since 2015 in math in eighth grade, and reading in fourth and eighth grades.

The federal test results showed a more sobering picture than New York's state tests, where average scores for the city's fourth-graders were nearly flat in the past four years.

The state tests may be more closely aligned to local curriculum, and starting in spring 2016, students were given unlimited time to finish them. Mayor Bill de Blasio has highlighted the city's rising state scores when all grades are combined.

Advocates say that low-income New Yorkers are often unable to afford the best-value MetroCards because they are the most expensive. A single ride costs \$2.75. But a seven-day unlimited card costs \$32, and a 30-day unlimited card costs \$121.

The Metropolitan Transportation Authority, which runs the subway and city buses, also provides a 5% bonus on pay-per-ride purchases of \$5.50 or more.

The city council's proposed budget is a response to Mayor Bill de Blasio's preliminary budget plan unveiled in February.

The mayor's \$88.7 billion budget included a 4% spending increase mainly tied to higher municipal-labor and pension costs. The council's proposed budget totals \$90 billion, an increase the council said could be funded with cost-cutting measures and higher-than-expected revenues.

The mayor and council face a June 30 budget deadline.

Mr. de Blasio, a Democrat, supports the Fair Fares program but didn't include it in his budget proposal. A spokeswoman for the mayor said he doesn't think taxpayers can afford it. Spokeswoman Freddi Goldstein on Tuesday pointed to the recently passed state budget that will force the city to pay more than \$400 million toward a subway-rescue plan.

"Times are increasingly tight," she said, noting that the mayor believes the reduced-price MetroCard program should be funded through a tax on the city's highest earners. Such a move hasn't gained support in the state legislature.

The MTA already offers reduced-price MetroCards to residents 65 or older and people with disabilities.

Advocates say low-income New Yorkers often can't afford the best-value MetroCards.

ALBA JIGAY/EUROPEAN PRESSPHOTO AGENCY

Fourth-Grade Math Scores Drop

New York City's new schools chancellor pledged to boost training for teachers

By LESLIE BRODY

New York City's new schools chancellor pledged to boost training for elementary math teachers on Tuesday, after a national test found a drop in average math scores for the city's fourth-graders.

The National Assessment of Educational Progress, also known as the "Nation's Report Card," found the district's average score for fourth-graders in math fell to 229 last year, down from 236 in 2013, out of a possible 500 points.

"We are not where we need to be on math education," said Chancellor Richard Carranza, who took office on April 2, in an email.

In one of his first moves, he pledged to increase professional development in elementary math instruction and identify schools that are beating the odds so they can share their strategies.

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The national test is given every two years in states and in large urban school dis-

Can You Pass Elementary Math?

Try your hand at answering a few questions students face.

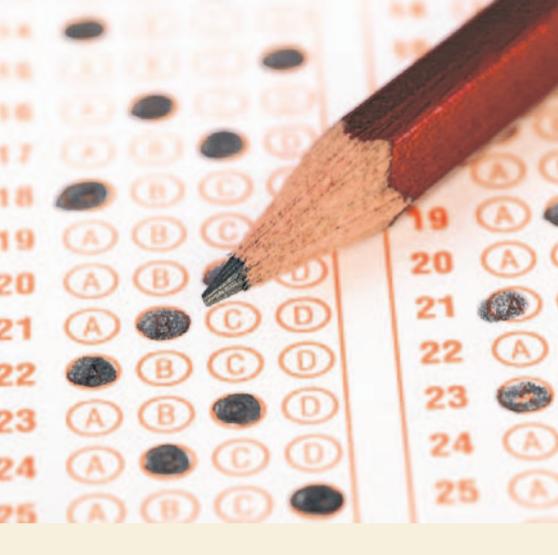
1. Which of the following tools could a person use to measure the temperature of water?

- A. Clock
- B. Ruler
- C. Spring scale
- D. Thermometer

2. Mr. Franklin wants to buy an eraser for every fourth-grade student. There are 12 erasers in each box. There are 7 fourth-grade classes with 24 students in each class. How many boxes of erasers does Mr. Franklin need to buy?

- A. 2
- B. 14
- C. 43
- D. 84

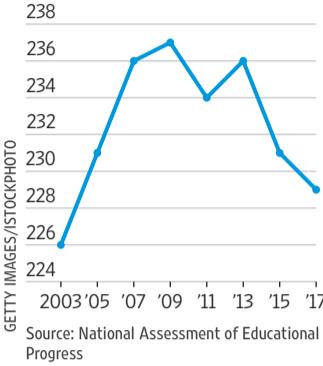
3. Which of the following decimal numbers can be represented by point A on the number line?



- A. 0.6 B. 2.4 C. 2.6 D. 3.4

Numbers Crunch

Average math score (out of 500 points) for grade four public school students in New York City on the National Assessment of Educational Progress.



Source: National Assessment of Educational Progress

THE WALL STREET JOURNAL.

The average score fell to 229 last year, down from 236 in 2013, out of a possible 500.

experts will weigh in to ensure the results give an accurate picture of achievement.

Proponents of such assessments argue they are crucial for pointing out achievement gaps and weaknesses so they can be fixed.

"New York went through a process where it defined college and career readiness in a meaningful way," said Ian Rosenblum, executive director of the Education Trust-New York, a nonprofit that advocates for low-income and minority students. "Lowering those expectations would make it harder to ensure that all students are receiving a quality education."

◆ Test answers can be found at the bottom of the next page



Pfizer has signed a 20-year lease to take 15 floors at the Spiral.

Tishman Inks Deal For Tower Project

By KEIKO MORRIS

complete the tower in 2022.

"In relocating our headquarters, we sought to provide our colleagues a modern, state-of-the-art headquarters that would foster greater collaboration and innovation in a vibrant neighborhood in Manhattan," said Albert Bourla, Pfizer chief operating officer, in a statement.

Pfizer's roots in New York City go back to 1849, when the company was founded as a chemicals firm operating out of a red brick building in Brooklyn. It moved to its headquarters at 235 E. 42nd St. in 1961 and later also occupied the adjacent building at 219 E. 42nd St.

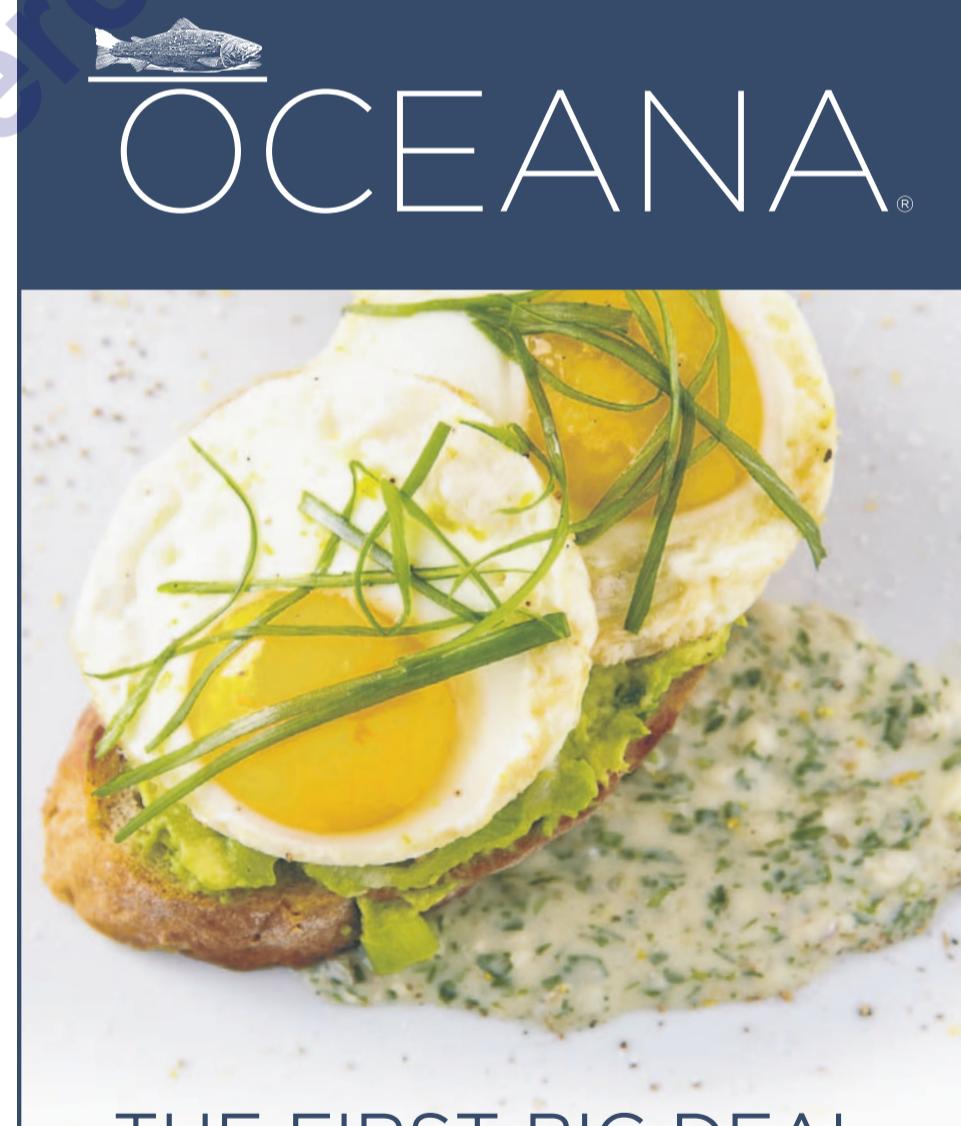
The Real Deal earlier reported Pfizer's deal to sell and lease back its current headquarters.

Pfizer declined to comment on ongoing discussions of the sale of its East Side headquarters, but said the company is pursuing a sale.

"We are still in the process of this work," a spokeswoman said in an email, "and we are pleased that there is interest in our property."

Pfizer will join a number of high-profile companies relocating to or expanding divisions in the new developments rising on the far West Side, including global money manager BlackRock Inc., Amazon.com Inc. and JPMorgan Chase & Co.

Teams from real-estate services company Cushman & Wakefield handled both the lease and the sale for Pfizer.



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GREATER NEW YORK

METRO MONEY | By Anne Kadet

When Shopping Local Pays Off

 Since moving to Brooklyn Heights last year, I've been a loyal customer at Pet's Emporium, the little shop around the corner. And for good reason. Owner Sammy Atef memorized my order after one visit. He always offers an exuberant greeting and showers my dog with treats.

But I couldn't help notice the growing number of packages my neighbors were getting from Chewy, an online pet-food retailer. When I finally took a look, I was amazed. My preferred brand of kibble, which costs \$17 a bag at Pet's Emporium—and \$16 on Amazon—costs \$11.38 on Chewy.

I did the math. By choosing Chewy over Pet's Emporium, I'd save \$150 a year on Minnie's chow.

I like Mr. Atef, but do I like him \$150 worth? It's a horrible, horrible question.

Last week, I stopped by Pet's Emporium to chat. Mr. Atef, it turns out, is well aware of Chewy, a fast-growing national outfit based in Florida offering insanely low prices.

Mr. Atef says his own prices—25% over wholesale—are fair. But he can't compete with Chewy. "Chewy is losing money," he speculates. "They'll grab all the customers and then they'll raise the price."

While Chewy declined to comment, I suspect Mr. Atef might be on to something.

Launched in 2011, Chewy garnered \$450 million in private-equity funding before it was acquired by PetSmart last April for \$3.4 billion, according to funding-data provider Crunchbase. Chewy presumably has plenty of cash to acquire customers.

Mr. Atef, who moved to the U.S. from the Palestinian territories in 1976 and to New York City in 1983, says that when he



opened Pet's Emporium in 1991, it was the only game in the neighborhood. Then came the big-box stores and online retailers. Every additional competitor takes a piece of his business, he says.

While Mr. Atef, who has five children, has hiked prices to cover rising costs—including the high rent on Montague Street—revenue is flat, he says. He used to employ two clerks. Now, he works alone: 12 hours a day, seven days a week.

Sometimes customers disappear and return months later to request a free sample when their online order is late. "That hurts," he says.

Mr. Atef still has many loyal customers. "I like to support local business," says Akane McKirdy, who came by with Pico, her Chihuahua mix. "And Sammy's personality, that's not available online."

I asked her to describe Mr. Atef. "The best!" Mr. Atef suggests. "He is," agrees Ms. McKirdy. "He genuinely cares about us and our dog. We

support Sammy, and he supports us."

Indeed, people who shop local often cite sentiment.

In a 2017 American Express survey of small-business shoppers, less than 25% said they patronized independent retailers for the price or selection; 65% cited their contribution to the community.

"Sammy and a couple of the other store owners in the neighborhood are part of the fabric of everyday life here," says Sabrina Gleizer, a Pet's Emporium regular. She wouldn't dream of shopping around for a lower price.

Curious how others value such intangibles, I conducted my own mini survey of New York City consumers.

Writer Susan Rosenberg says she prefers to shop local, "because I'm tired of the corporate takeover of our lives." But there's a limit to what she will pay. "Not too much more," she says. "Ten percent."

Others will support a small shop that lends character to their neighborhood.

Tania Torres, who lives in the Carroll Gardens section of Brooklyn, says she shops online, but always buys her beans at D'Amico Coffee Roasters, a neighborhood legend. "I will pay whatever they want to charge me," she says.

Telecom project manager Robert Mordini says he shops local when he needs advice—like at the hardware store. But on electronics, he just wants the lowest price.

"Reality sets in," he says. "Who has the extra money?"

I can relate to all these strategies. But happily, I don't have to choose between the local shop and a deal. At least not when it comes to dog food.

"Reality sets in," he says. "Who has the extra money?"

I can relate to all these strategies. But happily, I don't have to choose between the local shop and a deal. At least not when it comes to dog food.

Mr. Atef says he can order my brand in a larger size, at a considerable savings per pound. And just like Chewy, he offers free delivery, so I won't have to lug the bag home. I wouldn't have known if I hadn't asked. But that's how relationships work.

anne.kadet@wsj.com



Shola Olatoye, left, will be succeeded in the interim by Stanley Brezenoff, who has held municipal leadership roles for decades.

Public-Housing Chief Steps Down

BY MELANIE GRAYCE WEST
AND CORINNE RAMEY

The head of New York City's public housing resigned Tuesday amid mounting criticism of her leadership, after months of insisting publicly she would remain in the role.

Shola Olatoye, who has led the New York City Housing Authority since 2014, said at a news conference Tuesday that serving as head of NYCHA, which houses some 400,000 New Yorkers, was the "greatest honor of my life." The timing of her departure, she said, was her choice. She will leave her post at the end of April.

"I have given my heart to this agency," Ms. Olatoye said. "I have made tough decisions, but I leave this agency knowing that it is better than when I found it."

Ms. Olatoye has faced persistent criticism from lawmakers and advocates in recent months about her handling of infrastructure problems, including mold, lead paint, and heat and water issues.

Earlier this month, New York Gov. Andrew Cuomo, Democrat, declared a state of emergency for NYCHA and ordered an independent monitor to oversee a remediation plan for NYCHA properties.

Ms. Olatoye acknowledged there are still some "unacceptable shortcomings in our operations." For residents to be uncertain about lead paint or unable to stay warm on the coldest days, she said, "it unnerves me that we have failed here."

Mayor Bill de Blasio, a Democrat, praised Ms. Olatoye for her service, noting that hers was a "thankless mission" to take on a nearly bankrupt agency that has faced declines in federal funding.

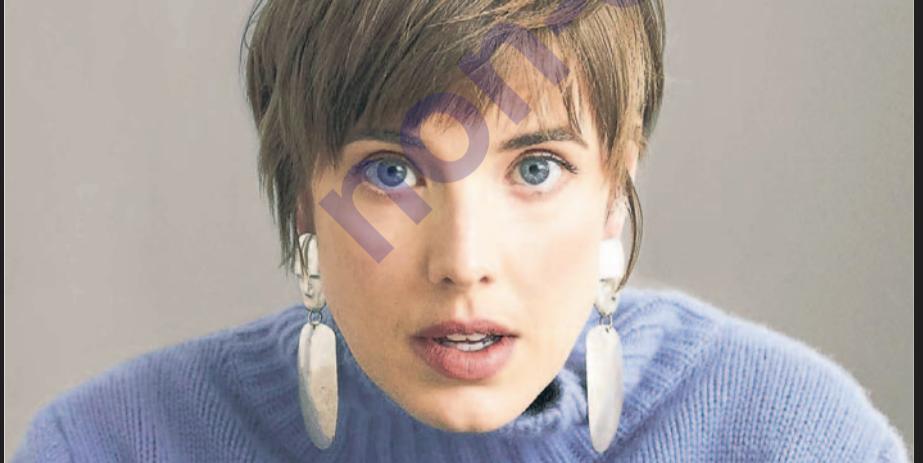
Ms. Olatoye will be succeeded in the interim by Stanley Brezenoff, who has held municipal leadership roles for decades.

Danny Barber, chairman of the housing authority's City-wide Council of Presidents, a residents association, called Ms. Olatoye's resignation long overdue.

OUT TODAY

alexa

FREE INSIDE THE NEW YORK POST



THE DESIGN ISSUE

PLUS 'HARD SUN'

STAR AGYNNESS DEYN

3 NYPOST

Shaq Attends Event at Building Under Construction



CELEBRITY SURPRISE: Some students enjoyed a selfie moment with basketball legend Shaquille O'Neal, who was in downtown Newark on Tuesday for the 'topping off' ceremony at a high-rise building.

GREATER NEW YORK WATCH

NEW JERSEY

Bystanders Help Save Girls From Fire

More than a dozen girls fled a second-story dance studio onto a balcony as a roaring fire engulfed their building, some dropping or jumping to the pavement as bystanders tried to rescue them with ladders.

The rescue efforts were captured in a video that shows the screaming children either falling into the arms of their rescuers or hitting the ground before being pulled away from the flames Monday night in Edgewater.

About 15 girls were treated for minor injuries, Mayor Michel Joseph McPartland said.

Ilker Kesiktas said Tuesday he and a friend joined several other people in rescuing the girls, setting up ladders and, when the flames got too high, encouraging them to jump from a second-story balcony. Tony Nehmi said he and a police officer helped some of the girls down.

—Associated Press

NEW YORK STATE

Shaker Site on List Of Endangered Sites

The site of the first U.S. settlement of the Shaker Christian sect and a crumbling Erie Canal aqueduct are among some of New York's most endangered places, according to a statewide preservation group.

The Preservation League of New York State on Tuesday released its "Seven to Save" designees for 2018-19.

The late 18th-century Shaker settlement site just north of Albany and the 19th-century canal aqueduct over Schoharie Creek west of Albany made the list.

Founded by Ann Lee, the Shaker site in the suburban town of Colonie is bordered by Albany's airport and two highways and is threatened by encroaching development.

The canal aqueduct was built at Fort Hunter in the Mohawk Valley in 1839, 14 years after the waterway linking Lake Erie and the Hudson River opened. After the canal was rerouted the aqueduct fell into disrepair.

—Associated Press

CRIME

Actor Allegedly Made False Bomb Report

Actor T.J. Miller called 911 to falsely claim that a woman he got into an argument with over loud cellphone conversations on a train had a bomb in her luggage, federal prosecutors said Tuesday.

The former "Silicon Valley" actor was arrested Monday at LaGuardia Airport in New York and released on \$100,000 bond after an initial appearance in federal court in New Haven on Tuesday.

The federal public defender who represented Mr. Miller didn't immediately return a call for comment. A message left with a representative wasn't immediately returned.

Mr. Miller called in the false bomb information on March 18 after getting into what an Amtrak worker called a "screaming match" with a woman on a train traveling from Washington to New York, according to prosecutors.

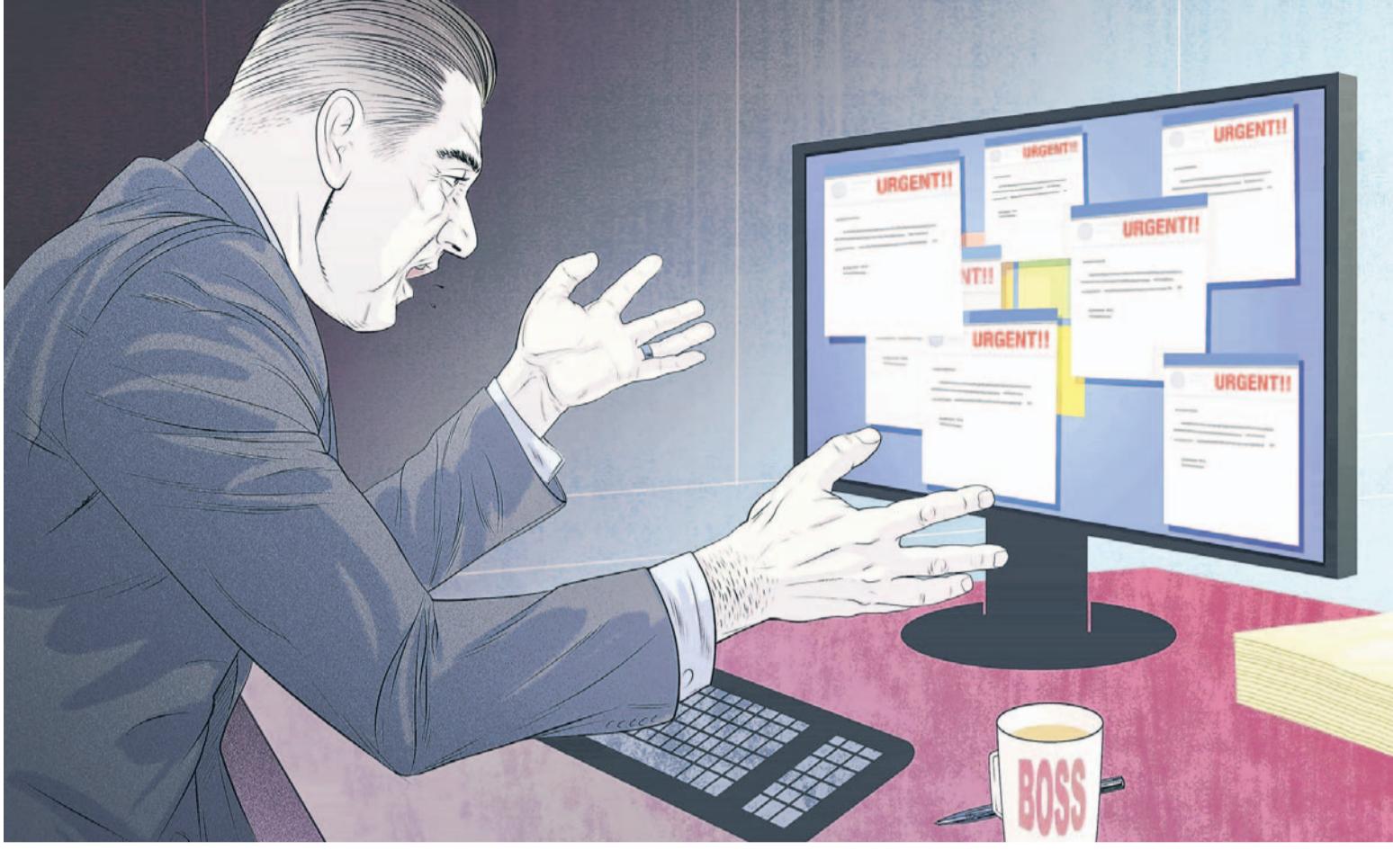
Mr. Miller faces up to five years in prison if convicted.

—Associated Press

◆ Answers to test from the previous page.... 1: D, 2: B, 3: C

—Associated Press

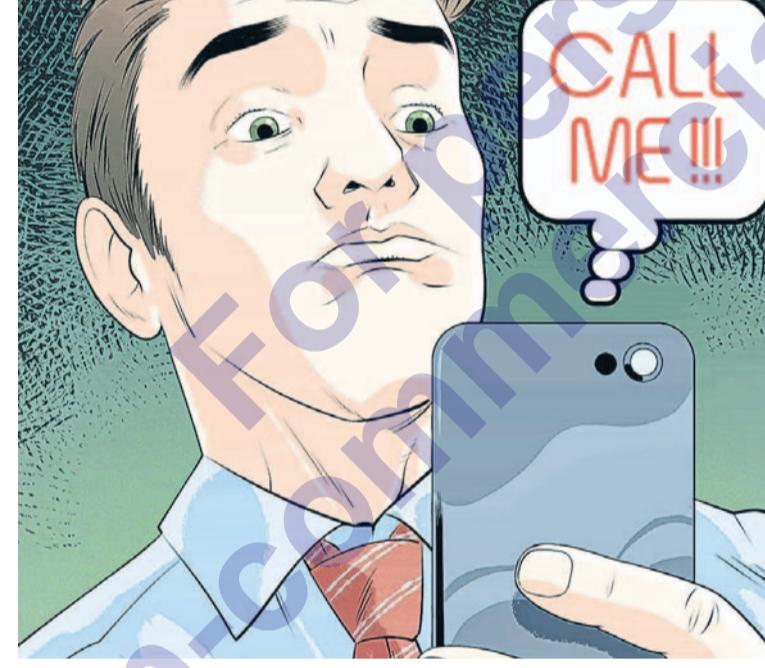
LIFE & ARTS



WORK & FAMILY | By Sue Shellenbarger

The Right and Wrong Ways to Manage Up

Don't assume good work will speak for itself; you need to interact effectively with your boss



coach. How often do you want updates: daily, weekly or only when I have something to report? Do you prefer phone, instant messaging, email or face-to-face?

If you must bring the boss a problem, offer at least one potential solution. And respect the boss's time. Mario Gabriele served as chief of staff for And Co., a New York City provider of software for

freelancers that was recently acquired by Fiverr, a freelance marketplace. Rather than running to his bosses whenever he had a question, he waited until he could say, "I have these 10 things that we can cross off in 10 minutes," Mr. Gabriele says. His boss, Leif Abraham, says Mr. Gabriele's approach enabled him to give more thoughtful answers, and served as

a useful update on his work.

A common pitfall is taking a boss's behavior personally as a sign that "this person is just trying to annoy me," says Robert Tanner, a Lacey, Wash., leadership and business consultant. Many tensions have a less sinister explanation, based on differences in how people see things and make decisions, he says.

Short of giving your boss a personality test, it's possible to understand a manager's style by reading such books as "Please Understand Me," a classic on personality types, and watching how your boss communicates and makes decisions, Mr. Tanner says. Is she quick to act, or more thoughtful and reflective? Does he focus on facts, or intuitive signals or insights?

One financial-services executive was at odds with his subordinates until he and they understood they had different decision-making styles, says Mr. Tanner, who coached both the executive and his team. The executive tended to make decisions intuitively and change his mind a lot. Employees who preferred a more fact-based approach concluded he was indecisive and cared only about himself. Understanding their conflicting styles helped employees stop taking the executive's behavior personally and frame their complaints in a way that mattered to him—by explaining that he was hurting the department's reputation.

Employees also need to understand the boss's priorities, Dr. Kantor says. What seems like a small error to an employee might look like a systemic failure to a boss with a broader realm to manage, she says. This includes being mindful of how your performance affects your boss's success.

Bill Sandbrook, chief executive officer of U.S. Concrete in Euless, Texas, says he once gave a manager a big promotion, knowing he'd need mentoring to handle the increased responsibility. Mr. Sandbrook had a stake in the manager's success, and he was disappointed when the man refused to accept

Rules of Engagement With Your Boss



Figure out and adapt to your bosses' communication styles by watching them interact with others.

Seek agreement on how and when to update your boss on your work.

Ask yourself whether tensions with the boss may be a problem of clashing styles rather than more fundamental conflicts.

Avoid escalating problems to the boss too quickly, before you've tried solving them yourself.

When you bring the boss a problem, also bring at least one potential solution.

If you must disagree with your boss, do it privately, in a calm voice during a low-stress time.

Never bad-mouth your bosses behind their backs.

Never embarrass your boss in front of others.

Avoid overload by asking your boss for help prioritizing projects, rather than saying no.

DOMINIC BUGATTO

coaching or even answer questions. "The power had gone to his head" and he soon left the company, Mr. Sandbrook says. "The new manager can't be too proud to show when he doesn't know something, and he has to totally swallow his ego and listen."

It pays to figure out what motivates your boss, Dr. Kantor says. Does he or she need to look important? Find ways to help her talk about her successes, Dr. Kantor says. Does he want to be in control? Give him lots of information about what you're doing and offer choices about next steps so he can make the decision.

It also pays to learn the unwritten rules of your workplace: How are disagreements handled here? When is it OK to interrupt a meeting?

Laura Williams's boss, Rick Miller, chief executive of Sensible Financial Planning, a Waltham, Mass., investment-advisory firm, sometimes gets tied up in meetings or calls and fails to show up on time for appointments she has scheduled with him. Ms. Williams, an associate financial adviser, knows it's OK to knock on Mr. Miller's door when he's more than five minutes late. She also knows the exceptions to the rule—such as avoiding interruptions when he's on a client call, which he blocks out in red on his calendar.

"Getting to know how your boss prefers to deal with things is important," Ms. Williams says. Mr. Miller, who includes "managing up" as a target ability on employees' performance reviews, gives Ms. Williams high marks.

ART

METROPOLITAN MUSEUM NAMES NEW DIRECTOR

BY KELLY CROW

AFTER SEVERAL YEARS of financial missteps, the Metropolitan Museum of Art in New York has chosen a veteran museum manager, Max Hollein, to be its next director.

Mr. Hollein, 48 years old, is currently the director of the Fine Arts Museums of San Francisco, an entity that comprises the M.H. de Young Museum and the Legion of Honor. Before that, he oversaw a trio of museums in Frankfurt, Germany.

He will aim to start at the Met by August, taking over leadership of the museum's exhibitions and collections from Dan Weiss, who has been temporarily shouldering those duties and will remain the museum's top boss as president and chief executive. The Met's 19-member search committee spent a year looking for a new director.

The job—a mix of curator, lawyer and diplomat—entails producing around 40 exhibits a year,

helping manage a staff of 2,200, and overseeing the museum's collection of nearly two million objects spanning 5,000 years.

Mr. Hollein is likely to be asked to intervene in sensitive discussions with foreign governments over disputed artworks. As director, he will also be expected to play

'He's clearly a young smart guy, but he's going to have his work cut out for him.'

cultural ambassador for New York, where the museum draws seven million visitors a year and reigns as the city's top tourist draw.

He will also need to work effectively with Mr. Weiss, who will continue to manage operations across the museum's three sites—the main location on Fifth Avenue;

the nearby Met Breuer, which shows modern and contemporary art; and Met Cloisters, which shows medieval art. Mr. Weiss will also keep supervising the museum's finances, including an effort to balance its roughly \$305 million budget by 2020.

A projected \$15 million deficit in the museum's budget two years ago led the Met's previous director, Thomas P. Campbell, to resign under pressure in 2017. The New York art establishment has since kept a close eye on every financial move the museum has made, from layoffs to changes to its admission fees. As of last fiscal year, the museum had a nearly \$10 million deficit.

Daniel Brodsky, the Met board's chairman, emphasized Mr. Hollein's "proven record" for mounting successful exhibitions in a statement following the board's vote Tuesday.

In an interview, Mr. Weiss said Mr. Hollein beat out at least 100 rivals for the job by demonstrating his passion for art and willingness

Please see MET page A10



Max Hollein, previously director of the Fine Arts Museums of San Francisco, is joining the Met as its new director.

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LIFE & ARTS

MY RIDE | By A.J. Baime

A Teen Obsession Became a Shelby Collection

William Deary, a health-care entrepreneur from Jackson, Mich., on his Original Venice Crew 1965 Shelby Mustang GT350R, as told to A.J. Baime.

When I was 17, I visited my uncle in Okemos, Mich., and the gentleman who lived next door had this beautiful car in his driveway. I fell in love with that car. It was a 1968 Shelby Mustang GT500KR. The KR stood for King of the Road.

I came from a modest family and, at the time, I could not imagine I could even own a car. But I started collecting Carroll Shelby posters and T-shirts. Over time, I was able to build a successful company, and I ended up collecting Shelby cars. Today, I have a private museum I call the Carroll Collection.

Who was Carroll Shelby? He was a world champion race car driver in the late 1950s, and in 1960 he discovered that he had a heart problem. He was told he did not have long to live. He could no longer race cars, but he could build them. Over the next roughly 50 years, his company built some of the most iconic race cars and high-performance street cars in history.

My collection has about two dozen cars, mostly centered around the vintage years of Carroll Shelby automobiles, from 1962 to 1970. The car you see pictured here is an Original Venice Crew Shelby Mustang GT350R. In the 1960s, Shelby partnered with Ford and built high-performance Shelby versions of Mustangs in Shelby's shop in Venice, Calif., when it was still a tiny operation. The GT350R was a full-on race car, available to consumers. Only 36 were built.

In the winter of 2014, original Shelby employees who built this car in the 1960s reunited to make new ones. They find original 1965 Ford Mustang Fastbacks, buy them, then build them out as they did in



William Deary, of Jackson, Mich., built a collection focused on the vintage years of Carroll Shelby cars, from 1962 to 1970. It includes rare cars such as, below from left, a 1968 Mustang GT500KR convertible, a 1966 GT350H and a 1966 GT350.



1965—only this time, they are able to add performance parts they were not able to in the 1960s due to time and budget constraints.

To me, the guys who built this car are like the Michelangelos of the auto world. Not only was I able to acquire one of the new Original Venice Crew cars in February 2015, I was able to meet the crew and got to work on building the car with them.

For me, this was truly a bucket-list experience.

Contact A.J. Baime at Facebook.com/ajbaime

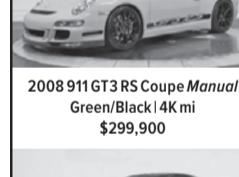
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MET

Continued from page A9
to collaborate.

"He's a team player," Mr. Weiss said.

Mr. Hollein has also been well known to the Met's board for years; his name was floated as a candidate before Mr. Campbell won the post a decade ago.

Despite the turbulence at the Met, Mr. Hollein said he couldn't resist the offer, calling the museum the "standard-bearer for encyclopedic museums around the world."

He said he also feels prepared for the intensity of his new role. After earning degrees in art history and business administration from the University of Vienna and Vienna University of Economics, respectively, Mr. Hollein in 1995 began working as a curatorial assistant—and later, chief of staff—for Thomas Krens.

Mr. Krens led the Solomon R. Guggenheim Foundation's efforts in the late 1990s to build counterparts in other cities like Bilbao, Spain. Mr. Hollein said he learned "how you can juggle many things and keep your nerve for that moment when everything falls into place."

Later, Mr. Hollein worked in Frankfurt as director of the Schirn Kunsthalle, an exhibit space for modern and contemporary art, and in 2006 he was also asked to lead the city's Städels Museum, which is known for its old-master art, and the Liebieghaus, a villa filled with ancient and classic sculptures.

Since moving to San Francisco two years ago, he eased some financial woes at the Fine Arts Museums by bal-

ancing its budget and hiring new managers. Dede Wilsey, chairman of the Fine Arts Museums board, said she was "sad to see Max leave," adding that she wished the institutions could "benefit much longer from his strong and visionary leadership."

Mr. Hollein will be the 10th director of the Met since it was created in 1870.

Madeleine Grynsztejn, director of the Museum of Contemporary Art in Chicago, said Mr. Hollein is admired in curatorial circles for "running encyclopedic museums through a contemporary lens."

He won raves for his recent decision to display Urs Fischer's edgy sculptures of oversize eyeballs and candle-wax sailing ships near Rodin's classic bronzes at the Legion of Honor. Ms. Grynsztejn said, "That's a compelling combination."

Nik Honeysett, the J. Paul Getty Museum's former head of administration, said he wished the Met had broken precedent by hiring a woman to be its next director, but he said Mr. Hollein's business acumen should serve the museum well.

The new director's biggest challenge will likely be charming the museum's powerful curators, Mr. Honeysett added. "He's clearly a young, smart guy, but he's going to have his work cut out for him."

Mr. Hollein said he can handle a little pushback. Growing up in Vienna, he watched his father, architect Hans Hollein, brush off death threats from locals upset by his building projects. "New Yorkers are certainly passionate about this place," Mr. Hollein the younger said, "but I think that's a positive."

THE WALL STREET JOURNAL.

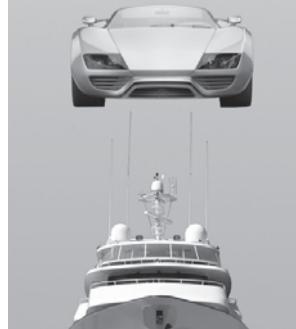
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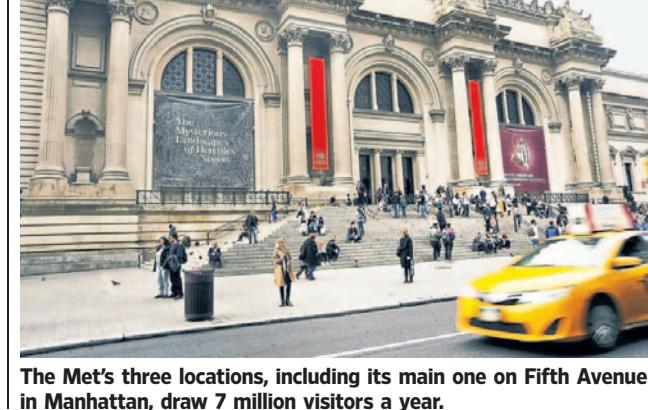
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The Met's three locations, including its main one on Fifth Avenue in Manhattan, draw 7 million visitors a year.

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LIFE & ARTS



Scenes from 'The Rickshaw Man,' above, and 'Rashomon,' left; cinematographer Kazuo Miyagawa at the camera, below center

famous, arguably greatest, efforts remain the widely lauded "Ugetsu" (1953) and "Sansho the Bailiff" (1954). Both are to be screened in stunning recent 4K transfers, which make them feel new in the best, entirely authentic, sense. In this form and on the big screen, they are not to be missed. Even those who know them well will find countless small revelations thanks to the clarity of these transfers.

Much the same can be said of the comparatively unfamiliar "A Story From Chikamatsu" (1954), also newly restored in 4K, which ends a weeklong run at Film Forum on Thursday. Completed shortly after "Sansho," it, too, is a period piece in which tragedy befalls those who deserve it least—in this case the wife of a successful printer and his chief apprentice, whose lives unravel in surprising ways thanks to a series of unintended consequences. Like the film's extraordinarily simple score, the cinematography is restrained yet potent, casting an unbreakable spell in which light and darkness, town and country play against each other. And never has a bamboo grove looked more fetching in moonlight than it does here.

Film is a collaborative art, and parsing who is most responsible for a given effect, gesture or "look" can be tricky. But taken collectively, these movies demonstrate that Miyagawa has always served the picture. When audaciousness enhanced the effort, he delivered it. And when restraint was required, he proved no less adept at that. Never is there a sense in these movies that his choices were anything less than organic. That alone makes all of them worth seeing, with some impossible to forget.

Mr. Mermelstein writes for the Journal on film and classical music.

CULTURAL COMMENTARY

Seeing Is Believing

A rare retrospective honors cinematographer Kazuo Miyagawa, whose credits include 'Rashomon'

BY DAVID MERMELSTEIN

AUTEURS RULE the kingdom of cinema. And that's no less true of foreign films than it is of Hollywood movies. Retrospectives are generally built around directors who stamp their pictures indelibly. Actors sometimes carry a series—if they're as popular as Cary Grant, Sophia Loren or Jean Gabin—but rarely screenwriters, composers or cinematographers. Which is what makes "Kazuo Miyagawa: Japan's Greatest Cinematographer" such a major event.

No matter that his name isn't familiar. You know his films—"Rashomon," "Ugetsu" and "Floating Weeds," to name three of his roughly 130. If you don't, that's not a problem. Or at least it isn't if you happen to be in New York for the rest of the month, where the Museum of Modern Art and the Japan Society, with an assist from Film Forum, are mounting what is surely the broadest retrospective yet celebrating the work of Miyagawa, born in Kyoto, Japan, 110 years ago. A total of 27 films will screen through April 29, some repeatedly. (Check the organizations' websites for titles and showtimes.)

Miyagawa's reputation in the West stems primarily from his having shot movies by three demigods of Japanese cinema's golden age: Kenji Mizoguchi, Yasujiro Ozu and Akira Kurosawa. But he was honing his craft long before these associations, as the musical comedy "Singing Lovebirds" (1939), directed by Masahiro Makino, and Hiroshi Inagaki's gently sentimental 1943 version of "The Rickshaw Man" will attest.



has been a source of controversy in recent transfers. So hopes are high that the new 4K restoration making its debut at MoMA on Thursday and at the Japan Society on Friday will assuage concerns and further elevate Miyagawa's already considerable reputation.

The cinematographer also enjoyed fruitful associations with Kon Ichikawa and Masahiro Shindō. For the former, he shot the at once languid and suffocating "Conflagration" (1958), based on an angry-young-man novel by Yukio Mishima; the droll, black sex comedy "Odd Obsession" (1959); "Her Brother" (1960), which pioneered a form of desaturated color; and the model sports documentary "Tokyo Olympiad" (1965). For the latter, exam-

ples include "Silence" (1971), a story of Catholic missionaries that Martin Scorsese recently retold, and the heartbreak "Ballad of Orin" (1977), which traces the misfortunes of an itinerant blind girl—ironi-

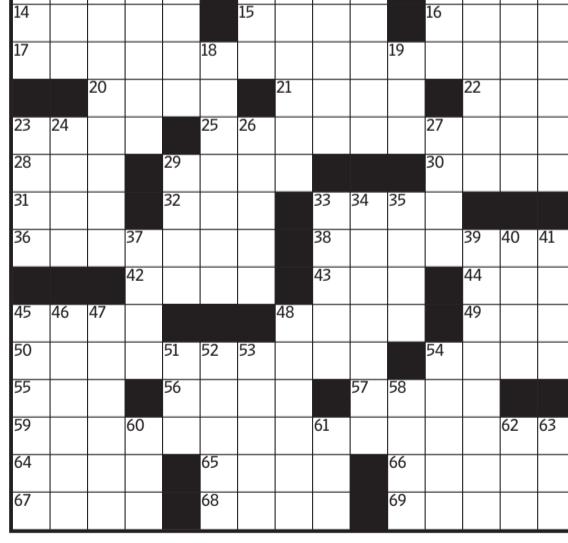
cally one of Miyagawa's most lushly photographed movies.

But no collaboration was more essential to Miyagawa (or vice-versa) than his eight-picture relationship with Mizoguchi. Their most



Scenes from 'Ugetsu,' above, and 'Street of Shame,' top center

The WSJ Daily Crossword | Edited by Mike Shenk



Down	33 Parting word
1 E-book format, often	34 Italian gunmaker
2 Fire sign	35 Challenge for a speech therapist
3 Plentiful	37 Prayer concluder
4 Numbers	39 Difficult to reach, and what
5 Filmmaker Preminger	17-, 25-, 50- and 59-Across literally share
6 It ended Nov. 11, 1918	40 Ring of Kerry's locale
7 Building with wings?	41 Great deal
8 Reason for a boil-water advisory	45 Foment
9 Unpleasant	46 Seat of power
10 Sign of a packed house	47 Gives in
11 Foe of the ancient Romans	48 Embarrassing flub
12 Contrary to fact	51 Garden pond swimmers
13 End-of-inning recap	52 Ball's partner
18 Log supporter	53 "I ___ differ"
19 "Of course!"	54 Crosses symbolizing life
23 Fertility clinic specimen	58 "Behold," in Latin
24 Equivalent of 100 centesimi	60 Where test drives begin
26 Provides and cares for	61 Discography listings
27 Slam participant	62 Colorado native
29 Procter & Gamble brand	63 Banana Republic buy

Previous Puzzle's Solution			
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FINEDI	AMOND	TSA	SIEGE
EDITS	GENE	THAN	LIES
LIES	GRANDCHILD	LOCAL	OILLY
STEM	OPPS	CANOE	SIGNS

PLEASE LEAVE A MESSAGE | By Gary Cee

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1 Academy founder	6	50 Mull
6 History test question	7	54 From the get-go
10 Leave gobsmacked	8	55 Fuming feeling
14 Performer's milestone	9	56 Cookie sold in over 100 countries
15 City between Austin and Dallas	10	57 Look after
16 "The Misfits" setting	11	59 Power company's precautionary measure
17 Sought-after spring	12	64 Cause the ruin of
20 Extremely bright	13	65 At the crest of
21 Model-building need	14	66 Plane's emergency exit
22 Start for atomic or athlete	15	67 Annoying person
	16	68 Chaotic scenes
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Solve this puzzle online and discuss it at WSJ.com/Puzzles.

SPORTS

BASKETBALL

The Game That Became a Stalemate

What an obscure, absurd, epic Minnesota high-school matchup says about today's NBA

BY BEN COHEN

IT WAS ONLY a good high-school basketball game before it became the most incredible game you've never heard about.

Hopkins vs. Shakopee in the Minnesota state tournament four years ago was an absurd epic of basketball strategy pushed to its limits. It was a game in which literally nothing happened for almost 14 of the last 18 minutes in a game that went to four overtimes—and it was because each team had an edge it was willing to take to the extreme.

This is what it takes to win at all levels of sports today. The combination of data and pragmatism that has swept professional sports in recent years means teams have weaponized information to such a degree they have no choice but to stretch their little advantages, sometimes beyond what anyone could have imagined.

But rarely if ever have teams exploited their little advantages for all they're worth the way that Hopkins and Shakopee did on March 13, 2014. Both coaches were so defiant about playing to their teams' strengths—one on offense, the other on defense—that they allowed the game to come to a complete halt.

Hopkins High School in Minnetonka was a powerhouse used to winning state titles and producing college and NBA players. It averaged 87 points per game that season and was confident it could score when necessary.

Shakopee High School in Shakopee was riding the type of magical year that a high-schooler remembers forever. But the Sabers were the underdogs against a team with more Division-I players on its roster than Shakopee had in at least the last half-century. It banked on a stifling zone defense to slow the Hopkins scoring machine.

Shakopee was losing at half-time, but its style of play was winning. Late in the second half, the score was tied at 41-41.

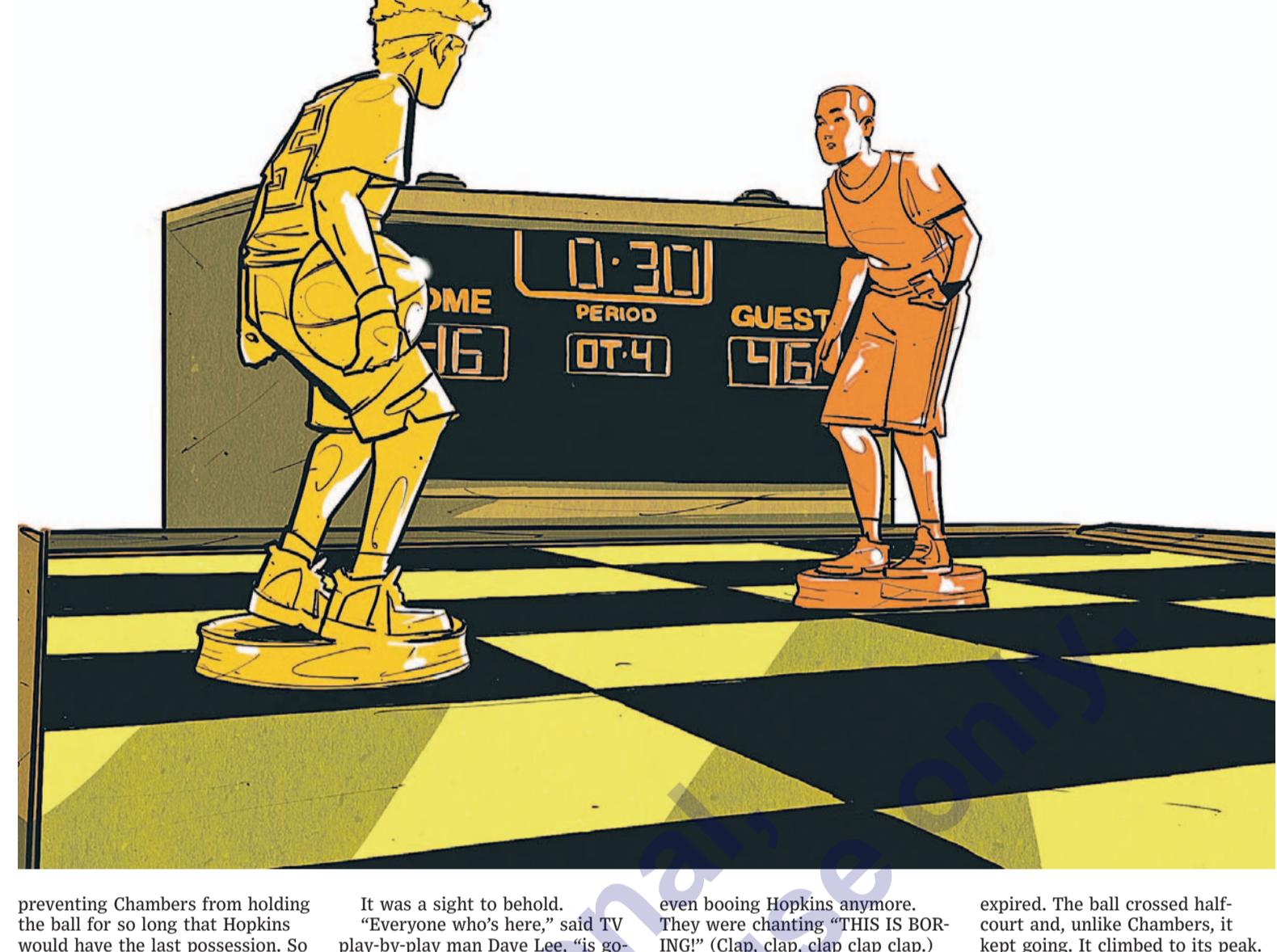
That's when things got weird.

Hopkins guard Kamali Chambers trudged across half-court with 2:42 left in the fourth quarter to catch his breath for what he thought would be a few seconds. With about 2:30 left, though, he noticed something odd: Shakopee's defense had not budged.

And then Chambers had an idea.

"What if I held the ball?" he thought.

The history of stalling in basketball, a tactic popularized by Dean Smith's Four Corners offense at North Carolina, all but ended with the introduction of the shot clock. Minnesota doesn't have a shot clock. There were no rules



THOMAS PITTILLI

preventing Chambers from holding the ball for so long that Hopkins would have the last possession. So that's what he did.

He didn't get any closer to the defense, and the defense didn't get any closer to him. Hopkins and Shakopee had reached a stalemate. For the next two minutes, the game stopped.

The crowd initially buzzed at the absurdity. It was booing when Hopkins called a timeout with 19.1 seconds left. Ken Novak Jr., the coach who backed Chambers with a devious smile, called a play for Amir Coffey, his talented sophomore forward, and Coffey's running floater flirted with the rim before it bounced off.

The game was going to overtime. Things were about to get weirder.

Hopkins won the tip and the ball went to Chambers. He walked across half-court and stopped. Both teams were sticking with their strategies.

Hopkins and Shakopee mutually agreed to stare at each other for almost four minutes. Neither team blinked.

It was a sight to behold.

"Everyone who's here," said TV play-by-play man Dave Lee, "is going to remember this game."

It made perfect sense to Novak when Chambers suggested holding the ball. It was his team's best chance of winning. "Whether we were the better team or not, we weren't playing better," Novak said. "We needed to take any advantage that we had."

Bruce Kugath could live with Hopkins taking that last shot. Shakopee sitting back in a zone and trying for the jump ball to score first in the next overtime was his team's best chance of winning. "If we'd have gone man-to-man," Kugath said, "I really don't think that would've been to our advantage."

Both coaches believed their teams were doing exactly what they should have been doing. Even if they weren't doing anything.

The first overtime turned into a second overtime—the fans were so psyched for the jump ball they stood in anticipation—and the second overtime turned into a third overtime. Shakopee's fans weren't

even boozing Hopkins anymore.

They were chanting "THIS IS BORING!" (Clap, clap, clap, clap, clap.)

By this point, if you weren't related to someone on the Hopkins bench, you were rooting for Shakopee. Which explains the roar for Shakopee winning the jump ball in the third overtime.

Kugath had been trying to swing probability Shakopee's way, and when the Sabers turned the first possession into a three-point lead, the odds were finally in their favor. But Hopkins tied the game at 46-46 in the last minute of the third overtime to make sure there would be a fourth overtime.

Hopkins won the tip. Shakopee went back to its zone. Hopkins went back to its stall.

That was how the game continued for almost four minutes until turnovers from both teams gave Hopkins one last chance with two seconds left—enough time for something miraculous.

The inbounds pass went to Coffey. He dribbled twice, covered as much ground as he could and released the ball right before time

expired. The ball crossed half-court and, unlike Chambers, it kept going. It climbed to its peak. It plunged toward the basket. And then it went in.

The game that would never end was over. It was highly rational until it was suddenly irrational.

"It ended up coming down to nothing to do with either strategy," Novak said. "It ended up being someone tossing a 60-footer."

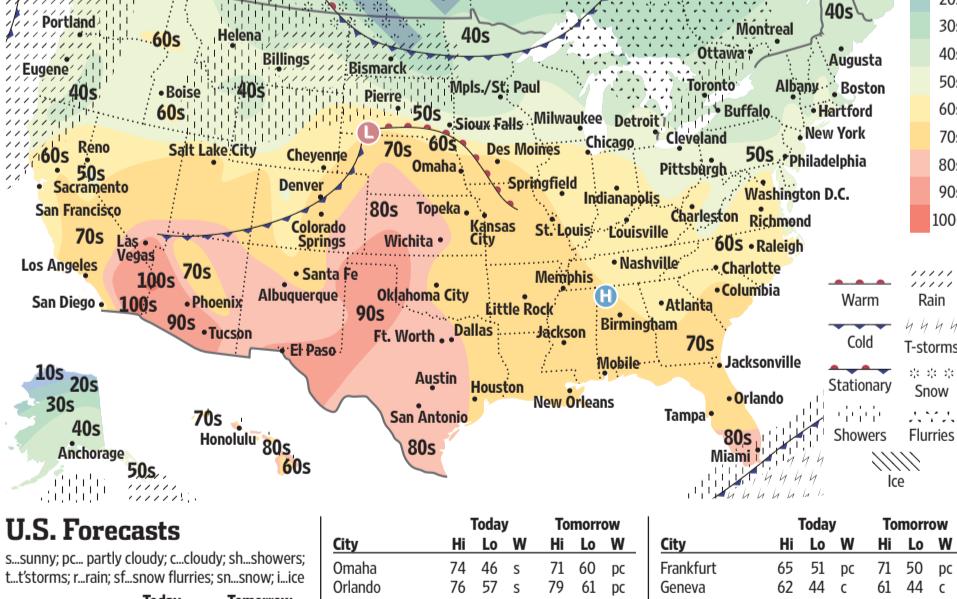
After the chaos, there was controversy. Novak's email inbox overflowed with hate mail. Kugath was politely informed by his peers about setting the sport back several decades.

But four years later, with a high school's education worth of time to reflect, they say they have no regrets about the decisions they made that night.

"I would do the same thing," Novak said, "and I'm guessing they probably would've done the same thing."

"People asked me afterward if I would change anything," Kugath said. "I really wouldn't. I'd change that we didn't win."

Weather



U.S. Forecasts

S=sunny; pc=partly cloudy; c=cloudy; sh=showers; t=tstorms; r=rain; sf=snow flurries; sn=snow; L=ice

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OPINION

The Zuckerberg Effigy



"Senator, we run ads."

So declared Mark Zuckerberg in answer to Orrin Hatch about how the company m a k e s money if it d o e s n ' t charge users of its service. And then he cracked his first smile of the day.

Tuesday's was a good hearing for the Facebook founder, as demonstrated by Facebook's stock price, which the business channels tracked during his testimony.

The famously casual CEO donned a suit, if not the white wig and black robes that probably still wouldn't have satisfied those who criticize him for a lack of gravitas. (When the old criticize the young for looking young, a whole lot of baggage is on display.)

His friends may want to send a donation to Ted Cruz for showing up. The Texas Republican would make an aardvark look simpatico in comparison.

Mr. Zuckerberg ably swatted down the casual slur that his company "sells" consumer data. It doesn't. It keeps control of user data and leverages it to help advertisers target potential customers.

Unrelated complaints were dragged in: Facebook is addicting. It's a monopolist. The Russians use it. Liberals work there.

Apple CEO Tim Cook a few weeks ago snootily alluded to

Facebook's advertising-based business model (also a basis for the news and entertainment businesses for a couple of centuries). That theme was repeatedly summoned in quasi-pejorative fashion during the hearing. But notice that it wasn't Facebook that recently had a problem with theft of private, intimate celebrity home videos. Apple did.

And notice why: Facebook is for information that people want to broadcast about themselves. They sign up "friends" willy-nilly to increase the audience for their revelations.

Facebook never asks for my credit-card number, though plenty of websites do, and plenty have suffered data breaches of real consequence that make the Facebook "breach" look even more overblown. Facebook users don't post their bank-account numbers. If they mention their incomes, it's probably a lie. The result, if any, of the alleged Facebook breach was indistinguishable from the daily routine: Facebook users saw ads.

If you are worried about somebody turning your deepest secrets into advertising, that's not Facebook—it's the search engine Google. Mr. Zuckerberg conceded that probably all two billion users have had their data "scraped" from the site. No kidding. Google is the biggest scraper: Google is often how you find an acquaintance has a Facebook page in the first place. But this is information that Facebook posters wanted others to find.

Not that there isn't a real privacy menace related to social media. To our pleasant surprise, it was alluded to briefly by Sen. John Thune in his opening comment.

It's already been five years since researchers showed that a tiny sample of "anonymized" cellphone location data was sufficient to identify individual users with 95% accuracy by comparing it to publicly available social-media data.

A Silicon Valley CEO sticks up for a culture of trying new things and learning by doing.

You'd be surprised how much government data about you (tax, health care) is being distributed by the government to outsiders for research or commercial purposes, supposedly "de-identified." Not to mention the information about you collected by businesses. To show your face in public these days is to create data. To drive your car is to create data. The concern has even been extended to blood and tissue samples compiled by hospitals, which have routinely been widely distributed for research purposes.

Now consider that you voluntarily fill the world with tweets, Facebook posts, web comments, etc. that a re-identification industry can use as a resource to tie your name to what was supposed to be anonymized statistical data.

We would have welcomed further discussion of this matter from this week's Zuckerberg waterboarding, which instead was all about congressmen being seen barking at a Silicon Valley kingpin. Fortunately there's also learning going on. New forms of social media are being invented every day. Users are already making increasingly subtle decisions about whether to communicate by voice, text, Facebook, a message app, a tweet or an email, depending on the nature of the message and intended audience.

Such learning is likely to be a better solution to social-media quandaries than any Congress might come up with.

This column has had doubts about Facebook's business model from the beginning, which we won't repeat here. But Mr. Zuckerberg's rather healthy attitude of trying things and seeing what happens, then correcting course as he goes along, has innate appeal. This week, alas, it came up against people who prosper by being on all sides of every issue, for whom admitting a mistake is the final, desperate recourse only when a career is going down the tubes.

What is most sad is to see the ethos of Washington finally subsuming what, for a time at least, was Silicon Valley's bright and cheerful sense of possibility. Mr. Zuckerberg's performance Tuesday did not stop a steamroller that's been building up momentum for months, but he ably represented what Silicon Valley has always had to offer.

BOOKSHELF | By John Hawks

Ghosts In the Genome

Who We Are and How We Got Here

By David Reich
(Pantheon, 335 pages, \$28.95)

Some 4,500 years ago, the Bell Beakers invaded Britain. Roughly 90% of the genes of later Britons came from this group, named for the distinctive shape of their pottery. Archaeologists long thought that Britain's early farmers, who built Stonehenge five millennia ago, adopted the pots from continental neighbors. Instead DNA evidence shows that the farmers were nearly annihilated by the Bell Beakers.

This result, published earlier this year, is one of many recent insights described in "Who We Are and How We Got Here," by Harvard geneticist David Reich. In its pages, Mr. Reich documents an extraordinary moment in the history of science, a 10-year span in which geneticists have gone from the first practical sequencing of entire genomes to collating hundreds of genome samples taken from ancient bones. Mr. Reich and others are using these data to build a map of genetic variation in the ancient world. In the process, they

have solved some old archaeological problems but also uncovered new mysteries.

"Who We Are and How We Got Here" chronicles Mr. Reich's work in five regions of the world. The stories are varied: People who brought Indo-European languages into Europe seem to have originated in the Yamnaya, or Pit Grave, culture of the Ukrainian steppe. Some indigenous peoples of Brazil carry a faint trace of DNA not found in other Native Americans—DNA traces that resemble the populations of Australia, New Guinea and the Andaman Islands in the Bay of Bengal. Up to half of the ancestry of West African people may represent an ancient "ghost" population long diverged from other modern humans.

One of the most interesting chapters concerns India. There, Mr. Reich and his co-workers have documented a series of migrations, starting 4,000 years ago, that brought Indo-European languages and peoples into the subcontinent from the northwest. The science paints a scenario that seemingly parallels events described in the "Rig Veda," the 3,500-year-old collection of Sanskrit hymns.

The concordance of near-mythological history with genetic fact was scientifically exciting, but to the surprise of Mr. Reich and his mathematician colleague Nick Patterson, it was also a potential political bombshell. Messrs. Reich and Patterson were giving the imprimatur of science to one version of history. Some Indians would surely see the result as welcome ammunition in a cultural war.

The scientists devised a clever dodge. They wouldn't talk about Indo-European invaders at all. Instead they would examine today's groups as varied mixtures of two ancestral populations—Ancestral North Indians and Ancestral South Indians—and offered a simple conclusion: "No group in India can claim genetic purity."

Recent scientific discovery suggests that people in many parts of the world today have little DNA from the first peoples who lived in the same region.

Messrs. Reich and Patterson's new statistical methods proved uniquely suited to the dawning era of ancient genomes. In 2010 they helped to prove that ancient Neanderthals and modern people mixed. Later that year, Mr. Reich led the analysis of the mysterious "Denisovan" genome, demonstrating an unexpected genetic legacy in Melanesia and Polynesia from a population that archaeologists never guessed had existed.

Understandably, a few details in Mr. Reich's book are already out of date. In such a novel area of science, individual research results are unlikely to persist for long. What will endure are the larger themes: People in many parts of the world today have little DNA from the first peoples who lived in the same region. Most living groups are mixtures of ancient groups, which used to be much more genetically different from one another. Modern human ancestry is checkered with the traces of archaic ghosts.

As we see Mr. Reich's field developing, we also see his development as a scientist. He seems a contradiction: Rising to the pinnacle of human genetics, he nonetheless exhibits incredible naivety. He is surprised when German scientists withdraw their names from a paper showing results uncomfortably close to pre-Nazi racial theories. He laments Native American donors who seek to limit how scientists may use their DNA samples, suggesting that scientists need to find "an approach that does not require obtaining permission from every possible interested group." But at the same time, he decides against submitting his own DNA for examination, claiming that the genetics of Ashkenazi Jews like him is "overstudied."

Navigating the intersection of genetics, society and history is not easy. Anthropological geneticists who work on these issues typically focus on a small region, where they can form long relationships with participant groups and local researchers. Mr. Reich is not that kind of scientist. And he scoffs at those who would study their own cultures, writing: "They simply care too much."

In a final passage, he describes seeing violent demonstrations in Jerusalem against excavations that might disturb ancient grave sites. "What would those protesters think of what my laboratory is doing now," he muses, "grinding through the bones of hundreds of ancient people every month?"

The very question reveals the potential dehumanization within this approach to human history. Mr. Reich's ambition, to create a grand catalog of ancient genomes for the past 50,000 years, is the ultimate "big picture" view. But when geneticists drill into ancient bones to remove parts of the inner ears, reduce them to a fine powder and turn the results into numbers, what do they learn of the individual who lived and breathed so many thousands of years ago?

I have myself been privileged to study thousands of ancient bones, some of the same skeletons whose parts may now rest in Mr. Reich's freezers. Working with a skeleton, carefully measuring and taking observations on each small part, I cannot help thinking of the life that this person once led, his connection to his family and people, the traces that his life left upon his bones. Mr. Reich might well say I care too much.

But for the great human story to matter to us, we must each see our own place in it. The dead cannot speak, but science can help us to see their humanity nonetheless. Doing so helps us maintain the humanity of our science.

Mr. Hawks is a professor of anthropology at the University of Wisconsin-Madison.

America's Parties, Divided Every Which Way



Millions of Americans yearn for a more civil and cooperative form of politics, but the Republican and Democratic parties are pulling us in the opposite direction. By every measure, the parties have drifted ideologically further apart than they were two decades ago, and there is no reason to think the trend will be reversed anytime soon.

A March report from the Pew Research Center illustrates the magnitude of the partisan sorting that has taken place. In 2017, 68% of Republican voters described themselves as "conservative," compared with 58% in 2000. Over the same period, the share of Democratic voters calling themselves "liberal" has grown from 28% to 46%. Self-described moderates, meanwhile, dropped from 44% of Democrats to 37%.

Demographic gaps between the parties have widened in tandem. In 1997 whites made up 83% of the electorate—92% of Republicans and 75% of Democrats. Over the subsequent 20 years, the Democratic Party diversified more rapidly than the GOP. Now the white share of the electorate stands at 69%—83% of Republicans and only 59% of Democrats.

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At the same time, educated voters have grown more culturally liberal, while less-educated voters have moved to the right. After trailing Democrats for decades among voters with no more than a high school diploma—the so-called working class—Republicans now lead. Among white voters in this group, Republicans have accumulated a 23-point edge, after being roughly tied between 1994 and 2008.

Age matters, too. In 1994 Americans born before the end of World War II were about evenly split between Democrats and Republicans. Today, Republicans enjoy a significant edge in this cohort. Among baby boomers and Generation X, meanwhile, Democrats have erased the modest leads Republicans once enjoyed.

Differences between the sexes have sharpened as well. Men have leaned Republican since at least 1994, though the margin has narrowed to 4 points. By contrast, Democrats' advantage among women has soared from 6 to 19 points. Across racial and ethnic groups, women are more likely than men to identify with the Democratic Party—by 9 points among whites and 8 among blacks and Hispanics.

Millennials voters, those born between 1981 and 1996, started off pro-Democratic and became steadily more so as the entire cohort reached voting age. In 2004, 53% leaned Democratic, compared with 38% Republican. That 15-point gap has widened to 27 points. This shift has been driven by young women. The party leanings of millennial men have

By contrast, party identification among voters with a bachelor's degree has been turned on its head. In 1994 Republicans led Democrats in this group by 54% to 39%. Now, Democrats lead Republicans by an identical 54% to 39%. Similarly, while the parties were roughly tied in 1994 among voters with postgraduate education, today Democrats trounce Republicans 63% to 31%. As the share of Americans with college degrees increases, this trend could place Republicans at a mounting disadvantage. In the meantime, the clash between educated and less-educated groups may continue to fuel the rise of populism.

Religion, too, may sharpen the divide. In 1994, white evangelical Protestants gave a 30-point edge to Republicans, which has now grown to 59 points. Religiously unaffiliated voters, who have tripled to nearly a quarter of the electorate since 1997, constitute a third of all Democrats, compared with 13% of Republicans.

Our politics would be more likely to produce constructive solutions if the variegated groups that form American society were in constant dialogue under the same partisan tents. But that doesn't seem likely to happen. When parties are thus divided along lines of race, sex, religion and class, compromise between their moderate wings is the only viable path to progress.

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Due to Posse Comitatus, we were not allowed to engage or apprehend suspects. Our teams could only report what they observed to the local authorities and the Border Patrol.

While the extra eyes were surely helpful, only about 20% of the information we supplied resulted in apprehensions. There were too many people crossing the border illegally and too few Americans who were authorized to arrest them.

A decade later I was part of a joint effort between the military and the DEA that used unmanned aerial vehicles to enhance border security. The drones worked well, but the manpower problem remained. Only about a fifth of the contacts we made with

illegal crossers could be acted upon.

President Trump has promised to build a border wall. Even in the best case that's going to take some time. But wall or no wall, gaining control of the southern border will ultimately require an increase in the number of American government personnel—either military or law enforcement—empowered to arrest illegal crossers.

By amending Posse Comitatus, Congress could give that power to the National Guard troops now making their way to the border. It's an old military maxim that no wall is useful if it is not covered by observation and fire. In the civilian context, substitute "arrest authority" for "fire."

Mr. Anderson is a retired Marine colonel. He is an adjunct professor at the George Washington University's Elliott School of International Affairs.

By Gary Anderson

President Trump last week ordered National Guard troops to patrol the U.S. border with Mexico. The president is eager to show supporters that he is fulfilling his campaign pledge to eliminate illegal immigration, but he will soon find that using the National Guard this way won't be easy—and may not do much to solve the problem.

Unless acting under the authority of a state governor, the troops the president sends to the border will be restricted to observing and reporting violations. The Posse Comitatus Act of 1878 prohibits the military from acting in a law-enforcement capacity on American soil. Only Border Patrol agents and other law-enforcement officers may apprehend drug runners and people attempting to enter the U.S. illegally.

Absent a change in the

law, the president's decision will have limited impact. I know this from hard experience. I have twice been part of efforts to use Defense Department assets to improve control of the U.S.-Mexican border. Both had decidedly mixed success.

The National Guard can report violations, but the law lets only police act on them.

While a Marine Corps colonel in the late 1990s, I commanded expeditionary teams in the Western Pacific that could operate on land or sea in small detachments in response to direction from law-enforcement agencies. The Drug Enforcement Administration had funds in its budget to pay troops such as these for border surveillance.

My fellow commanders and I jumped at the opportunity to give our Marines some hands-on training, and the Corps loves spending other people's money.

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OPINION

REVIEW & OUTLOOK

The Michael Cohen Raid

The FBI raid Monday on lawyer Michael Cohen raises the political and legal stakes in the vast prosecutorial investigation into Donald J. Trump. The probe into allegations of Trump campaign collusion with Russia has careened into a dive into the dumpster of a payoff to a porn actress to keep quiet about an alleged affair with Mr. Trump. This is the way of special prosecutors, and Washington now seems headed toward a fight-to-the-end between the President and his enemies.

The press is reporting that Mr. Cohen is being investigated for possible bank fraud and campaign-finance violations in connection to his \$130,000 payment to Stormy Daniels (née Stephanie Clifford) in October 2016. Mr. Cohen said he made the payment as a personal favor for his friend and client, Mr. Trump.

But if the payment was intended to silence the actress to help Mr. Trump win the election, then it could be considered a campaign contribution that exceeded the donation limit in 2016. As Bradley Smith notes nearby, proving such a crime would be difficult, and former Democratic presidential candidate John Edwards was acquitted in a similar case. But these days in politics anything can be criminalized.

The raid is especially notable, and troubling, for piercing the attorney-client relationship between Mr. Cohen and Mr. Trump. That is a serious step legally, and it typically requires significant evidence to justify. It would also require the approval at senior levels of the Justice Department. The warrant came at the request of the U.S. Attorney for the Southern District of New York in Manhattan on a referral from special counsel Robert Mueller, who could use whatever information the raid generates.

Mr. Cohen's lawyer denounced the raid as "completely inappropriate and unnecessary" and a needless "seizure of protected attorney-client communications." Mr. Trump reacted with fury and called the raid a "disgrace" and "an attack on what we all stand for."

These are self-serving defenses, but we suspect more than a few Americans are wondering about such an extraordinary intrusion into a target's right to counsel. Mr. Cohen knows as much about Mr. Trump's personal and financial affairs as anyone, and prosecutors could use an indictment to coerce his cooperation against the Pres-

Beijing's Trade Straddle

Global stock markets cheered Tuesday after President Xi Jinping promised that China's economy will enter a "new phase of opening up" and called for dialogue to resolve trade disputes with the U.S. Mr. Xi's measured tone and pledges to improve the treatment of foreign companies are welcome, but he'll have to do more to head off a U.S.-China trade war.

The best news is that Mr. Xi didn't respond in kind to Donald Trump's threat last week to impose tariffs on \$100 billion in Chinese goods. Instead he offered some market-opening measures, notably reducing a 25% tariff on auto imports this year. He also promised to relax restrictions on foreign ownership in banking, securities and insurance. Both moves had been in the works for some time, so while they're useful they aren't a major shift toward free-market competition.

It's worth remembering that Chinese leaders have promised to protect foreign intellectual property before. Over the past three decades, progress has been followed by new setbacks.

Tax Cut Growth Dividend

One irony of 2018 is the media blaming Donald Trump for budget deficits they ignored during the eight years of the Obama Administration. This week's Congressional Budget Office 10-year budget outlook attracted fresh alarm, so a word about the rising cost of interest on the debt but also faster economic growth.

CBO says the federal deficit is projected to be \$804 billion this year and will blow through \$1 trillion by 2020, which is earlier than previously projected. The rush has been to blame this news on the GOP's tax cuts, but revenues keep rising each year. Revenues over 10 years are estimated at \$44.1 trillion, which is about \$1 trillion more than CBO's estimate before the tax cut. The fiscal problem is that spending increases faster to \$56 trillion.

You probably also didn't read anywhere else that CBO says the tax cut will help the economy grow faster—to 3.3% this year and 2.4% in 2019. The last time the economy grew that fast was 2005. This produces more revenues than CBO previously estimated, and Dan Clifton of Strategas Research Partners calculates that by CBO's estimates the tax cut has already paid for about 30% of its static revenue losses.

CBO says growth will fall back down to Obama-era levels starting in 2020, but the budget bureau's economists are Keynesians of the Larry Summers school. They give little credit to supply-side incentives from tax cuts but see a large growth effect from government spending. They haven't learned from their mistake in overestimating growth from the 2009 Obama spending spree.

As for the debt bomb, it has been ticking for

The Mueller probe now stretches to include the Stormy payment.

ident. Contrast this treatment with the deference accorded Cheryl Mills, who was allowed to attend the FBI's interview with Hillary Clinton as her counsel even though Ms. Mills was part of the personal email saga at the State Department.

All of this is a long way from "treason" and the allegation that Mr. Trump is a front man for Vladimir Putin. Could Mr. Trump really be indicted or impeached for the stupidity of trying to cover up an affair from 2006? The hilarious thought is that Mr. Trump or his lawyer believed they could protect Mr. Trump's reputation.

By the time of Mr. Cohen's payment to Ms. Daniels in October 2016, every American knew Mr. Trump had an unsavory history with women. Ms. Daniels could have shouted about her affair—which Mr. Trump still denies—for hours on CNN and most voters would have said that sounds like Donald Trump but so what? He was running against Hillary Clinton, who covered for her husband's affairs for decades.

In his Monday rage at the raid, Mr. Trump again raised the prospect of firing Mr. Mueller or other Justice officials. Never underestimate the President's capacity to hurt himself. But firing Mr. Mueller wouldn't stop the investigation, though it would cost him Republican support and probably guarantee his impeachment if Democrats take the House in November.

The smart advice—which he won't take—is to keep quiet about Mr. Mueller and build political capital by trying to succeed as President. Get a stronger legal team, on criminal and constitutional law for the fight ahead, and let faster economic growth improve the public mood. That saved Bill Clinton.

Even as Mr. Mueller expands his probe, the Justice Department Inspector General will soon report on how the FBI and Justice handled the investigation into Mrs. Clinton. If there is no more evidence than is now public about collusion with Russia, many voters will conclude the exercise was mainly partisan. Ditto if prosecutor John Huber finds evidence that Obama officials were colluding with some in the FBI to defeat Mr. Trump. Most Americans will judge the President based on the overall evidence.

Mr. Trump can't control Mr. Mueller, but he can control himself. That may be the only way he can save his Presidency.

One of the chief American complaints is Mr. Xi's industrial policy, Made in China 2025, that requires firms to transfer technology in return for access to the Chinese market. There's no sign China is budging on that.

In 2013 Mr. Xi and his advisers pushed to reform the management and ownership of state enterprises to make them more responsive to market forces. But that also fell by the wayside as Mr. Xi expanded the Communist Party's control over the economy and channeled investment to such firms. This resurgence of state-linked enterprises shapes the behavior of officials, who protect them from competition. The biggest obstacles to American companies in China are nontariff barriers, especially the arbitrary decisions of such officials.

On the U.S. side, the key question is whether Mr. Trump can let go of his fixation on the bilateral trade balance. Chinese reform concessions won't reduce the trade deficit quickly, if at all, but they would make a big difference to U.S. companies. This is the prize U.S. negotiators should keep in mind.

years with little media notice. During the Obama Administration, the national debt held by the public grew by \$8.4 trillion as spending outstripped slow revenue growth. As a share of GDP, debt about doubled to 76.7%.

The magnitude of the debt burden was also disguised by low interest rates. The Federal Reserve further obscured the size of the deficit by earning interest on its bond purchases and turning over a chunk of the earnings to Treasury, close to \$100 billion a year at the peak.

This couldn't last if faster growth returned and the Fed raised rates, and here we are. CBO now says interest payments on the debt will nearly triple to \$915 billion in 2028 from \$263 billion in 2017. Net interest will reach 3.1% of GDP by 2028. That means debt service will soon overtake defense spending as a share of the economy.

All of this makes the Trump Administration's fiscal challenges more difficult, as does having to make up for Barack Obama's defense cuts. The military is stretched thin with threats building on multiple continents. The Military Times reported this week that lower defense spending during budget sequesters may be related to a nearly 40% increase in military flight accidents from 2013 to 2017. Sixteen service members have died in flight mishaps in the past month or so.

A corroded military is what happens when a society puts transfer payments over defending itself. CBO says defense will fall to 2.6% of GDP in 2028 from 3.1% this year. Mandatory spending on entitlements like Social Security and Medicare will consume 15.2% of GDP that year. There's the real debt problem.

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LETTERS TO THE EDITOR

Please, No Banks Run by Improvident States

Regarding Walter Olson's "Politicians Want to Start a Bank. What Could Go Wrong?" (Cross Country, March 31): An inescapable defect of a bank owned by the state of New Jersey and its municipalities is that there will be no wall to protect prudent financial management from political and social-policy considerations. Add New Jersey's record of corruption to political and social tinkering with bank management and New Jersey's taxpayer guarantors—fuggedaboutit.

Fannie Mae and Freddie Mac are examples of public policy mixed with financial services that are best left in the private sector. Government-owned or sponsored (with implicit guarantees) entities that have both financial and social-policy missions generally turn out poorly for taxpayers and shareholders.

Anything that hastens the exodus of blue-staters to our red and purple states is unwelcome. Given New Jersey's state of fiscal and infrastructure disrepair, Democrats need to think outside the state-owned bank box.

WILLIAM F. HINESER

Arvada, Colo.

Modern Manliness May Be a Losing Cause

Regarding Tunku Varadarajan's "The Weekend Interview with Harvey Mansfield" (March 31): The only exception I take is with Mr. Mansfield's claim that Donald Trump might have used "Make America Manly Again" as a campaign slogan, rather than the one he went with—not because manliness wasn't essentially what Mr. Trump meant, as Mr. Mansfield says; rather, because I don't think "MAMA" hats would have done much to drive home the message the candidate was trying to convey.

STEVE D. MC LIN

San Francisco

Granted that Mr. Mansfield is 86 and teaching at Harvard, a liberal institution, I am very offended by his take on Donald Trump and the voters who support him. I was educated in the northeast and lived there for 60

ED SHOOP

Sonoma, Calif.

Jewish Organizations Had a Role in 1965 Act

In dismissing my argument that Jewish organizations have been disproportionately influential in U.S. immigration policy, Abraham Miller fails to confront the data compiled in my 1998 book "The Culture of Critique," which also describes changes in academic attitudes on race critical to passage of the 1965 Immigration Act ("The Theory Behind That Charlottesville Slogan," op-ed, April 3). It was absolutely understood by both restrictionists and anti-restrictionists in Congress that Jewish organizations spearheaded opposition against the 1924 law's national origins, despite little public support. Jewish organizations also organized, funded and performed most of the work of a variety of umbrella organizations aimed at combatting the 1924 law. The 1965 reform was thus not the result of popular pressure but rather of a 40-year program of activism.

Far from being unusual, my view of the role of Jewish organizations is shared by, e.g., University of California, Santa Barbara historian Otis Graham and Vanderbilt University historian Hugh Davis Graham.

EM. PROF. KEVIN MACDONALD

Calif. State University, Long Beach

more broadly received no such offer from the Iraqi regime.

In fact, Saddam Hussein failed to provide the United Nations a comprehensive report detailing his past weapons programs and their status, refused to allow international inspectors unfettered access to suspected weapons facilities, and later told his FBI interrogators that he wanted other nations, especially Iran, to believe he had WMD.

As a former intelligence official, I cannot speak for U.S. policy, but if Saddam Hussein had given American weapons inspectors and U.S. forces complete access to his country and allowed the U.N. to oversee democratic elections in Iraq, I believe the administration would have accepted such an offer.

JOHN McLAUGHLIN

Johns Hopkins University

Washington

Pepper ... And Salt

THE WALL STREET JOURNAL



"He retired as an executive, returned as a consultant and now he's a brooding presence."

Letters intended for publication should be addressed to: The Editor, 1211 Avenue of the Americas, New York, NY 10036, or emailed to wsj.ltrs@wsj.com. Please include your city and state. All letters are subject to editing, and unpublished letters can be neither acknowledged nor returned.

JACQUELINE S. DRUCKER

Palm Desert, Calif.

OPINION

Trump and China Share a Bad Idea on Trade

By Robert J. Barro

The Trump theory of international trade seems straightforward: Selling stuff to foreigners is good, and buying stuff from foreigners is bad. It's a form of mercantilism. Exports are attractive because they represent domestic production and American jobs. Imports are undesirable because that production and employment otherwise could have happened at home.

Simple economic reasoning, however, suggests that this logic is backward. Imports are things we want, whether consumer goods, raw materials or intermediate goods. Exports are the price we have to pay to get the imports. It would be great, in fact, if we could get more imports without having to pay for them through added exports.

Economists typically favor free trade, which has a lot to recommend it from a global perspective. As my favorite economist, David Ricardo, argued in the early 1800s, free trade ensures that production takes place in its most efficient location, as governed by principles of comparative advantage. That's why the U.S. imports

bananas and exports soybeans and high-tech products.

Nevertheless, departures from free trade can sometimes be rewarding for a single country. For example, if the Chinese want to subsidize particular goods, Americans can benefit by buying them at artificially low prices. In the extreme case of China giving goods away free, it takes a lot of imagination to construct a model in which this "dumping" would be bad for the U.S. overall (though it might harm some American producers).

President Trump and Commerce Secretary Wilbur Ross have argued recently that the Trump theory implies a trade war can be desirable if directed against a country, such as China, with which the U.S. has a large trade deficit. In 2017, the Chinese sold the U.S. \$524 billion of goods and services and bought only \$187 billion, for a bilateral trade deficit of \$337 billion.

As I understand the reasoning, it's that China has more to lose. If a full-blown trade war cut bilateral trade to zero, the U.S. would lose just \$187 billion in sales to Chinese customers, while China would lose \$524 billion in sales to Americans. In reality, both countries would be hurt in a trade

war, and the U.S. would probably lose more by being cut off from Chinese imports.

The twist is that China's leaders seem to embrace the same mercantilist theory of international trade that Mr. Trump espouses. They probably agree that they have been taking the

Imports are things we want, and we pay for them with exports. Isn't getting more for less a good thing?

U.S. to the cleaners for years by selling Americans far more goods and services than they buy. This outlook is actually favorable for avoiding a trade war, since it makes the Chinese more likely to offer serious concessions, including the removal of restrictions on American imports and investment.

Many serious commentators look at America's large trade deficit with China and argue that something has to be done. But it's misleading to look at a single bilateral trade deficit, given that the U.S. also runs

many bilateral trade surpluses. To the extent that trade deficits are a legitimate economic concern, the question is the global trade deficit, which totaled \$568 billion in 2017. The worry is that this overall deficit has led to a large U.S. debt to foreigners, which must be repaid eventually. At the end of 2017, this debt stood at an impressive \$7.8 trillion, or 40% of U.S. gross domestic product.

Theoretically, the large U.S. debt should result in an excess of money that Americans pay out to foreigners compared with what Americans get from foreigners. This imbalance should reduce U.S. imports, thereby moving the economy toward balanced trade overall. But things have not worked out this way. Instead the net investment income America earns from abroad has grown over time, reaching \$251 billion, or 1.3% of GDP, in 2017. An explanation for part of this puzzling pattern is that the U.S. borrows a lot through low-interest Treasury paper and then earns much higher returns on direct investments and portfolio holdings. Somehow, America's low-interest government debt is highly valued by the rest of the world, which allows the persistent gap between imports and

exports to continue. As Jason Furman, chairman of President Obama's Council of Economic Advisers, put it to me recently, the U.S. economy is now the world's largest and most successful hedge fund.

If President Trump won't believe economists who tell him that a trade war is ill-advised, he should at least believe the stock market. Since his election, Mr. Trump has pointed with pride to rising share prices, which he has attributed to his sound policies on taxes and regulations. Although there is a danger of reading too much into day-to-day fluctuations, it is probably true that stock prices have no equal as a report card on economic policy. Thus Mr. Trump is right that the stock-market advance signals support for his pro-market agenda. He should take it seriously, then, when talk of tariffs and trade wars leads to sell-offs and persistently high volatility. These are signs, if only the president will heed them, that the new Trump mercantilism is not such a good idea.

Mr. Barro is a professor of economics at Harvard University and a visiting scholar at American Enterprise Institute.

Stormy Weather for Campaign-Finance Laws

By Bradley A. Smith

When you stretch the law to "get" a political opponent, it's rarely possible to return the law to its original shape. Which brings us to Stormy Daniels.

Shortly before the 2016 election, one of President Trump's lawyers, Michael Cohen, arranged a \$130,000 payment to the porn star in return for silence about a 2006 affair she claimed to have had with Mr. Trump. (Both the president and Mr. Cohen have denied the affair; Mr. Trump has said he did not know of the payment to Ms. Daniels until this February.)

Not satisfied with an old-fashioned sex scandal—perhaps because the president seems impervious to that—some want to turn this into a violation of campaign-finance law. Trevor Potter, a former member of the Federal Election Commission told "60 Minutes" the payment was "a \$130,000 in-kind contribution by Cohen to the Trump campaign, which is

about \$126,500 above what he's allowed to give." The FBI raided Mr. Cohen's office, home and hotel room Monday. They reportedly seized records related to the payment and are investigating possible violations of campaign-finance laws.

Hush money looks like a personal expense. Treating it as a political one would create a bad precedent.

But let's remember a basic principle of such laws: Not everything that might benefit a candidate is a campaign expense.

Campaign-finance law aims to prevent corruption. For this reason, the FEC has a longstanding ban on "personal use" of campaign funds. Such use would give campaign contributions a material value beyond helping

to elect the candidate—the essence of a bribe.

FEC regulations explain that the campaign cannot pay expenses that would exist "irrespective" of the campaign, even if it might help win election. At the same time, obligations that would not exist "but for" the campaign must be paid from campaign funds.

If paying hush money is a campaign expense, a candidate would be required to make that payment with campaign funds. How ironic, given that using campaign funds as hush money was one of the articles of impeachment in the Watergate scandal, which gave rise to modern campaign-finance law.

When the FEC adopted these regulations, it specifically rejected a rule under which campaign contributions could fund an expenditure "related to" a candidacy. The FEC was concerned that would make it too easy for candidates to use campaign funds

for personal benefit. Personal debts, for example, are "related to" the campaign—if unpaid, the candidate's reputation might suffer. A Rolex watch, a new suit, or a haircut might help a candidate look good on the trail.

If the Trump Organization paid bonuses to employees, it might improve Mr. Trump's image, helping his re-election prospects. Could those bonuses be paid with campaign funds? Every charitable expenditure made by the Clinton Foundation arguably assisted Hillary's run for president. Campaign expenditures? The Clintons famously conducted polls on where to vacation. The polls were probably campaign expenses, but how about the trips?

And how about Stormy? There are many reasons, including personal and commercial ones, why Mr. Trump might want to keep allegations of extramarital affairs out of the press. Ms. Daniels claims that when she first tried to sell her story in 2011, she was

threatened by a man in a Las Vegas parking lot: "Leave Trump alone. Forget the story." If true, it shows that her silence was desired long before Mr. Trump ran. The New Yorker published a story claiming to provide "a detailed look at how Trump and his allies used clandestine hotel-room meetings, payoffs, and complex legal agreements to keep affairs . . . out of the press." If true, this also suggests a pattern outside the campaign.

Campaign contributions should not become politicians' personal slush funds. Many ardent anti-Trumpers sincerely believe that the president is a threat to the rule of law. The real threat to the rule of law, however, comes from abusing laws to "get" a political opponent. Some matters are for voters to decide.

Mr. Smith is chairman of the Institute for Free Speech, a former chairman of the FEC, and a professor of law at Capital University.

Notable & Quotable: Penn Law

From an April 6 letter by Paul S. Levy, the founder and managing director of JLL Partners, to University of Pennsylvania president Amy Gutmann:

After years of engaged and fulfilling involvement with Penn, I am resigning as Trustee Emeritus and a Law School Overseer with this note. I am truly sorry to do so, but the treatment of Amy Wax is unacceptable.

Dean Ted Ruger has mismanaged the situation badly. Unnamed "university officials," one of whom may have been you, had advance notice of Ruger's intention to terminate her first-year teaching assignments and permitted Ruger to proceed....

We're now debating Wax's view of affirmative action, and how students admitted under that program have fared, its impact on them, and its place in our society.... Ruger has said that Wax is wrong about her affirmative action students' performance, but won't give data to back up his views. One of the Overseers keeps saying to me: "Paul, Amy is wrong!" I say: "Well, I hope she is, but what are the facts?" He says: "Well, Ruger said she's wrong; that proves it." Really? Privately, faculty members have told me that their experiences match those of Wax....

The claim that Wax is a racist is now ubiquitous at the University. Ruger is quick to criticize Wax, but where are his public condemnations of those who make such baseless, besmirching claims about his colleague with no factual underpinning?....

As you launch Penn's next campaign for ever-more funds in the near future, I hope you bear in mind what universities like Penn are essentially about. Their highest goals are the pursuit of knowledge through debate and discussion and the defense of the ideal of free expression.

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WORLD NEWS

Rift Imperils Canada Pipeline Expansion

British Columbia's opposition angers Alberta, pressures Trudeau to intervene

BY VIPAL MONGA
AND PAUL VIEIRA

FORT McMURRAY, Canada—A rift between two Canadian provinces is threatening to derail a pipeline expansion that would nearly triple the amount of crude flowing from this town in northeastern Alberta, most of it toward Asian markets.

Kinder Morgan Canada Ltd. said on Sunday it would scrap the expansion of the Trans Mountain pipeline if Canada's federal and provincial governments couldn't resolve their differences by May 31, raising pressure on Prime Minister Justin Trudeau to intervene on behalf of a project that has big implications for world oil markets.

The pipeline expansion has hit stiff opposition in British Columbia, where environmentalists and lawmakers say it puts the Pacific coastline at risk. That has infuriated many in Alberta, the sprawling Western province that is home to 97% of Canada's oil reserves.

Nowhere are the stakes higher than in Fort McMurray, a town so embedded in the oil sands that a heavy, black form of the crude called bitumen sometimes bubbles to the surface of the roads in the summertime.

"My sympathy for British Columbia is zero," said Robbie Picard, a nightclub owner who came to Fort McMurray during an oil boom more than a decade ago to build a new life.

The expansion would increase the crude flowing through the pipeline to 890,000 barrels a day and make Canada a big global competitor in China and India, where appetite is surging. U.S. producers have logged major oil sales in China since they started exporting there two years ago, but Asian refineries prefer Canada's heavier crude to the lighter U.S. variety, says



Bitumen sometimes bubbles to road surfaces in Fort McMurray, Alberta. Above, a scarecrow keeps birds from landing on a frozen tailings pond north of the town.

Mike Walls, an analyst with commodity and energy data company Genscape.

Canada houses the third-largest proven oil reserves in the world after Venezuela and Saudi Arabia, but most of it is trapped in land-locked Alberta. The oil is found in a thick mixture of sand, water and bitumen, a form of crude that resembles asphalt. Recent attempts to funnel oil to coastal ports have stalled amid opposition.

"This pipeline is in the national interest and will get built," Mr. Trudeau said, during a tour on Friday of an oil-sands mine in Alberta.

But Mr. Trudeau, who approved the expansion in 2016, hasn't yet thrown the federal government's legal might behind the project, such as invoking a little-used constitutional power to ensure the project gets built. If he does, he risks alienating environmentally conscious voters, especially in British Columbia, the country's third-largest province that helped propel his Liberal Party to power.

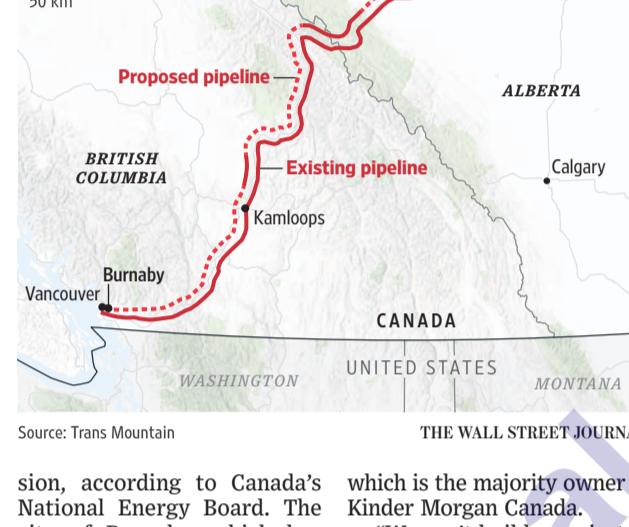
On Monday, Mr. Trudeau said officials were reviewing options aimed at saving the Trans Mountain expansion, without elaborating.

There are 18 federal law-suits that challenge the expansion, according to Canada's National Energy Board. The city of Burnaby, which has sued to halt construction on a marine terminal at the end of the pipeline, recently vowed to take its case to the Supreme Court.

The onslaught of court cases, as well as British Columbia's vocal opposition to the project, prompted Kinder Morgan to issue its ultimatum, said Steven Kean, president of Houston-based Kinder Morgan Inc.,

Parallel Proposal

The proposed expansion to the Trans Mountain pipeline would nearly triple its capacity.



Source: Trans Mountain

which is the majority owner of Kinder Morgan Canada.

"We can't build a project in the courthouse," he said on Monday.

Opposition to the pipeline's expansion has been building since last year, when the New Democratic Party's John Horgan became leader of British Columbia and promised to block it in court. Opponents have ramped up protests, saying the expanded pipeline would contribute to climate

Fort McMurray Takes Path Marked By Oil Boom, Bust

Fort McMurray's residents are acutely aware of the stakes of the pipeline fight. The town boomed between 2005 and 2014 when oil prices spiked to more than \$100 a barrel and companies swarmed in to take a stake in the oil sands. The province and the Regional Municipality of Wood Buffalo, which includes the town, widened highways, put up bridges and built one of Canada's largest community recreation and social centers.

After oil prices crashed in

2014, companies such as Royal Dutch Shell PLC, Norway's Statoil ASA, and ConocoPhillips sold assets. Wildfires devastated the region in 2016, and the town's population has dropped by roughly 10% since to around 72,000, according to the office of Mayor Don Scott.

Fort McMurray resident Gene Ouellette said he is disappointed Prime Minister Justin Trudeau hasn't more forcefully intervened in the dispute. He had a thriving business selling snowmobiles and all-terrain vehicles during the oil boom but closed it this year after sales fell.

"I'm extremely discouraged" with Mr. Trudeau's leadership, Mr. Ouellette said. "He's slapped us in the face."

Rachel Notley, said on Sunday her government would soon introduce legislation allowing it to retaliate economically against its neighbor.

As the debate has intensified, Mr. Picard has become one of Fort McMurray's more vocal oil-sands defenders.

"Alberta is a dirty secret for the rest of the country," he said. "People don't want to admit it pays for schools in Ontario and Quebec. Trudeau could sell it better."

Malaysia Leader Pledges Handouts

BY YANTOULTRA NGU

KUALA LUMPUR, Malaysia—Malaysia's prime minister is promising higher cash handouts to almost half of the country's population if his ruling coalition wins re-election next month, a move that offers the prospect of short-term stimulus, but risks long-term reliance on such payoffs.

Malaysians are set to go to the polls on May 9, in a vote that will test whether Prime Minister Najib Razak can overcome the effects of the problems at state investment fund 1Malaysia Development Bhd., or 1MDB, that have rocked his administration for years.

The date of the vote, announced Tuesday, has been criticized by some members of the opposition. Malaysia generally holds elections on weekends, but this year's vote will be held midweek. Wan Saiful Wan Jan, a member of an opposition party, said the choice of polling day is an attempt by Mr. Najib and his party to suppress voter turnout. Election Commission Chairman Hashim Abdullah didn't provide details on the polling date selection.

No recent polling has been done to test the relative strength of Mr. Najib's National Front, or Barisan Nasional in Malay.

Mr. Najib's election manifesto includes doubling some cash handouts and adding new



Prime Minister Najib Razak campaigning this month. His manifesto includes doubling some cash handouts.

categories of recipients for this year. In front of a 40,000-strong crowd Saturday in the capital city of Kuala Lumpur, Mr. Najib said cash handouts for each household earning the equivalent of about \$700 a month and below will be doubled to just over \$200. Some higher-earning households and individuals would also get increased handouts. Among the new groups of recipients were some university students who would be given a payout of nearly \$400.

Kim Leng Yeah, professor of economics at Malaysia's Sunway University Business School and an external member of the monetary-policy committee of Malaysia's central bank, said the increase in cash handouts is one of the largest in the country's history. He estimates they will cost the government an additional 2.5 billion ringgit to 3 billion ringgit (\$645.7 million to \$774.9 million) or about 0.2% of gross domestic product projected for 2018. This is on top of

the more than 6 billion ringgit the government had initially allocated for the handouts.

"Theoretically, higher cash transfers will lead to higher aggregate consumption, and thus higher economic output and growth," said Adli Amirullah, an economist with Institute of Democracy and Economic Affairs, a Malaysian think tank. But in the long run, people might become overly reliant on this assistance, which could threaten productivity, he said.

Former Spy's Daughter Leaves the Hospital

BY JASON DOUGLAS

LONDON—The daughter of a former spy poisoned in a nerve-agent attack that the U.K. government has blamed on Russia has been discharged from a hospital in southern England, authorities said on Tuesday.

Yulia Skripal, 33 years old, was released from Salisbury District Hospital after weeks of treatment following her exposure to what London believes was a Russian-made nerve agent known as Novichok.

"This is not the end of her treatment but marks a significant milestone," Christine Blanshard, medical director of Salisbury District Hospital, told reporters. It wasn't immediately clear where she would go but the British Broadcasting Corp. reported she would be taken to a secure location somewhere in Britain.

Ms. Blanshard said Sergei Skripal, a 66-year-old former Russian colonel who spied for the British government and later settled in Salisbury following a prisoner swap, has made good progress but isn't ready to leave the hospital.

Mr. Skripal and his daughter were found slumped on a park bench in Salisbury early last month after being exposed

to the nerve agent at their home, police believe.

The attack sparked a diplomatic furor. London rallied its allies in blaming Moscow, leading to scores of expulsions of Russian diplomats. Russian markets convulsed Monday in response to fresh economic sanctions from the U.S., which also blames Moscow for meddling in the 2016 presidential election and has been critical of its actions in Syria and Ukraine.

Russia denies involvement in the attack and has criticized the British government for refusing its entreaties to launch a joint investigation into it.

The Kremlin and its propaganda channels have propagated a variety of theories as to who was responsible, including hinting that it was the British themselves.

In a message on its verified Twitter account, the Russian Embassy in London on Tuesday congratulated Ms. Skripal on her recovery.

Yet it added that "we need urgent proof that what is being done to her is done on her own free will."

The Novichok class of nerve agents was developed in the Soviet Union and its existence was first revealed in the early 1990s by a dissident Russian scientist.

WORLD WATCH

PACIFIC

Navy Admiral to Head U.S. Forces in Region

President Donald Trump has nominated a U.S. Navy admiral to oversee all U.S. military operations and branches in the Pacific, the Pentagon said Tuesday.

Adm. Philip Davidson, once confirmed by the Senate, will become head of U.S. Pacific Command at a time of tension with North Korea and increasingly assertive moves by China in the South China Sea.

He currently leads U.S. Fleet Forces Command, which allo-

cates naval resources worldwide, and oversaw an investigation into two collisions in Pacific waters last year that killed 17 sailors. The Navy concluded that both collisions were avoidable and it has charged the commanders of both ships with negligent homicide.

Adm. Davidson had long been expected to move to Pacific Command. He is a 1982 graduate of the U.S. Naval Academy and has commanded the Seventh Fleet, which is responsible for Europe and Africa, as well as the USS Dwight D. Eisenhower carrier strike group.

—Nancy A. Youssef

CHINA

Investment Into U.S. Fell Sharply in 2017

After climbing for much of the past two decades, Chinese investment into the U.S. dropped by 36% last year as relations between the two cooled.

Long before this year's trade restrictions were announced and the extent of tension between the two nations became clear, Chinese businesses and investors had hit the brakes on new U.S. acquisitions, sending the level of investment dropping to

\$29.4 billion last year from a record \$46.2 billion a year earlier, according to data on foreign direct investment released Tuesday by the National Committee on U.S. China Relations, a nonprofit that promotes cooperation between the two countries, and the Rhodium Group, an economic consultancy.

"The past year has seen a ratcheting up of negative attitudes toward investment," said Stephen Orlins, the committee's president. "When investments are denied, there are very real trade-offs with asset valuations, as well as job and economic growth."

—Josh Zumbrun

JAPAN

World's Oldest Living Man Is Acknowledged

Masazo Nonaka has enjoyed soaking in northern Japan's hot springs for many years—probably longer than most people.

The supercentenarian, whose family has run a hot springs inn for four generations, was certified Tuesday as the world's oldest living man, at age 112 years, 259 days.

Mr. Nonaka received the certificate from Guinness World Records in a ceremony at his home in Ashoro, on Japan's northern

main island of Hokkaido, and celebrated with a big cake.

Born on July 25, 1905, Mr. Nonaka grew up in a large family and succeeded his parents running the inn. The 105-year-old inn is now run by his granddaughter Yuko. He regularly soaks in the springs and also enjoys eating sweets, especially cakes.

He reads a newspaper after breakfast every morning, and loves to watch sumo wrestling and samurai dramas on TV.

Guinness says Mr. Nonaka replaced Francisco Olivera of Spain, who died this year at age 113, as the world's oldest man.

—Associated Press

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Wednesday, April 11, 2018 | B1

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Banks Take Hidden Subprime Path

These days, Wells Fargo & Co. and Citigroup Inc. are unlikely to make a \$14,000 auto loan to a borrower with a subprime credit score. That is

*By Peter Rudgegear,
Rachel Louise Ensign
and Coulter Jones*

now the domain of direct lenders such as Exeter Finance LLC, based in Irving, Texas.

But where does Exeter get the money to make subprime auto loans? From Wells Fargo and Citigroup. They have helped lend Exeter \$1.4 billion for that very purpose.

they say they swore off after the financial crisis.

Loans to nonbank lenders got several banks into trouble during the crisis. Montgomery, Ala.-based Colonial Bank, for instance, became one of the largest bank failures of the era after a nonbank mortgage lender misappropriated more than \$1.4 billion from its credit facility with the bank, according to the Justice Department.

During the housing boom, banks thought they had unloaded the risk of subprime mortgages to other institutions.

Please see BANKS page B2

Sprint, T-Mobile Look Again At Merger

Sprint Corp. and T-Mobile US Inc. have rekindled merger talks, people familiar with the matter said, as the wireless ri-

*By Drew Fitzgerald,
Dana Mattioli
and Joe Flint*

vals explore a combination for the third time in four years.

The latest discussions come just five months after a previous courtship ended largely over who would control the combined business. The talks also come in the midst of an antitrust fight between the U.S. government and telecommunications giant AT&T Inc.

It is unclear what terms Sprint and T-Mobile are considering, and it is possible, as before, that they could fail to reach an agreement. The latest discussions are at a preliminary stage, the people said.

The talks are complicated by the ownership of the two firms. Japanese telecom SoftBank Group Corp. owns nearly 85% of Sprint. Germany's Deutsche Telekom AG controls T-Mobile, which is the larger company both in terms of subscribers and market value.

The combined company, should a deal go through, would have nearly 100 million customers, putting it just ahead of AT&T, which had 93 million U.S. subscribers at the end of 2017, and behind Verizon Communications Inc., which ended the year with 116 million. The figures include both prepaid services as well as monthly subscribers.

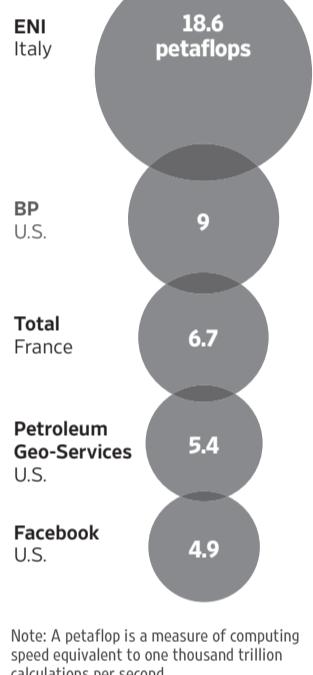
Wall Street has long anticipated the marriage of the No. 3 and No. 4 carriers, and financial analysts estimate the companies could save billions of dollars each year by sharing network infrastructure, store-

Please see DEAL page B4

Big Oil Drills Into Big Data to Find the Next Gusher

Oil companies have some of the most powerful commercially owned supercomputers on the planet.

Top commercial supercomputers
By company and location



Note: A petaflop is a measure of computing speed equivalent to one thousand trillion calculations per second.

Sources: the companies, TOP500 Nov. ranking

THE WALL STREET JOURNAL.



DIGGING DEEP: Energy companies such as BP and Eni are pouring hundreds of millions of dollars into powerful computers and other cutting-edge technology, part of a race to produce fossil fuels more cheaply and efficiently. BP is in the middle of a five-year, \$100 million investment to upgrade its Houston supercomputer. B5

Volkswagen Prepares to Replace CEO

BY WILLIAM BOSTON

BERLIN—Volkswagen AG's supervisory board is expected to vote on Friday to replace Chief Executive Matthias Müller with VW brand chief Herbert Diess, according to people familiar with the situation, a surprising shake-up after the German auto maker endured a crisis that cost it billions of dollars.

Mr. Müller, who formerly ran Volkswagen's sports-car marque, Porsche AG, became CEO in September 2015 in the wake of the disclosure in the U.S. that the company had rigged millions of diesel-pow-

ered cars to cheat on emissions tests.

The appointment of Mr. Diess, a former BMW AG executive, would mark an unexpected turn of events for Mr. Müller, who has been credited with steering the world's biggest car maker by sales through the emissions crisis, accelerating its efforts to develop electric and self-driving vehicles, and returning it to robust profits. His contract at Volkswagen, which is listed but partially state-owned, isn't due to expire until 2020.

Mr. Diess, who is 59 years old, has been running the Volkswagen brand, the com-

pany's biggest business by sales, since 2015, having been hired shortly before the diesel scandal exploded. Passed over for the chief-executive job at BMW, he was recruited by Ferdinand Piech, a former Volkswagen CEO and grandson of Beetle inventor Ferdinand Porsche.

Mr. Müller's departure didn't appear to have been triggered by a specific incident or deep dissatisfaction with his performance, according to people familiar with the situation. Indeed, at any other company, he would likely be celebrated for boosting the company's share price by more

than half since his appointment.

The stock closed 4.5% higher at €171.58 (\$211.44) in Frankfurt on Tuesday, outperforming the DAX index of German blue chips.

But Volkswagen isn't just any other company, controlled as it is by a distinctive trio of stakeholders. The heirs to Ferdinand Porsche and the German state of Lower Saxony together hold more than 70% of the company's voting stock, while the IG Metall trade union has 10 seats on its board of directors.

The ability of management

Please see VW page B2

INSIDE



BANANAS ARE TOPS FOR AMERICANS

MARKETS, B13

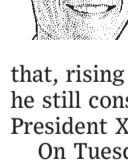


EXXON, QATAR DISCUSS U.S. GAS DEAL

ENERGY, B3

HEARD ON THE STREET | By Nathaniel Taplin

Don't Cheer U.S.-China Detente Too Soon



What's a little trade war between friends? President Donald Trump insists

that, rising tensions aside, he still considers China's President Xi Jinping a friend.

On Tuesday, Mr. Xi returned the favor, signaling in a speech at China's elite Boao Forum that he is still willing to negotiate to avoid a full-blown trade conflict.

Markets in Asia and the U.S. rose following promises to cut tariffs on imported cars in 2018, to lower restrictions on foreign ownership in key industries, and to better protect foreign intellectual property.

Those promises have largely been made before—but Mr. Xi making them directly at such a high-profile event does give added weight. However, the speech also reiterated longstanding

Chinese complaints on restrictions of high-tech exports to China. Promises on intellectual property also will need to be fleshed out quickly to satisfy trade warriors such as U.S. Trade Representative Robert Lighthizer.

Mr. Xi's comments on intellectual property, the crux of the current trade fight, left much to the imagination. The president promised to reorganize the intellectual-property office and better enforce laws.

Mr. Xi's administration has already shown it can force changes in Chinese corporate behavior that have eluded predecessors, thanks to an ever-expanding corruption crackdown that has terrified China's fractious bureaucracy.

Surprisingly effective campaigns to shut down steel furnaces, cut winter air pollution and curb issuance

of dodgy wealth-management products are testament to his clout. If that is brought to bear on rampant intellectual-property theft, it could make a real difference.

Unfortunately, it still isn't clear if Mr. Xi and his lieutenants truly believe that is in China's interest. Mr. Xi's comments called for Chinese and foreign enterprises to develop "normal technologi-

cal exchange and cooperation."

What that new normal will look like appears to be very much up for negotiation—real, rapid progress on allowing controlling foreign stakes in key sectors like autos would be a big step in the right direction.

The speech also highlighted the risks of pushing too hard. Mr. Xi, having just consolidated his power—and having made many enemies in the process—will be reluctant to be seen as caving to American threats.

Friendship only goes so far—and Mr. Xi will need to show he has gained something from any deal as well. The prospects for a Sino-U.S. trade truce therefore appear to rest on Mr. Trump's willingness to compromise as much as any action China takes.

Markets are far from out of the woods.

By ALLISON PRANG AND DAVID HODARI

Major U.S. stock indexes climbed, with the Dow Jones Industrial Average adding more than 400 points, as remarks from Chinese President Xi Jinping soothed concerns about a possible trade war that had rattled markets in recent weeks.

The gains were broad-based, with nine of 11 sectors in the S&P 500 marching higher. Energy stocks in the index led the way, rising 3.3% for their best day since Nov. 30, 2016, as the price of crude oil rallied 3.3% to \$65.51 a barrel.

The tech sector also helped drive the broader index, rising 2.5% as investors responded positively to Facebook Chief Executive Mark Zuckerberg's testimony before Congress about the social-media company's handling of personal-user data.

While President Xi's com-

ments were calming for the market on a short-term basis, concerns over trade will likely linger, analysts said.

Bob Doll, senior portfolio manager and chief equity strategist for Nuveen Asset Management, said he thinks there will be "more nasty words" to come from both sides, and Mr. Xi's recent comments are just one chapter in the story.

"It's a bumpy road, and today's a good day," he said, adding that his firm will probably sell some stocks that are doing especially well and perhaps buy them back at a lower cost in a few days.

The Dow industrials rose 428.90 points, or 1.8%, to 24408.00, after climbing as much as 532 points earlier in the session. The S&P 500 rose 43.71 points, or 1.7%, to 2656.87, while the technology-focused Nasdaq Composite climbed 143.96 points, or 2.1%.

Please see STOCKS page B2

Dow Surges 400 Points After Xi's Calming Talk

By ALLISON PRANG AND DAVID HODARI

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While President Xi's com-

BUSINESS NEWS

Sinclair Deal Meets Resistance From FCC

BY JOE FLINT
AND JOHN D. MCKINNON

Sinclair Broadcast Group Inc. is encountering resistance from the Federal Communications Commission as it seeks approval for its \$3.9 billion acquisition of **Tribune Media Co.**

At issue is Sinclair's plan to spin off Tribune-owned television stations in New York and Chicago so that it will be in compliance with the FCC's ownership regulations, people familiar with the matter said. The FCC, which has a broad mandate to review whether the combination of broadcasters would be in the public interest, is pushing back on the potential new owners of the spun-off stations, the people said.

Under the plan submitted to the FCC last month, Sinclair said it would sell WPIX-TV New York to **Cunningham Broadcasting Corp.** for \$15 million and WGN-TV Chicago to Steven Fader for \$60 million. Both purchasers have long ties to Sinclair and its executive chairman, David Smith.

Cunningham Broadcasting is controlled by the estate of Carolyn Smith Cunningham, Mr. Smith's mother, and the majority of Cunningham Broadcasting's local TV stations are managed by Sinclair. Mr. Fader is a partner with Mr. Smith in Atlantic Automotive Corp., which owns car dealerships.

Under the terms of the agreement Sinclair put forth to the FCC, Sinclair would operate the spun-off stations as if they were its own. However, Sinclair wouldn't be the licensee, meaning it would be in compliance with the FCC's ownership rules.

Such agreements, known as "sidecar" arrangements, are allowed by the FCC. However, in the case of the New York and Chicago stations, the regulatory agency wants more distance between Sinclair and the would-be owners of the properties, the people said.

A representative for the FCC declined to comment on the review. Mr. Smith didn't respond to a request for comment.

Fox Office In U.K. Is Probed

BY JOE FLINT
AND VALENTINA POP

A 21st Century Fox office in the U.K. received a surprise inspection Tuesday by European Commission investigators, who are conducting an antitrust probe into sports rights and distribution of sports content.

The European Commission acknowledged "unannounced inspections" on Tuesday in several member countries at the offices of companies "active in the distribution of media rights and related rights pertaining to various sports events and/or their broadcasting."

The commission didn't name the companies involved and said the inspections are a preliminary step into "suspected anticompetitive practices."

In a statement, Fox Networks Group, a division of **21st Century Fox**, said it "is cooperating fully with the EC inspection." The statement offered no further details.

The investigators entered the Hammersmith, England, offices of Fox Networks Group, according to a person familiar with the matter. FNG's main businesses in Europe are sports and TV entertainment.

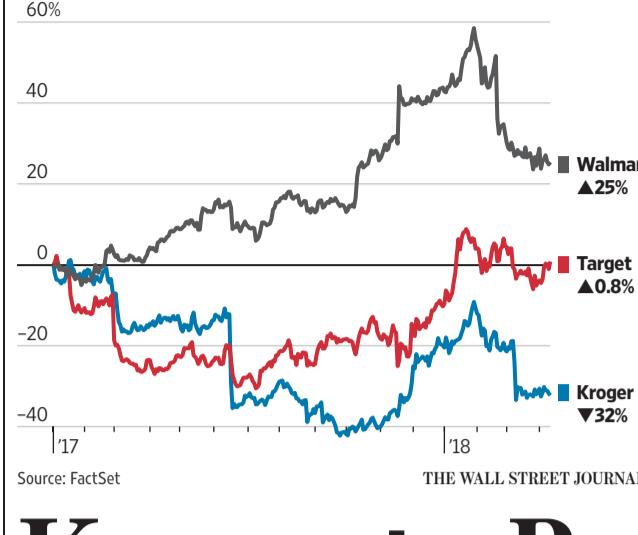
"The Commission has concerns that the companies involved may have violated EU antitrust rules that prohibit cartels and restrictive business practices," the EC said in its statement.

21st Century Fox and News Corp., the parent company of The Wall Street Journal, share common ownership.

21st Century Fox has been facing drawn-out scrutiny from U.K. regulators for its proposed \$16 billion deal to acquire full control of British pay-TV giant Sky PLC. The Sky deal has already received EC approval.

In Different Aisles

Share-price performance since the start of 2017



Traditional supermarket chains are under pressure from Amazon and European deep discounters.

Kroger to Bulk Up Store Staffing

Addition of 11,000 workers highlights emphasis on customer service

BY HEATHER HADDON

Kroger Co. is hiring 11,000 workers to improve customer service and efficiency at its thousands of stores as competition among food retailers heats up.

Kroger said the new positions at its nearly 2,800 supermarkets will include 2,000 managers and represent a 2%

increase to its workforce of about 450,000 full- and part-time employees. The hiring push is part of a three-year plan to focus on overhauling existing stores instead of building as many new ones as in past years.

The largest U.S. supermarket chain wants to put more workers in stores instead of its Cincinnati headquarters, a spokeswoman said. Last year Kroger gave voluntary buyouts to 1,300 white-collar workers to cut costs as sales slumped.

Tim Massa, Kroger's group vice president of human resources and labor relations,

said the new hires include cashiers, produce clerks and workers for the company's online grocery-pickup operations. Some workers will also staff Kroger's new restaurants and prepared-food sections, which the grocer is expanding.

Kroger and other traditional grocery chains are facing tougher competition for shoppers. **Amazon.com Inc.**'s purchase of Whole Foods Market is prompting grocers to speed up digital investments. At the same time they are feeling pressure to keep prices low as European deep-discounters Aldi and Lidl expand in the U.S.

"The core issue in food retail remains the high degree of bottom-line uncertainty," analysts at Morgan Stanley wrote to investors recently.

Kroger's share price, which edged down Tuesday, is off by about 15% this year.

Food retailers are also competing for workers in the tightest U.S. labor market in nearly two decades. The unemployment rate held at 4.1% on Friday for the sixth straight month, a 17-year low.

The worker shortage is even more pronounced in the Midwest, which as of the middle of last year had lost a net 1.3 mil-

lion residents since 2010, according to the Census Bureau. Midwestern states are among those with the most Kroger stores.

Mr. Massa said Kroger's hiring push is spread across the country.

Kroger, Walmart, Target Corp. and other food retailers are investing savings from the federal tax law to boost worker pay. Kroger has said it would spend \$500 million on compensation, including raising starting wages in some regions to \$10 an hour.

—Shayndi Raice contributed to this article.



A Qatar liquefied-natural-gas site. Below, U.S. Defense Secretary James Mattis, left, and Qatar's Sheikh Tamim bin Hamad Al-Thani.

Exxon, Qatar Explore Gas Pact

BY SARAH MCFARLANE
AND BRADLEY OLSON

Exxon Mobil Corp. is in talks with Qatar over a partnership that could see the Middle Eastern nation owning U.S. natural gas, people familiar with the matter said.

The potential deal could lead to the state energy giant Qatar Petroleum investing in Exxon's vast U.S. gas resources, extending from west Texas to North Dakota, according to the people, as both seek to deepen an already lucrative relationship each needs to contend with current challenges.

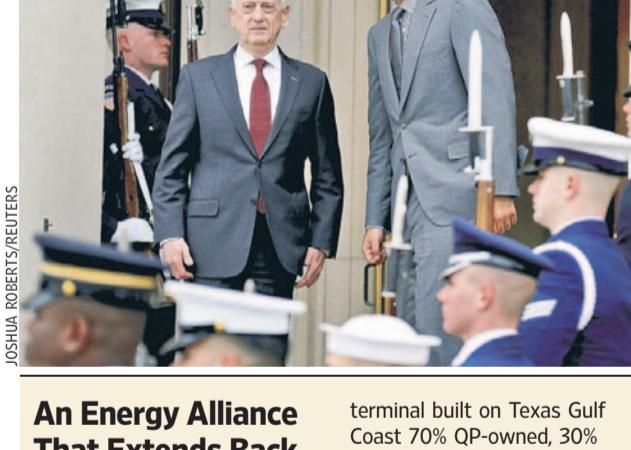
It could take the shape of a joint venture in which Qatar forms a partnership with Exxon subsidiary XTO Energy, or invests in future wells with XTO, these people said.

Qatar wants to broaden its investments outside the Middle East and curry favor with Washington amid an economic blockade from Saudi Arabia and its Gulf allies. Qatar's leader met with President Donald Trump on Tuesday in Washington.

Exxon's operations in Qatar are hugely profitable, and it also needs Doha's financial support and signoff to proceed on a \$10 billion natural-gas-export project in east Texas. The development is critical to allowing the company to find markets abroad for its U.S. gas bounty as prices come under pressure domestically.

For Exxon, the talks also underscore the challenge many Western companies face as they seek to navigate growing rifts in the Middle East, where several countries are embarking on multibillion-dollar global expansions to diversify their economies.

"The relationship between Exxon Mobil and its affiliation



An Energy Alliance That Extends Back For Decades

1955 Mobil Oil Co. of Qatar registered

1984 Qatar gas firm QG1 created to produce liquefied natural gas. Mobil has 10% stake

1997 Qatar exports first LNG shipment

1999 Exxon buys Mobil in \$80 billion deal. Former Exxon Chief Executive Lee Raymond privately joked that the price tag was worth it for Qatar alone

2006 Qatar becomes world's largest LNG exporter

2009 Golden Pass LNG import

terminal built on Texas Gulf Coast 70% QP-owned, 30% Exxon Mobil-owned

2010 Relationship strained after Exxon Papua New Guinea LNG undercut Qatar to win Taiwan gas contract

April 2017 Golden Pass terminal approved by Department of Energy to export LNG

April 2017 Exxon, QP sign exploration- and production-sharing contract with Cyprus

June 2017 Saudi Arabia, U.A.E., Bahrain and Egypt announce blockade against Qatar

March 2018 Exxon, QP win Brazil exploration rights as part of a consortium

Sources: company websites; news reports; *Private Empire* (book)

a request for comment.

The fate of the Golden Pass gas-export facility in east Texas could hinge on a deal. The terminal is mainly owned by Qatar Petroleum, which has held off from agreeing to develop it with Exxon until it owns U.S. natural-gas supplies.

"We are not going to proceed with that without upstream assets in the U.S.," Saad Sherida al-Kaabi, QP's chief executive, said in an interview.

While the world has been focused on rising U.S. oil production, gas output is also expected to hit record levels in 2018, according to the U.S. Energy Information Administration. Exxon wants to triple its production in the red-hot Permian Basin in west Texas and New Mexico to 600,000 barrels a day of oil and natural gas by 2025.

As gas production from the region begins to exceed existing pipeline capacity, natural-gas prices from the region have plunged this year. Some analysts say this might have a knock-on effect on oil production for many companies.

Qatar is already one of Exxon's most profitable partnerships. The tiny country produces more than one-quarter of the world's liquefied natural gas. In 2018, Qatar will account for about 25% of Exxon's after-tax cash flow and 16% of its oil and gas production, according to estimates from analytical firm GlobalData.

For Qatar, owning U.S. gas assets is one way to court Washington. Qatar's emir, Sheikh Tamim bin Hamad Al-Thani, met with Mr. Trump Tuesday to discuss ways to strengthen ties between the two countries, the White House said.

Sanctions On Russia Squeeze Glencore

By SCOTT PATTERSON

New U.S. sanctions are causing fresh economic pain for Moscow and also have ensnared a handful of Western companies with deep roots in Russia.

Glencore PLC said Chief Executive Ivan Glasenberg had resigned as a director of **United Co. Rusal PLC**, which made Washington's sanctions list last week. Glencore owns a nearly 9% stake in the company. The Swiss commodities company said Tuesday it was committed to complying with sanctions and mitigating risks to its business from them.

Glencore also said it was halting a previously agreed-upon plan to exchange Rusal shares for equity in London-listed **En+ Group PLC**.

Both Rusal and En+ are primarily owned by Oleg Deripaska. Mr. Deripaska and En+ were also named in Friday's sanctions list.

It isn't clear what Glencore will do with its Rusal stake, which was valued at just shy of \$1 billion at the end of 2017. On Monday, Rusal's shares listed in Hong Kong fell more than 50% amid investor worry about the effect of the sanctions on Rusal's contracts. Those shares fell a further 8.7% Tuesday.

The new sanctions have rocked Russian financial markets this week. The ruble and stock market fell sharply Monday, with the Russian currency extending losses Tuesday.

They also have caused some Western companies with Russian business ties to assess their exposure to any further scrutiny from Washington.

Years of U.S. and allied sanctions have already sharply curbed Western investment in Russia. However, Friday's measures took direct aim at a group of businesses and their owners that had long been viewed as relatively safe bets.

Take Mr. Deripaska: Viewed by outside observers as a close ally to Russian President Vladimir Putin, he has been a potential target for sanctions. However, he and his companies have exhibited a measure of global engagement and financial transparency, with an international shareholder and customer base that has helped Western partners view them as relatively safe despite the sanctions risk—until now.

A representative for Mr. Deripaska told Russian news agencies on Friday that his inclusion on the sanctions list was "baseless, ridiculous and absurd."

—James Marson and Brian Blackstone contributed to this article.

TECHNOLOGY

Oil Patch Catches Computer Bug

Technology is being used to speed up exploration process, avoid misplaced wells

BY SARAH KENT
AND CHRISTOPHER M. MATTHEWS

Xukai Shen, a geophysicist working at **BP PLC**, had a hunch he could answer a question that had vexed the company: whether there was a lot of oil hidden beneath a salt dome 7,000 feet underwater in the Gulf of Mexico. So he asked to use the company's supercomputer exclusively for two weeks to check it out.

Using an algorithm, the 33-year-old with a Stanford Ph.D. harnessed the computer's massive power last year to produce a clearer seismic image of what lay beneath. The result: a potentially massive oil find. With a clearer picture of the area, BP estimated 200 million barrels of crude lay hidden in the Atlantis oil field, a region the company had been plumbing for decades.

"Basically we found a field within a field," said Ahmed Hashmi, BP's head of technology for exploration and production, during a recent tour of the company's Houston supercomputer, as the machine hummed nearby.

BP is now in love with beefy computer power—and it is far from the only one in the oil patch. Italy's **Eni SpA** has built a computing facility the size of a soccer field outside Milan, crediting its help in all its most recent oil and gas discoveries. France's **Total SA** recently upgraded its Pangea supercomputer, nearly tripling its computing power.

While big oil companies were early adapters of supercomputers, some have poured hundreds of millions into upgrades, and now possess some of the most powerful commercially owned computers on the planet.

The efforts are part of a larger digital arms race among energy companies, which are embracing technology in new-



Big companies like BP possess some of the world's most powerful commercially owned computers.

found ways to produce fossil fuels more cheaply and efficiently. Earlier mechanical advances enabling the boom in U.S. oil-and-gas production and lowering prices have added to the pressure on companies to innovate even further.

The computers are costly, but can reduce the oil-exploration process by months and save companies tens of millions of dollars by avoiding misplaced wells. To harness their potential, the companies are increasingly seeking to compete with Silicon Valley firms for top data and computer scientists.

"We're going all in," said Bernard Looney, BP's head of exploration and production. "We're only scratching the surface today of what's possible."

BP is in the middle of a five-

year, \$100 million investment in its Houston supercomputer. It has built a 15,000-square-foot room in a three-story, flood-proof building to house the titan, which currently takes up about 50% of the space and has the computing power of

Energy firms are vying with Silicon Valley for top data and computer experts.

around 50,000 iPhone 7s.

BP claimed it was the most powerful commercial research computer in the world in December. Within a month, however, it was overtaken by Eni's

supercomputer. BP said it has room to expand its computer further.

Not everyone can take BP's build-your-own approach. Like high-cost deep-water oil projects, in-house supercomputing remains largely the domain of the biggest oil companies. But smaller players are finding creative ways to take advantage of technological advances.

Devon Energy Corp., one of the largest U.S. shale oil producers, is putting its data in the cloud so it can use the virtual computing power of **Microsoft Corp.**

"It costs me hundreds of thousands of dollars versus tens of millions," said Benjamin Williams, Devon's chief information officer. "You have to decide, am I going to use this giant capacity enough to justify the invest-

ment versus the premium I may pay from a cloud provider."

Mr. Williams said many high-performance computing centers are idle 80% of the time, while Devon pays for supercomputing only when it needs it. Devon has a small innovation lab in its Oklahoma City headquarters, where its scientists can experiment on high-end computers and virtual-reality platforms.

The company developed three-dimensional visualization tools there that its geologists use to "get inside" oil reservoirs.

Exxon Mobil Corp., the world's biggest non-state-backed oil company, also out-sources its demand for computing power to analyze seismic data. Even BP uses outside computers for regular seismic analysis, reserving its giant facility in Texas for cutting-edge research.

Boeing, Indonesian Airline in Jet Deal

BY I MADE SENTANA
AND GAURAV RAGHUVANSHI

JAKARTA, Indonesia—Indonesian budget airline **Lion Air Group** announced Tuesday an order for 50 **Boeing Co.** 737 Max 10 jets as it looks to add more seats on trunk routes and capture a boom in passenger growth.

The deal for Boeing's largest narrow-body planes is valued at a list price of \$6.24 billion before discounts of as much as 30% that customers are typically able to extract from airplane makers.

The biggest incremental order so far for the Max 10 variant that Boeing launched last year adds to Lion Air Group's existing deal for 201 Max family jets and is part of the regional airline group's hunt for domestic and regional expansion.

Lion Air Group Chief Executive Edward Sirait said that he expects the deliveries from the new order to begin in 2020, and that the planes will be operated mostly by Lion Air Group's units in Indonesia—PT Lion Mentari Airlines and PT Batik Air. The group also operates associate airlines in Malaysia and Thailand.

"We see healthy growth potential in Indonesia, with 5% economic growth annually, and changing lifestyles," Mr. Sirait said.

The Lion deal comes the same day Scandinavian airline SAS AB ordered 50 Airbus SE A320neo jets.

Last week, Boeing won a crucial contest to supply 47 new 787 Dreamliners to American Airlines.

Passenger growth in Indonesia rose by 11% in 2017, according to transportation ministry data, exceeding the 9.4% overall growth in the Asia-Pacific region.

THE WALL STREET JOURNAL

CEO Council

London Meeting

April 12, 2018

Speakers Include:

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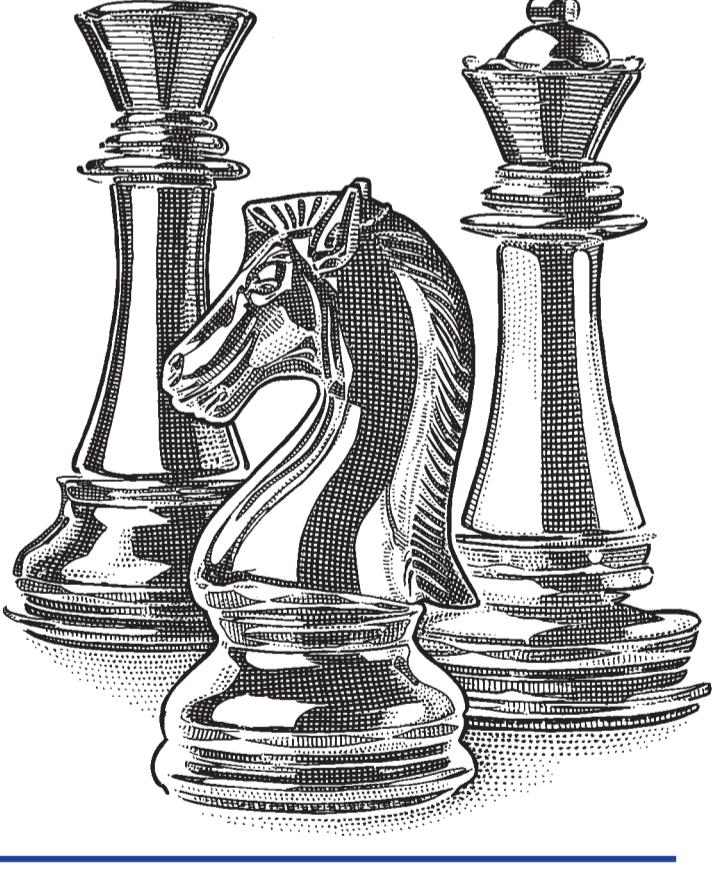
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Vice President,
Global Marketing Solutions
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Mike Moritz
Partner
Sequoia Capital

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THE PROPERTY REPORT

As House Prices Rise, Strains Emerge

Tight supply, higher rates are putting homeownership out of reach for many buyers

By LAURA KUSISTO
AND CHRISTINA REXRODE

More Americans are stretching to buy homes, the latest sign that rising prices are making homeownership more difficult for a broad swath of potential buyers.

Roughly one in five conventional mortgage loans made this winter went to borrowers spending more than 45% of their monthly incomes on their mortgage payment and other debts, the highest proportion since the housing crisis, according to new data from mortgage-data tracker CoreLogic Inc. That was almost triple the proportion of such loans made in 2016 and the first half of 2017, CoreLogic said. That comes as mortgage-finance companies Fannie Mae and Freddie Mac have been backing more of these loans.

Economists said rising debt levels are a symptom of a market in which home prices are rising sharply in relation to incomes, driven in part by a historic lack of supply that is forcing prices higher.

Real-estate agents worry that with buyers being priced out of the market, this could be one of the weakest spring selling seasons in recent years.

Consumers are becoming more optimistic about the economy and their personal financial prospects but less hopeful that now is the right time to buy a home, according to results of a survey released in late March by the National Association of Realtors.

At the same time, the average rate for a 30-year, fixed-rate mortgage has risen to 4.40% as of last week from 3.95% at the beginning of the year, according to Freddie Mac, putting still more pressure on affordability.

These factors "are working against affordability and that's why you get the pressure to ease credit standards," said Doug Duncan, chief economist at Fannie Mae. He said that pressure has to be balanced against the potential toll if underqualified buyers eventually default on mortgages.

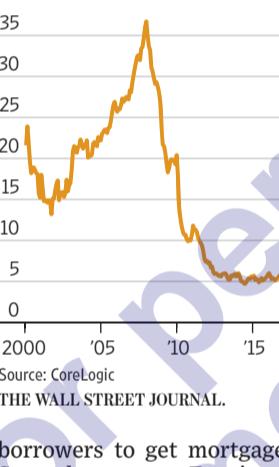
CoreLogic studied home-purchase loans that generally meet standards set by Fannie



Real-estate agents worry that this could be one of the weakest spring selling seasons in recent years as buyers are priced out of the market.

Stretched

Percentage of conventional mortgage loans with debt-to-income ratios over 45%



Source: CoreLogic

THE WALL STREET JOURNAL

Bay Area, tried to buy a home for about a year but finally gave up a few months ago. Dozens of prospective buyers would show up for open houses, she said, even for homes in poor condition, resulting in bidding wars that put them out of her price range. Ms. Rao said loosening lending standards would only create more bidders.

"Things are so bad right now," she said. "By doing this, they might have even made the problem worse."

Debt-to-income ratios measure the share of a household's pretax income that goes to paying a potential mortgage, plus credit-card payments, student loans and other debt. Borrowers who find themselves saddled with too much debt might struggle to make their monthly mortgage payment or save for major repairs or other emergencies.

Todd Jones, president of BBMC Mortgage, said he is wary of making loans to bor-

rowers whose debt-to-income levels would rise above 45% as a result, because they could find themselves stretched. "Every month is going to be tight," he said.

Last summer, Fannie Mae started to back more loans made to borrowers with debt-to-income ratios of up to 50%, up from a typical limit of 45%. Freddie Mac also began backing more of those loans, according to industry researchers.

Fannie's new policy has resulted in 100,000 new mortgages that otherwise wouldn't have been made last year and early this year, according to the Urban Institute, a nonpartisan research organization.

Caliber Home Loans, a Texas-based lender, said 25% of its funded loans have debt-to-income ratios of greater than 45%, up from 10% about a year ago.

Economists warn that lenders must tread carefully in making credit more available, given the role easy mortgages

played in creating the last housing bubble. The share of new buyers with debt-to-income levels in the 46%-to-50% range remains well below the peak of just under 37% registered in 2007, but is nearing the levels of 2004-05, the years leading up to the bubble, CoreLogic data show.

So far, lenders are making most of these loans to borrowers who have a history of good credit. In the fourth quarter of last year, about 78% of the loans with debt-to-income ratios above 45% were made to borrowers with credit scores of 700 or more, according to Inside Mortgage Finance. Although standards vary by lender, usually any mortgage borrower below 650 is considered subprime, or those with a checkered or limited credit history.

"The problem," said Guy Cecala, chief executive of Inside Mortgage Finance, "is you're going to run out of [prime] borrowers."

PLOTS & PLOYS

EUROPEAN RETAIL

Venture Bets Big On Bricks and Mortar

A venture of a Dutch pension-fund service provider and a European retail developer is planning to invest €550 million (\$678 million) in new shopping locations in a bet that well-crafted bricks-and-mortar retail will thrive amid the online onslaught.

PGGM and **Redevco BV**, both based in the Amsterdam area, plan to build a portfolio of five to eight European shopping destinations with the right mix of brands, food and entertainment to survive in a digital age.

The venture, named Urban Retail Ventures, already has acquired one asset: the Promenade Sainte-Catherine in Bordeaux, France, which was developed by Redevco and transferred to the venture as part of the deal.

—Peter Grant

SEARS HOLDINGS

Chain Looks Online To Sell Properties

Sears Holdings Corp. is looking to cash in on real estate, and some of its stores could be sold online.

Real-estate services firm **Cushman & Wakefield** is joining with Real Insight Marketplace, an online auction platform, to help Sears sell 16 profitable store locations. The stores, 15 of which are attached to malls, are being marketed as sale and lease-back deals, and some properties with agreements that allow modifications could be turned into self-storage, hotel or residential space.

—Esther Fung

REIT Boards Feel Heat From Sinking Shares

BY ESTHER FUNG

After nine of 13 members of **Forest City Realty Trust's** board agreed to step down last month, investors turned their attention to other real-estate investment trusts that could face board pressure in coming weeks.

The problem: Shares of many REITs have been flagging for the past year, in part because of worries the property market is nearing a peak and partly because of higher interest rates, which make REITs less attractive.

The underperformance could prompt shareholders to pressure management teams and boards to pursue aggressive strategies to boost their share prices, including shaking up boards, analysts and executives said.

"As we enter proxy season, investors inevitably raise questions to management teams around board turnover, notably, to those companies with long-tenured board members," said Matt Lougee, executive vice president of Westwood Financial Corp., a Los Angeles-based retail real-estate investment company.

The FTSE Nareit Equity REITs index has declined 8% in the past 12 months, compared with a 13% rise in the S&P 500.

Forest City has dropped 13% over the same period.

Forest City is a vivid example of board turmoil, which comes after a long period of shareholder pressure to improve its stock performance. The Cleveland-based REIT underwent a six-month strategic review that included talks with more than 50 potential bidders over a sale of the company that never materialized.



The stock prices of many real-estate investment trusts have been slumping for the past year.

Forest City didn't respond to a request for comment. In March, the company said that making way for new board members would improve its governance structure for the benefit of all stockholders.

Analysts said this is a remarkable step for a REIT, because REITs typically see low turnover rates for board members.

"I can't think of an instance where the majority of directors turned over," said Jim Sullivan, president of Green Street Advisors' Advisory & Consulting Group. "It dials up the volume on the need for all boards to do the work."

Forest City, which owns retail, residential and office properties such as the New York Times Building in Manhattan, had been making

changes for the past two years, in part due to concerns voiced by shareholders. It sold its subsidized housing and mall properties to streamline its business, and removed its dual-class share structure, which had given a certain group of shareholders—including some members of the founding Ratner family—greater voting power.

Activist hedge funds **Starboard Value LP** and **Scopia Capital Management LP**, which hold 3% and 8.3% of Forest City's shares, respectively, each will have the right to appoint one additional director to the board. Starboard and Scopia both declined to comment.

Forest City is a good example of a company that is trying to do the right thing,"

said Gregg Korondi, managing director at LaSalle Investment Management Securities.

REIT boards generally have been clubby affairs, with many real-estate companies originating from family businesses. But they have made improvements in recent years to promote board independence.

Institutional investors said more boards are engaged with shareholders in say-on-pay provisions, in which investors get to weigh in on executive compensation plans and signal their approval or disapproval through a vote. They also are talking with investors about whether or not to opt out of the Maryland Unsolicited Takeover Act, which allows REIT boards to use certain defenses to ward off a hostile takeover. (Many REITs are in-

corporated in Maryland.)

Land & Buildings Investment Management LLC is nominating Jonathan Litt to the board of luxury mall owner **Taubman Centers Inc.**, marking the hedge fund's second attempt at getting a board seat at the REIT. Mr. Litt said Taubman's shares have underperformed and that the two new members added to the board last year weren't truly independent from the Taubman family or other board members.

The Bloomfield Hills, Mich.-based REIT said it had engaged many shareholders and a search firm to identify the two board members, who are deemed independent under applicable regulatory standards. Taubman has added four new independent directors in the past two years and is working with a search firm to identify an additional independent director to be appointed by the 2019 annual meeting.

These appointments underscore the board's commitment to regular board refreshment, strong corporate-governance practices and alignment with shareholders," said Maria Mainville, director of strategic communications at Taubman.

She also said Taubman has performed better than other mall REITs in the past two years and has delivered growth in total shareholder returns through several market cycles.

Taubman's shares have dropped 17% over the past two years, compared with declines of between 25% and 30% for rivals **Simon Property Group Inc.**, **Macerich Co.** and **GGP Inc.** over the same period.

THE PROPERTY REPORT

Knotel Builds Up War Chest

By PETER GRANT

A startup firm that is competing with WeWork Cos. in the flexible-office-space business and planning a service that will use blockchain to track space listings just closed a \$70 million funding round.

Knotel, founded in 2016, said the funding round was led by well-known names in the property business, including **Newmark Group** Inc., a real-estate services firm that went public late last year, and **Moinian Group**, an owner of commercial real estate in the New York region. Other investors included **Wolfson Group**, **Sapir Organization** and **Wainbridge Capital**.

Together with a \$25 million funding round last year, the latest investments bring Knotel's capital raised close to \$100 million. The deals value the firm at roughly \$500 million, according to PitchBook, a research firm owned by Morningstar.

Knotel has deals with landlords in 45 office buildings in New York, San Francisco and London that enable it to lease space in those properties on a short-term basis to tenants.

"We'll be opening another 100 by the end of the year," said Amol Sarva, Knotel's co-founder and chief executive.

He said Knotel also is working on a separate service that will record commercial-property listings using blockchain, a technology best known as the ledger behind cryptocurrencies like bitcoin. "Every office listing, every single little piece of detail, is essentially trafficked today as a PDF file emailed around by brokers," he said. "That is so dirty and opaque."

Knotel's latest funding round is a sign of strong investor interest in companies hoping to profit from changes taking place in the once-staid office-space business. Like other commercial-property markets, including hotels and retail, office space is being disrupted by new entrants relying

heavily on technology and appealing to new demands from younger consumers.

The first big disrupter was WeWork, which was founded in 2010 and was a pioneer in leasing out blocks of space and redesigning them as co-working facilities for startups and entrepreneurs. WeWork has over 240 locations in 71 cities used by more than 210,000 customers.

WeWork and its competitors



A service using blockchain to record property listings is in the works, Knotel CEO Mr. Sarva says.

are going after workplace changes affecting larger tenants as they try to stay nimble to adapt to rapid transformations of their industries. The mantra among these tenants is they want shorter and more-flexible leases, not the traditional fixed 10- or 15-year leases.

Tenants "need to be agile," Mr. Sarva said. "We have big companies and medium-sized growth companies that are saying 'I need a space, but I'm sick of doing leases. I have no idea how big my head count will be



Knotel has raised nearly \$100 million. Offices of Stash, a client.

in a year, much less 10 years.'

Flexible and co-working space operators accounted for more than 10% of all office deals in London and New York last year, according to brokerage firms. Experts predict an eventual rise to nearly 20% of leases signed in major markets.

"There's a lot of headroom," said Marcus Moufarrigi, chief operating officer of Sydney-based **Servcorp** Ltd., which has about 160 locations in 54 cities. "It's a big sector of a big market worth lots of money."

Knotel typically signs leases with office landlords and then cuts deals with tenants looking for flexible space. Knotel provides its customers price protection as well as the ability to reduce space quickly if they need to shrink, Mr. Sarva said.

Knotel also enables tenants to sign leases much faster than traditional office deals, which can take more than 18 months. "That's insane," Mr. Sarva said. "Amazon can get you a toothbrush in an hour. But an office lease takes more than one year."

The blockchain project is still in the planning stages. Knotel already has a window into listings through its investors, which include office-building owners and service firms. "I think we have some heft to start moving the needle," Mr. Sarva said.

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MONEY & INVESTING

Icahn to Sell Federal-Mogul to Tenneco

BY CARA LOMBARDO
AND AUSTEN HUFFORD

Carl Icahn's company is selling a car-parts maker it has controlled since 2008 for about \$2.5 billion, hiving off a piece of an auto empire that includes holdings in rental services, ride-hailing and repair shops.

Icahn Enterprises LP plans to sell **Federal-Mogul** to **Tenneco** Inc., which manufactures a wide range of automotive products such as Monroe shocks and Walker mufflers. Icahn Enterprises would receive \$800 million in cash and 29.5 million shares in Tenneco, valued at about \$1.7 billion as of Tuesday.

Tenneco will also assume Federal-Mogul's debt, which was about \$3.1 billion at the end of last year.

Lake Forest, Ill.-based Tenneco said Tuesday it plans to create two publicly traded companies after the deal, with one focused on replacement parts and ride performance, and the other focused on powertrain technology.

Tenneco is betting that traditional-engine and hybrid-

electric vehicles, and the components that power them, will continue to dominate the market compared with all-electric vehicles. Tenneco said in an investor presentation that it expects 87% of global light-vehicle sales to be traditional engine or hybrid vehicles in 2030, compared with 99% in 2017, citing estimates from



Mr. Icahn's company owns stakes in Lyft and Hertz as well as in several car-parts makers.

Boston Consulting Group.

Federal-Mogul, based in Southfield, Mich., had revenue of \$7.8 billion in 2017 and about 55,000 employees. The company's brands include Wagner brake products and Sealed Power engine replacement parts.

Icahn Enterprises took control of Federal-Mogul in 2008 and took the company private in 2017. Federal-Mogul is one of several car-parts companies



tive segment is the largest of the 11 industries in which it operates, accounting for a little less than half of the company's \$21.7 billion in revenue last year.

Mr. Icahn said in prepared remarks that his company expects to be "meaningful stockholders" in Tenneco going forward. The sale agreement restricts how much Tenneco stock can be sold within the first 150 days of the deal closing. Most of the Tenneco shares don't confer voting rights, restricting the control Mr. Icahn will be able to have over the company.

Icahn Enterprises will have one board member on the combined company and then one on the powertrain company after the separation.

The companies expect the sale to close in the second half of the year, subject to regulatory approvals and approval by Tenneco shareholders. Tenneco expects to create the two separate public companies in the second half of 2019.

Icahn Enterprises' shares rose 2.9% to \$61.44 in trading Tuesday, while Tenneco shares closed up 4.1% at \$57.82.

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NOTICE OF SALE**NOTICE FOR PUBLICATION OF SALE AND DISPOSITION OF COLLATERAL**To: WhisperText, Inc. ("Borrower")
From: WhisperText Investment LLC ("Secured Party")Sale Date: May 11, 2018
Time: 10:00 a.m. (PDT)Place: Stradling Yocca Carlson & Rauth, P.C.
100 Wilshire Blvd., 4th Floor, Santa Monica, CA 90401

This Notice of Sale and Disposition of Collateral ("Notice") is given pursuant to the California Uniform Commercial Code, and any other applicable law (collectively, the "UCC"). On the date, time and place set forth above, Secured Party or its designee/assignee will offer at public auction sale (the "Sale") the Collateral (as defined below). Such Collateral consists of all rights title and interest of Borrower, of every kind, real, personal and mixed, tangible or intangible, and all as more particularly described in the attached Exhibit A ("Collateral").

PLEASE NOTE THAT THE SECURED PARTY RESERVES THE RIGHT TO BID ON THE COLLATERAL, INCLUDING BY WAY OF A CASH BID, CREDIT BID OR SET-OFF OF ITS SECURED DEBT OR A COMBINATION OF ANY OF THE ABOVE.

PLEASE NOTE THAT THE SALE IS SUBJECT TO THE RIGHTS AND SECURITY INTEREST OF MARBLE BRIDGE FUNDING GROUP, INC. ("MARBLE BRIDGE") AS DESCRIBED IN THAT INTERCREDITOR AGREEMENT, DATED OCTOBER 4, 2017 BETWEEN MARBLE BRIDGE AND SECURED PARTY.

Reference is made to the letter dated November 27, 2017 ("Notice of Default"), the letter dated February 14, 2018 ("Notice of Acceleration"), the Loan and Security Agreement, dated November 30, 2015 (as amended, "Loan and Security Agreement"), between Secured Party (as successor to Silicon Valley Bank) and Borrower and the related financing documents (with the Loan and Security Agreement, "Secured Debt Documents"). Pursuant to the Secured Debt Documents, Secured Party was granted a security interest in the Collateral.

As of the date of this Notice, the Borrower is obligated to Secured Party under the Secured Debt Documents for payment of principal, interest and other obligations (as defined in the Loan and Security Agreement), and any other amounts due and owing under the Secured Debt Documents, in the amount of no less than \$8.1 million, plus attorneys fees and costs of collection and enforcement.

At the Sale, Secured Party will accept bids on the Collateral upon the following terms and conditions:

(1) All parties that intend to bid at the Sale must provide to Secured Party a cash deposit or a letter of credit in the amount of \$50,000 ("Deposit"), which must be received by Secured Party on or before 5:00 p.m. PDT on April 16, 2018. The funds in the Deposit will be held in escrow until the time of the Sale. Secured Party reserves the right to cancel the Deposit if any non-successful bidder will be refunded and/or returned to such non-successful bidders within three (3) days following the completion of the bidding process. The Deposit of the successful bidder, if any, will be retained by Secured Party and applied against the successful bid, or in the event that the successful bidder fails to complete the Sale, shall be forfeited to Secured Party.

(2) Secured Party reserves the right to postpone or reschedule the time, date and/or place of the Sale. Secured Party reserves the right to sell the Collateral in lots, bulk, or as individual items. If competing offers with different terms and conditions are submitted, Secured Party reserves the right to determine which shall be accepted, and its decision in this matter shall be final.

(3) Secured Party shall not be obligated to make or complete a Sale pursuant to this Notice, and reserves the right to reject any and all offers at its sole discretion for any reason or no reason.

(4) All purchases of the Collateral shall be made without warranties or representations of any kind by Secured Party or Borrower, including, without limitation, any warranties or representations as to title, fitness for a particular purpose, or any other facts or matters and shall be made on an "as is where is" basis at the Sale.

(5) The sale of the Collateral will be subject to any and all security interests of Marble Bridge, and such interests shall continue in the Collateral after the Sale.

(6) Secured Party reserves the right to bid (by way of a cash bid, "credit bid" or set off) at the Sale or any continuation or adjournment thereof.

BANKRUPTCIES**PUBLIC NOTICES****IN THE UNITED STATES BANKRUPTCY COURT FOR THE DISTRICT OF DELAWARE**In re: EV ENERGY PARTNERS, L.P., et al.^(I) Chapter 11, Case No. 18-10814 (CSS)

Debtors, (Jointly Administered)

NOTICE OF COMMENCEMENT OF PREPACKAGED CHAPTER 11 BANKRUPTCY CASES AND COMBINED HEARING ON DISCLOSURE STATEMENT AND CONFIRMATION OF PREPACKAGED CHAPTER 11 PLAN

TO: ALL HOLDERS OF CLAIMS, HOLDERS OF INTERESTS, AND PARTIES IN INTEREST IN THE ABOVE-CAPTIONED CHAPTER 11 CASES

PLEASE TAKE NOTICE THAT on April 2, 2018 (the "Petition Date"), EV Energy Partners, L.P. and certain of its affiliated debtors in the above-captioned chapter 11 cases (collectively, the "Debtors") filed with the United States Bankruptcy Court for the District of Delaware (the "Court") a proposed joint prepackaged chapter 11 plan of reorganization (Docket No. 6) ("the Plan") and proposed disclosure statement (Docket No. 7) ("the Disclosure Statement") pursuant to sections 1125 and 1126(b) of title 11 of the United States Code, 11 U.S.C. §§ 101 - 1522 (the "Bankruptcy Code"). Copies of the Plan and the Disclosure Statement may be obtained upon request of the Debtors' proposed counsel at the address specified below and are on file with the Clerk of the Bankruptcy Court, 824 North Market Street, 3rd Floor, Wilmington, Delaware 19801, where they are available for review between the hours of 8:00 a.m. to 4:00 p.m., prevailing Eastern Time. The Plan and Disclosure Statement also are available for inspection on the Bankruptcy Court's website at www.deb.uscourts.gov, or free of charge on the Debtors' chapter 11 website at <https://cases.primeclerk.com/evep>.

PLEASE TAKE FURTHER NOTICE THAT a hearing (the "Confirmation Hearing") will be held before the Honorable Christopher S.onti, United States Bankruptcy Judge, in Courtroom 6 of the United States Bankruptcy Court for the District of Delaware, 824 North Market Street, Wilmington, Delaware 19801, on **May 15, 2018, at 10:00 a.m., preceding Eastern Time**, to consider the confirmation of the Plan. Interested parties may object to the Disclosure Statement or confirm the Plan or the Disclosure Statement thereto, any objections to the proposed assumption of Executory Contracts and Unexpired Leases, and any other matter that may properly come before the Court. Please be advised that the Confirmation Hearing may be continued from time to time by the Bankruptcy Court or the Debtors without further notice other than by such adjournment being announced in open court or by a notice of adjournment filed with the Bankruptcy Court and served on other parties entitled to notice.

PLEASE TAKE FURTHER NOTICE THAT objections (each, an "objection"), if any, to the Plan or the Disclosure Statement, or to the proposed assumption of Executory Contracts and Unexpired Leases must: (a) be in writing; (b) comply with the Federal Rules of Bankruptcy Procedure and the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware; (c) state the name and address of the objecting party and the amount and nature of the claim or interest beneficially owned by such entity or individual; (d) state with particularity the legal and factual basis for such objections, and, if practicable, a proposed modification to the Plan that would resolve such objections; and (e) be filed with the Clerk of the Bankruptcy Court, 824 North Market Street, 3rd Floor, Wilmington, Delaware 19801, no later than **May 8, 2018, at 5:00 p.m., preceding Eastern Time**, by those persons who have filed a notice of appearance in the Debtors' chapter 11 cases as well as each of the following parties: (i) **Debtors:** EV Energy Partners, L.P., 1001 Fannin, Suite 800, Houston, Texas 77002, Attn.: Nicholas Obrowski, with copies to: Kirkland & Ellis LLP, Kirkland & Ellis International LLP, 300 North LaSalle Street, Chicago, Illinois 60654, Attn.: Brad Weiland, Travis M. Bayer and Kirkland & Ellis LLP, Kirkland & Ellis International LLP, 601 Lexington Avenue, New York, New York 10017, Attn.: Joshua A. Sussberg, P.C., Daniel Evans and Zachary Ziehl, Attn.: Laura Davis Jones, (ii) **Counsel to the RBL Agent:** Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, New York 10017, Attn.: Philip Dublin, Jason Rubin, and (iv) **Counsel to the Indenture Trustee:** Bryan Cave LLP, 1220 Avenue of the Americas, New York, New York 10014, Attn.: Stephanie Wickouski.

UNLESS AN OBJECTION IS TIMELY SERVED AND MADE IN ACCORDANCE WITH THIS NOTICE, IT MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT AND MAY BE DEEMED OVERRULED.

YOU ARE ADVISED TO THOROUGHLY REVIEW AND CONSIDER THE PLAN, INCLUDING THE RELEASE, EXCULPATION, DISCHARGE, AND INJUNCTION PROVISIONS IN ARTICLE VI OF THE PLAN, AS YOUR RIGHTS MIGHT BE AFFECTED.

ALL HOLDERS OF CLAIMS AGAINST OR INTERESTS IN THE DEBTORS THAT DO NOT FILE AN OBJECTION WITH THE BANKRUPTCY COURT IN THESE CHAPTER 11 CASES THAT EXPRESSLY OBJECTS TO THE INCLUSION OF SUCH HOLDER AS A RELEASING PARTY UNDER THE PROVISIONS CONTAINED IN ARTICLE VIII OF THE PLAN WILL BE DEEMED TO HAVE EXPRESSLY, UNCONDITIONALLY, GENERALLY, INDIVIDUALLY, AND COLLECTIVELY CONSENTED TO THE RELEASE AND DISCHARGE OF ALL CLAIMS AND CAUSES OF ACTION AGAINST THE DEBTORS AND THE RELEASED PARTIES.

Dated: April 11, 2018, Wilmington, Delaware, /s/ Laura Davis Jones, Laura Davis Jones (Delaware Bar No. 2436), **PACHULSKI STANG ZIEHL & JONES LLP**, 919 North Market Street, 17th Floor, Wilmington, Delaware 19801, Telephone: (302) 652-4100, Facsimile: (302) 652-4400; and: Joshua A. Sussberg, P.C. (admitted pro hac vice), Jerome M. Kone, Esq. (admitted pro hac vice), **KIRKLAND & ELLIS LLP**, 824 North Market Street, Suite 1500, Wilmington, Delaware 19801, Telephone: (313) 266-4800; Facsimile: (313) 446-4900; and James H.M. Sprague, P.C., Brad Weiland (admitted pro hac vice), Travis M. Bayer (admitted pro hac vice), **KIRKLAND & ELLIS LLP**, 110 N. LaSalle Street, Chicago, Illinois 60654, Telephone: (312) 862-2000, Facsimile: (312) 862-2200, Proposed Co-Counsel to the Debtors and Debtors in Possession.

The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: EV Energy Partners, L.P. (5690); EV Properties, L.P. (5543); EVPP Production Partners, L.P. (8619); EVPP GP, LLC (8340); CGAS Properties, L.P. (7277); EVG Energy GP, LLC (7274); EnergVest Monroe Marketing, L.L.C. (7606); EnergVest Monroe Gathering, Ltd. (7608); EV Energy GP, L.P. (5642); EV Management, LLC (5594); EV Energy Finance Corp. (3405); Belden & Blake, LLC (6642); and EnergVest Mesa, LLC (1725). The Debtors' service address is: 1001 Fannin Suite 800, Houston, TX 77002.

2 Capitalized terms used but not otherwise defined herein have the meanings ascribed to them in the Plan or the Disclosure Statement, as applicable. The statements contained herein are summaries of the Plan or the Disclosure Statement and the Plan or Disclosure Statement do not purport to be precise or complete statements of all the terms and provisions of the Plan or documents referred thereto. To the extent there is a discrepancy between the terms herein and the Plan or Disclosure Statement, the Plan or Disclosure Statement, as applicable, shall govern and control. For a more detailed description of the Plan, please refer to the Disclosure Statement.

7) The Sale will not be complete until the successful bidder delivers to Secured Party, by and through Secured Party's counsel, cash, cashier's check, or immediately available funds, as necessary, in the full amount of the successful bid (net of the Deposit). Notwithstanding the foregoing, Secured Party may, but shall not be required to, allow the successful bidder up to three (3) business days to deliver the full payment as set forth above. In case of a failure to complete the purchase within the time allowed, the Collateral may thereafter again be offered for sale without further publication or notice of the failure to complete the purchase at the original sale. In the event of a failure to complete the purchase, the bidder will not be relieved of liability to complete the purchase, and the bidder's Deposit will not be refunded and such bidder shall be liable for any shortfalls or damages occurred by Secured Party in accepting another bid.

8) The above terms and conditions constitute the principal terms and conditions of the Sale and may be supplemented or amended by Secured Party at any time prior to the Sale.

9) The Borrower is entitled to an accounting of the unpaid indebtedness secured by the Collateral. The Borrower may request an accounting by contacting James O. Thoma of Stradling Yocca Carlson & Rauth, P.C., counsel for Secured Party, at 100 Wilshire Blvd., 4th Floor, Santa Monica, CA 90401; telephone number: (424) 214-7000; facsimile number: (424) 214-7010; e-mail: johannes.thoma@stradling.com.

Individuals or companies interested in bidding at the Sale should contact Mr. Thoma to arrange for review of the due diligence materials, which are comprised of a copy of the Notice of Default, the Notice of Acceleration, the Secured Debt Documents and related documents and information pertaining to the Collateral ("Diligence Materials"). Any parties seeking to review the Diligence Materials will be required to execute a non-disclosure agreement prior to such review.

Dated: March 27, 2018, James O. Thoma, Esq. Stradling Yocca Carlson & Rauth, P.C., Attorneys for Secured Party, WhisperText Investment LLC

EXHIBIT A: COLLATERAL*

The Collateral, which is more particularly described in the Secured Debt Documents, consists of all of Borrower's right, title and interest in and to the following personal property:

All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles, commercial tort claims, documentation, engineering drawings, intellectual property, software, whether tangible or electronic), cash, deposit accounts, fixtures, letters of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located; and

All Borrower's books relating to the foregoing, and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accretions and improvements to and replacements, products, proceeds and accessories and income from or arising from any of all the foregoing.

The Collateral also specifically includes all intellectual property of the Borrower, including but not limited to registered or unregistered trademarks, copyrights, copyright applications, patents, patent applications, mask works, trademarks, trade secrets, computer programs, computer software products and source code, design rights, websites, domain names and all URL registrations in connection therewith, licenses and rights of use in connection with the foregoing, and any claims for damages for infringement of any of the foregoing.

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MARKETS DIGEST**EQUITIES****Dow Jones Industrial Average**

24408.00 ▲ 428.90, or 1.79%
Last 25.78 21.07
High, low, open and close for each
P/E estimate * 16.34 17.70
Dividend yield 2.18 2.36
All-time high 26616.71, 01/26/18

Current divisor 0.14523396877348



Bars measure the point change from session's open

Jan. Feb. Mar. Apr.

*Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

S&P 500 Index

2656.87 ▲ 43.71, or 1.67%
Last 25.04 24.63
High, low, open and close for each
P/E estimate * 16.88 18.32
Dividend yield 1.96 1.97
All-time high 2872.87, 01/26/18

**Nasdaq Composite Index**

7094.30 ▲ 143.96, or 2.07%
Last 25.33 26.11
High, low, open and close for each
P/E estimate * 19.68 20.35
Dividend yield 1.06 1.10
All-time high 7588.32, 03/12/18

**Major U.S. Stock-Market Indexes**

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.
	Dow Jones	24408.00	428.90	▲ 1.79	26616.71	20404.49	18.2	-1.3	10.6	
Industrial Average	24511.35	24198.95	24408.00	428.90	▲ 1.79	26616.71	20404.49	18.2	-1.3	10.6
Transportation Avg	10291.24	10162.55	10228.42	109.06	▲ 1.08	11373.38	8783.74	12.0	-3.6	5.3
Utility Average	693.53	686.17	687.79	-4.45	-0.65	774.47	647.90	-1.8	-4.9	5.2
Total Stock Market	27631.51	27336.04	27543.28	458.90	▲ 1.69	29630.47	24125.20	12.8	-0.5	7.7
Barron's 400	715.77	699.48	713.39	13.92	▲ 1.99	757.37	610.89	14.6	0.3	7.2
Nasdaq Stock Market	7117.98	7014.88	7094.30	143.96	▲ 2.07	7588.32	5805.15	20.9	2.8	12.4
Nasdaq 100	6639.97	6534.89	6615.87	143.53	▲ 2.22	7131.12	5353.59	22.6	3.4	14.4
S&P										
500 Index	2665.45	2635.78	2656.87	43.71	▲ 1.67	2872.87	2328.95	12.9	-0.6	8.1
MidCap 400	1891.16	1870.97	1884.57	30.04	▲ 1.62	1995.23	1681.04	9.6	-0.8	7.1
SmallCap 600	952.70	940.41	949.63	17.80	▲ 1.91	979.57	815.62	13.5	1.4	9.5
Other Indexes										
Russell 2000	1548.08	1517.05	1543.43	28.97	▲ 1.91	1610.71	1345.24	12.1	0.5	6.9
NYSE Composite	12601.25	12380.56	12565.97	185.42	▲ 1.50	13637.02	11324.53	9.5	-1.9	4.2
Value Line	552.73	541.80	551.04	9.24	▲ 1.71	589.69	503.24	6.3	-2.0	2.0
NYSE Arca Biotech	4612.17	4516.50	4600.54	110.54	▲ 2.46	4939.86	3452.82	33.2	9.0	4.1
NYSE Arca Pharma	537.46	531.91	535.78	7.37	▲ 1.39	593.12	498.46	5.9	-1.7	-3.1
KWB Bank	107.94	106.71	107.52	1.68	▲ 1.59	116.52	88.02	19.1	0.8	13.9
PHLX® Gold/Silver	82.40	81.48	81.94	0.89	▲ 1.09	93.26	76.42	-8.0	-3.9	5.8
PHLX® Oil Service	145.25	138.11	143.68	7.37	▲ 5.41	171.55	117.79	-16.2	-3.9	-11.6
PHLX® Semiconductor	1321.99	1295.32	1314.54	40.75	▲ 3.20	1445.90	960.01	33.7	4.9	22.8
Cboe Volatility	21.68	20.24	20.47	-1.30	-5.97	37.32	9.14	35.8	85.4	17.6

\$ Nasdaq PHLX

Sources: SIX Financial Information; WSJ Market Data Group

Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 50,000 shares.

Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	% chg	After Hours	High	Low
SPDR S&P 500	SPY	7,152.3	264.72	-0.43	-0.16	265.17	260.81	
iShares MSCI Emg Markets	EEM	6,792.1	48.05	...	unch.	48.05	47.99	
iShares U.S. Real Estate	IYR	5,176.2	74.75	0.02	0.02	74.75	74.60	
VanEck Vectors Gold Miner	GDX	4,305.2	22.34	0.08	0.36	22.38	22.26	
Comcast Cl A	CMCSA	3,186.2	33.75	-0.11	-0.32	35.30	33.58	
PowerShares DB Oil Fund	DBO	2,900.0	11.26	-0.02	-0.18	11.26	11.26	
iShares Russell 2000 ETF	IWM	2,726.3	153.27	-0.11	-0.07	153.41	153.07	
iShares MSCI Japan ETF	EWJ	2,665.9	60.48	...	unch.	60.48	60.41	

Percentage gainers...

AVEO Pharmaceuticals	AVEO	139.3	2.68	0.25	10.29	2.69	2.43
Spectrum Pharmaceuticals	SPPI	118.5	21.67	0.91	4.38	21.72	20.63
Nokia ADR	NOK	187.2	5.73	0.21	3.80	5.92	5.50
VS 2x VIX Short Term	TVIX	594.3	10.06	0.16	1.62	10.07	9.86
ProSharesUltiVIXST	UVXY	198.9	19.50	0.28	1.46	19.50	19.17
Babcock Wilcox Ent	BW	188.6	2.36	-1.40	-37.23	3.80	2.15
Analogic	ALOG	100.7	83.90	-12.15	-12.65	96.10	83.80
Agilent Technologies	A	279.0	63.31	-3.33	-5.00	66.64	63.31
Range Resources	RRC	65.4	14.39	-0.39	-2.64	14.79	14.37
JC Penney	JCP	95.0	3.34	-0.06	-1.76	3.40	3.33

...And losers

Babcock Wilcox Ent	BW	188.6	2.36	-1.40	-37.23	3.80	2.15
Analogic	ALOG	100.7	83.90	-12.15	-12.65	96.10	83.80
Agilent Technologies	A	279.0	63.31	-3.33	-5.00	66.64	63.31
Range Resources	RRC	65.4	14.39	-0.39	-2.64	14.79	14.37
JC Penney	JCP	95.0	3.34	-0.06	-1.76	3.40	3.33

Trading Diary

Volume, Advancers, Decliners

	NYSE	NYSE Amer.

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COMMODITIES

WSJ.com/commodities

Futures Contracts**Metal & Petroleum Futures**

	Contract						Open	High hilo		Low	Settle	Chg	Open interest
	Open	High	hi lo	Low	Settle	Chg	Open	High	hi lo	Low	Settle	Chg	interest
Copper-High (CMX) -25,000 lbs.; \$ per lb.													
April 3.0880	3.1345	3.0880	3.0880	3.1310	0.0595	1,047							
May 3.0760	3.1410	3.0680	3.1370	0.0600	117,570								
Gold (CMX) -100 troy oz.; \$ per troy oz.													
April 1335.20	1341.00	1333.00	1342.00	5.70	1,439								
June 1339.80	1346.20	1334.20	1345.90	5.80	368,544								
Aug 1345.70	1352.20	1340.60	1352.00	5.80	51,565								
Oct 1350.50	1358.40	1350.50	1358.20	5.90	7,451								
Dec 1358.50	1365.00	1353.70	1364.80	5.90	51,271								
Feb'19 1364.30	1369.10	1360.50	1371.10	5.90	2,538								
Palladium (NYM) -50 troy oz.; \$ per troy oz.													
June 925.30	954.80	924.60	949.75	17.25	20,389								
Sept 922.30	950.10	922.30	944.50	15.65	2,399								
Platinum (NYM) -50 troy oz.; \$ per troy oz.													
April 931.70	933.80	928.40	927.60	-6.30	9								
July 936.60	940.40	928.00	933.10	-6.30	71,321								
Silver (CMX) -5,000 troy oz.; \$ per troy oz.													
April 16.410	16.565	16.410	16.566	0.067	221								
May 16.485	16.640	16.410	16.596	0.067	137,980								
Crude Oil, Light Sweet (NYM) -1,000 bbls.; \$ per bbl.													
May 63.31	65.86	63.20	65.51	2.09	324,168								
June 63.29	65.77	63.18	65.44	2.01	396,171								
July 63.12	65.46	62.99	65.17	1.91	181,151								
Sept 62.31	64.35	62.28	64.16	1.66	199,664								
Dec'19 65.83	57.66	56.83	57.54	0.70	144,964								
NY Harbor ULSD (NYM) -42,000 gal.; \$ per gal.													
May 1.9969	2.0696	1.9940	2.0648	0.0682	117,627								
June 1.9914	2.0596	1.9872	2.0553	0.0649	95,313								
Gasoline-NY RBOB (NYM) -42,000 gal.; \$ per gal.													
May 1.9795	2.0460	1.9769	2.0409	0.0567	112,267								
June 1.9816	2.0471	1.9794	2.0418	0.0547	100,306								
Natural Gas (NYM) -10,000 MMBtu's; \$ per MMBtu.													
May 2.698	2.726	2.643	2.656	-0.37	309,538								
June 2.733	2.761	2.682	2.694	-0.37	157,892								
July 2.780	2.807	2.730	2.747	-0.33	154,990								
Sept 2.793	2.820	2.745	2.763	-0.31	123,425								
Oct 2.807	2.833	2.758	2.777	-0.31	127,420								
Jan'19 3.070	3.088	3.023	3.047	-0.23	76,785								

Agriculture Futures

Corn (CBT)	5,000 bu.; cents per bu.					
May 390.00	392.25	388.50	389.25	-1.50	480,947	
July 398.25	400.50	396.50	397.75	-1.25	593,641	
Oats (CBT) -5,000 bu.; cents per bu.						
May 237.50	238.25	231.00	236.50	-7.75	3,887	
July 243.50	244.00	237.50	242.75	-7.75	2,263	
Soybeans (CBT) -5,000 bu.; cents per bu.						
May 1045.50	1064.00	1050.00	1050.00	3.00	272,347	
July 1056.00	1074.00	1055.25	1060.25	2.75	328,717	
Soybean Meal (CBT) -100 tons; \$ per ton.						
May 390.10	391.00	383.70	383.90	-5.70	139,426	
July 393.70	395.20	387.80	388.00	-5.70	178,024	
Soybean Oil (CBT) -60,000 lbs.; cents per lb.						
May 31.49	31.89	31.44	31.85	.33	180,230	
July 31.77	32.16	31.71	32.13	.34	169,426	
Rough Rice (CBT) -2,000 cwt.; \$ per cwt.						
May 128.00	128.70	127.00	127.75	-4.50	4,783	
July 128.90	129.00	128.50	128.85	-2.00	2,402	
Wheat (CBT) -5,000 bu.; cents per bu.						
May 492.00	494.00	481.75	492.00	1.25	161,301	
July 507.25	510.50	497.75	508.50	2.50	161,351	
Wheat (CBT) -5,000 bu.; cents per bu.						
May 522.50	525.25	513.75	521.75	-1.00	82,776	
July 542.00	544.25	532.50	540.50	-1.25	96,330	
Wheat (MPLS) -5,000 bu.; cents per bu.						
May 624.00	634.00	620.00	626.50	... 28,024		
July 636.50	643.50	630.50	636.25	... 20,588		
Cattle-Feeder (CME) -50,000 lbs.; cents per lb.						
April 135.125	136.375	133.50	134.825	-.375	5,564	
May 136.075	137.650	134.325	135.275	-.250	19,963	
Cattle-Live (CME) -40,000 lbs.; cents per lb.						
April 112.650	113.675	112.150	112.800	-.775	18,453	
June 103.075	104.200	101.675	102.100	-.400	157,523	
Hogs-Lean (CME) -40,000 lbs.; cents per lb.						
April 53.250	54.100	53.250	53.500	.600	13,797	
June 76.000	77.000	74.925	75.050	-.825	100,830	
Lumber (CME) -110,000 bd. ft.; \$ per 1,000 bd.						
May 538.10	539.70	531.90	533.10	-1.10	5,105	
July 520.40	524.00	518.60	520.70	.20	1,409	

Cash Prices | WSJ.com/commodities

Tuesday, April 10, 2018

These prices reflect buying and selling of a variety of actual or "physical" commodities in the marketplace—separate from the futures price on an exchange, which reflects what the

BANKING & FINANCE



Goldman Sachs stirred controversy last year when it bought bonds at a discount from sanction-hit Caracas.

Cash-Strapped Venezuela Makes Payment to Goldman

By JULIE WERNAU

Venezuela's government stopped paying its foreign debt months ago. But a unit of **Goldman Sachs Group Inc.** recently received payments of tens of millions of dollars for bonds that ignited controversy last year when they were purchased at a big discount, according to people familiar with the matter.

The Venezuelan government made the payment in November, but the money had been held up by a clearinghouse that processes these payments over concerns that it may have been in violation of U.S. sanctions, these people said.

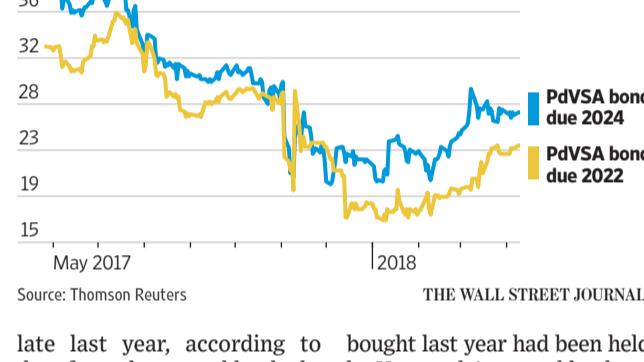
The purchase in May 2017 by Goldman's asset-management arm sparked charges that the New York firm was providing a financial lifeline to Venezuela's embattled government. The public anger seemed to catch Goldman off-guard, in part because the asset-management arm hasn't usually been prone to controversy.

Analysts say the \$90 million payment Friday for the bonds, which are held mostly by Goldman Sachs Asset Management, could amount to the final payment made by the government of President Nicolás Maduro on any of its bonds.

He has pledged that Venezuela will pay all of its debts, but the government hasn't made any new payments since

Lagging Behind

Bonds Goldman Sachs purchased at a discount from the Venezuelan government last year, the PdVSA 2022, have priced below similar bonds in the market.



late last year, according to data from the central bank obtained by investment bank Capital Markets.

For Goldman Sachs, the coupon payment for the bonds issued by Venezuela's state oil company **Petróleos de Venezuela SA** may be a small consolation for what has so far been a losing bet. The asset-management arm acquired the bonds due in 2022 with a \$2.8 billion face value at a 70% discount.

A Goldman Sachs spokesman declined to comment.

Critics say that purchase helped to prop up Mr. Maduro's authoritarian regime when U.S. sanctions had limited his ability to raise cash and ratcheted up the pressure on him. The bonds Goldman

bought last year had been held by Venezuela's central bank, so the proceeds of the sale went straight to the Maduro government.

The Trump administration has barred U.S. investors from trading new bonds with Mr. Maduro's government, and the sanctions have complicated any restructuring effort. Spokesmen for Venezuela's central bank and finance ministry didn't respond to calls seeking comment.

Since the transaction, these bonds have traded infrequently and are offered at a deep discount to other Venezuelan bonds because major brokerages refuse to price them and most other traders refuse to buy them, according

to a March report from the Graduate Institute of International and Development Studies and Duke University School of Law.

Some bond investors said their firms prohibit them from even talking about the PdVSA bonds because they have become a political lightning rod.

The PdVSA bonds were quoted at 23.75 cents on the dollar Tuesday, according to Thomson Reuters, versus 26.75 cents on the dollar for a similar bond due in 2024.

The Venezuelan government hasn't issued any international public debt in several years.

The government began defaulting on its bonds in November. Venezuela has approximately \$150 billion in outstanding foreign debt and approximately \$9.5 billion in reserves. Approximately \$2.5 billion in debt is now in default, according to Caracas Capital, and the government's promise to attempt a restructuring has fizzled.

Mr. Maduro's political rivals called the PdVSA 2022 bonds illegal because they were never approved by the opposition-controlled congress, also known as the National Assembly.

Sheila Patel, chief executive of GSAM's international division, told Bloomberg in a recent interview that the transaction was a "learning experience."

—Kejal Vyas contributed to this article.

High-profile slips in stress tests have damaged the

Fed Proposes Shift In Big-Bank Rules on Capital, Stress Tests

By RYAN TRACY
AND LIZ HOFFMAN

The Federal Reserve proposed retrofitting capital rules and annual "stress tests" for the largest U.S. financial firms, the first major big-bank rule change of the Trump era.

The Fed on Tuesday said the changes would simplify rules for big banks such as **JPMorgan Chase & Co.** and **Wells Fargo & Co.** without endangering the financial system. "This proposal significantly simplifies our capital regime while maintaining its strength," said Randal Quarles, Fed vice chairman for supervision.

Some parts are likely to be welcomed by big banks. The changes would reduce the possibility banks would fail the Fed's annual stress tests, which examine whether firms can continue lending during a severe recession.

On the other hand, Wall Street banks have been clamoring that capital rules restricting their borrowing are too strict—and the changes would keep those rules steady or tighten them slightly for the biggest banks.

"The question has been: Do we think the banks are over-capitalized, undercapitalized or appropriately capitalized?" one chief financial officer at a big bank said. Tuesday's proposal suggests the Fed "thinks we are appropriately capitalized."

For eight large U.S. banks considered "systemically important" to the global financial system, the proposals altogether would maintain or "in a few cases, increase" capital requirements, the Fed said. It didn't specify which banks could face higher capital requirements.

In addition to JPMorgan, Wells Fargo and **Citigroup Inc.**, that list of eight firms includes **Goldman Sachs Group Inc.**, **Morgan Stanley**, **Bank of America Corp.**, **State Street Corp.** and **Bank of New York Mellon Corp.**

For other large banks that don't have global footprints, the Fed said capital requirements wouldn't change or could go down modestly. That group includes **U.S. Bancorp**, **Capital One Financial Corp.**, **PNC Financial Services Group Inc.** and others.

High-profile slips in stress tests have damaged the

reputations of Citigroup and other firms in recent years. Banks must pass the test before rewarding investors with dividends and share buybacks.

Some of the Fed's changes would make the tests easier to pass. The proposal would allow firms to project cuts in dividend payments and a shrinking balance sheet under stress, both assumptions they are prevented from making under current rules. That would boost banks' capital levels in the stress test.

Banks also would no longer fail stress tests because the Fed projects they don't have enough equity capital funding. In previous years, banks that failed this "quantitative" part of the tests were barred from increasing the amount of capital they pay to shareholders.

The largest, most complex banks, generally those with more than \$250 billion in assets, could only fail the exams for "qualitative" reasons—for instance, if the Fed determines the firm has risk-management deficiencies.

For large Wall Street firms,

Some of the Fed's changes would make the tests easier to pass.

those changes could be offset by another aspect of the proposal: Banks' stress-test results would be used to calculate a "stress capital buffer" requirement, which the firms would have to meet during the ensuing year. If a firm's capital falls below this level, it would face limits on its capital distributions or curbed bonus payments.

That means the stress tests, which imagine doomsday scenarios, will still constrain big banks. Some bank executives have said the 2018 test, which assumes 10% unemployment and a 65% slide in the stock market, is unrealistically harsh.

The proposal was approved by the Fed's governing board in a 3-0 vote.

The Fed will accept comments on the proposal during the next several months, and officials said they hope to complete it in time for it to apply during the 2019 big-bank stress tests.

Ant Financial Aims To Become Top Unicorn

By JULIE STEINBERG

Chinese billionaire Jack Ma's financial-technology business is about to vault into the ranks of the world's most valuable companies.

Ant Financial Services Group, carved out of his e-commerce company **Alibaba Group Holding Ltd.** seven years ago, is preparing to raise \$9 billion in a private funding round, according to people familiar with the matter, up from a previous fundraising target of \$5 billion.

Ant, which owns mobile-payments network Alipay and is one of China's largest non-bank lenders, is in talks with potential investors and demand for its shares has so far been strong, the people said.

The latest funding round could value Ant at close to \$150 billion, according to the people, making it by far the world's largest unicorn—a term used to describe private companies valued at over \$1 billion.

The Hangzhou, China-based company, which was started by Mr. Ma and is an affiliate of Alibaba, is raising money ahead of a highly anticipated initial public offering that could happen as soon as this year, a person familiar with the company's plans said.

If Ant goes public at a valuation of more than \$100 billion, it could be worth more than large U.S. financial firms like **Goldman Sachs Group Inc.**, **PayPal Holdings Inc.** and **BlackRock Inc.**, the world's largest money manager by assets. Alibaba's own IPO in 2014

Volatility Pays but Still Scares Investors

By ASJYLYN LODER

Exchange-traded products that enable investors to profit from wild price swings in stocks are enjoying big gains this year. But retail investors, who have been burned in the past by betting on volatility, are mostly steering clear of them.

The case for buying into volatility is the best it has been in years. Rising interest rates, fears of a trade war and a rout in technology stocks have triggered big swings in U.S. stocks, a contrast after an extended period of market calm.

The S&P 500 stock index has moved more than 1% on 11 of the past 16 trading days, while the Cboe Volatility Index, known as the VIX, is up 85% this year.

The market swings have made investments that track Wall Street's fear gauge among the year's top performers. The Path S&P 500 VIX Short-Term Futures exchange-traded note is up 74% since the start of 2018, while the ProShares Ultra VIX Short-Term Futures ETF, which uses leverage to juice the daily returns of VIX futures, has gained 88%.

Despite those gains, exchange-traded products that profit from rising volatility have suffered more than \$1 billion in outflows so far this year, according to FactSet.

The funds have fallen out of favor in recent years as stocks climbed steadily and the VIX fell to record lows.

"The fact that volatility can come into favor and fall out of favor very quickly has right-

Avoiding Fear

Investors have shied away from exchange-traded products pegged to Wall Street's fear gauge even though they've been among the best performers so far this year.



Source: WSJ Market Data Group

TUESDAY
\$48.62
▲74% YTD

THE WALL STREET JOURNAL.



The VIX uses options on the S&P 500 to gauge market moves.

fully given investors pause when chasing these returns," said Todd Rosenbluth, head of ETF research for CFRA.

ETFs pegged to a rising VIX have a history of losing money. They tend to suffer in periods of protracted market calm and have been hit by the nine-year bull run in U.S. stocks. The products face additional headwinds because of

a quirk of futures trading that steadily eats away at returns. The iPath ETN, for example, has suffered eight consecutive years of declines.

The losses had become so predictable that investors began taking the opposite tack, betting against the VIX in record numbers. That strategy backfired in February, when ETPs that profit when the VIX

falls lost 80% of their assets in a matter of hours. Two products were closed, and others are a fraction of their former size.

"It was a big story and it definitely tainted the whole VIX ETF complex," said Eric Balchunas, senior ETF analyst for Bloomberg Intelligence. "Some would argue that's a good thing. If there's a little bit of retail repellent, that's not necessarily a bad thing, because people can lose a lot of money fast."

The VIX index uses options on the S&P 500 to measure expectations for the speed and severity of market moves. It typically rises when stocks fall, making it an attractive form of insurance.

The iPath ETN, launched in 2009, was the first to give investors a way to invest in Wall Street's fear gauge without the cost and complexity of trading futures and options. It proved popular in the immediate aftermath of the financial crisis, when shell-shocked savers were eager for anything that might protect their nest eggs from another crash. The iPath ETN took in \$3.6 billion in 2009 and 2010, according to FactSet.

But insurance comes at a cost. Because uncertainty increases with time, the further away an anticipated decline is, the more expensive it is to insure against. That means VIX futures for this month are typically cheaper than next month's contracts, which are cheaper than the month after that, and so on. That forces investors to pay a premium to maintain the protection, eroding returns.

DANIEL ACKER/BLOOMBERG NEWS

MARKETS

Treasurys End Day Slightly Weaker

BY AKANE OTANI

U.S. Treasury prices nudged lower Tuesday as signs of easing trade tensions and increasing inflationary pressures dulled investors' demand for assets they consider havens.

The yield on CREDIT MARKETS 10-year U.S. Treasury note settled at 2.799%, compared with 2.786% Monday.

Yields, which rise as bond prices fall, have advanced in five of the past six trading days as investors have bet that China and the U.S. would be able to negotiate softer trade stances after initially proposing tariffs on each others' exports. The latest sign of conciliation came Wednesday, when Chinese President Xi Jinping cautioned against a "zero-sum mentality" and pledged to give foreign companies more access to the country's financial and manufacturing sectors.

Bond yields took another leg higher early Tuesday after data showed a gauge of U.S. business prices rose in March.

The producer-price index, which measures the price that businesses receive for their goods and services, rose a seasonally adjusted 0.3% in March from a month earlier, jumping past the 0.1% that economists surveyed by The Wall Street Journal had expected. Excluding the more volatile categories of food, energy and trade services, prices increased 0.4% in March.

The data offered another sign that inflation, which for years has looked dormant even as the economy has strengthened, could finally be picking up—something that could put more pressure on the bond market. Inflation is a threat to government bonds since it chips away at the purchasing value of their fixed payments.

"Without putting too much stock in one data point, I think broadly speaking, the resilience of Treasury yields despite the volatility we've seen in equities speaks to the fundamental forces driving yields higher," said Bill Merz, head of fixed income research at U.S. Bank Wealth Management. "When we remove the near-term concerns over trade or headline risk around technology sector for example, we can't strip away those strong fundamental forces that should continue to nudge Treasury yields higher: inflation, growth, the Fed, supply."

Some investors remain skeptical inflation is accelerating, citing the recent moderation in wage growth following a strong start to the year.

That makes Wednesday's release of consumer-price data especially important to bond investors, who will be looking for signs that Tuesday's PPI reading could be part of a broader trend.

AUCTION RESULTS

Here are the results of Tuesday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

FOUR-WEEK BILLS	
Applications	\$146,191,298,500
Accepted bids	\$45,000,135,500
"noncompetitively"	\$699,212,500
"foreign noncompetitively"	\$100,000,000
Auction price (rate)	99.874000
(1.620%)	
Coupon equivalent	1.64%
Bids at clearing yield accepted	83.54%
Cusip number	912796PFO

The bills, dated April 12, 2018, mature on May 10, 2018.

THREE-YEAR NOTES	
Applications	\$85,588,485,700
Accepted bids	\$30,051,494,400
"noncompetitively"	\$89,923,700
"foreign noncompetitively"	\$100,000,000
Auction price (rate)	99.784450
(2.450%)	
Interest rate	2.37%
Bids at clearing yield accepted	90.13%
Cusip number	912884GZ

The notes, dated April 16, 2018, mature on April 15, 2021.

Blunder Hits Samsung Securities

'Fat finger' prompted accidental issuance of \$105 billion in shares; Korea pension cuts ties

BY EUN-YOUNG JEONG

SEOUL—One of the world's largest "fat-finger" errors is creating more problems for Samsung Securities Co., a stock-trading arm of South Korea's Samsung conglomerate and one of the country's largest brokerages.

South Korea's National Pension Service on Tuesday said it would cut ties with Samsung Securities after it last week accidentally issued close to \$105 billion worth of shares to its employees. The decision was due to "concerns of poor safety measures following the financial accident," an NPS spokesman said.

The world's fourth-largest public pension fund, the NPS said it would stop sending orders to Samsung Securities, which it had previously used to process an undisclosed volume of its domestic stock trades.

The fiasco unfolded on Friday, when a Samsung Securities employee caused the firm to pay out a massive dividend



Shareholders read reports at Samsung Electronics' annual general meeting in Seoul last month.

in the form of its own shares to 2,018 employees who were members of a company stock-ownership scheme.

The dividend was supposed to be 1,000 won (\$0.94) per share. But the employee mistook the form of measurement, confusing won and shares. The error caused Samsung Securities to issue a dividend that was 1,000 times the value of each share held by the group of employees.

In all, the company depos-

ited 2.8 billion shares worth 111.8 trillion won (\$104.8 billion) into employee accounts—more than 30 times the company's existing issued shares.

A Samsung Securities spokeswoman said the firm realized the mistake shortly after but failed to take immediate action.

Sixteen staff members sold a collective five million shares worth about \$186.9 million minutes shortly after receiving them. It took the brokerage 37

minutes to completely block employees from selling the accidental shares, according to South Korea's Financial Supervisory Services, a financial watchdog.

Some of the 16 staffers sold stock despite receiving warnings from the company not to do so, the FSS said. Samsung Securities said employees who had done so—along with the employee who had made the initial calculation mistake—have been temporarily sus-



Among Americans, bananas are tops. They beat out apples and oranges and are Walmart's top-selling product. Above, the fruit is harvested in Ecuador.

EDUARDO LEAL/BLOOMBERG NEWS

Retailers Eat the Rising Cost of Bananas

BY LUCY CRAYMER

The wholesale cost of the world's most popular fruit went bananas in the early part of this year.

The price that stores paid for bananas COMMODITIES soared to a record in the first quarter, pressured by limited supplies in Central and South America, which produce most bananas sold in the U.S.

Floods, cooler temperatures and mudslides in countries including Costa Rica and Guatemala have hurt banana-crop yields in recent months. A strike among banana-plantation workers in Honduras that lasted several weeks at the start of the year also affected production, delaying growing schedules and harvesting of the fruit.

Wholesale banana prices in the U.S. rose 15.5% in the first two months of 2018 to around 58 cents a pound, a record, according to data from the World Bank, after the climate phenomenon known as La Niña upended weather patterns. The price fell somewhat in March as supplies to the U.S. im-

proved but are still up 8.4% from a year ago.

Bananas are the most widely eaten fresh fruit in the U.S., and many retailers have been loath to pass their higher costs on to shoppers. For many supermarkets and other stores, bananas drive trips to the store because they are an item that most people go out to purchase rather than buy online. Most large retailers sell bananas at a slim margin or sometimes no price markup, which means higher wholesale prices are likely hurting returns for sellers that haven't locked in prices with long-term contracts.

"I go to competitors regularly, and no one has moved on retail prices," said Jeff Cady, director of produce and floral at supermarket chain Tops Friendly Markets, which has stores in upstate New York and neighboring states. "I'd love to go up, but we just can't," he said, referring to prices. He also said that limited supplies have meant Tops is shipping out fruit from its warehouses that has spent four days ripening as opposed to the usual five days.

Exacerbating the issue, ac-

cording to producers, is that Americans tend to eat more bananas at this time of the year because many other fruits are less available and more expensive during the cooler months.

Americans consume an average of 11.4 pounds of bananas each year, according to the U.S. Department of Agriculture, beating out both oranges and apples as the most popular fresh fruit. Bananas are consistently Walmart's top-selling product.

In the longer term, exportable bananas are under threat from a fungal disease. But so far plantations in Central and South America remain free of the disease.

In late February and again in mid-March, average retail prices in the U.S. reached 57 cents a pound, a level not seen since December 2016, according to USDA data. Retail prices have inched up 2.3% this year, holding largely steady relative to wholesale prices.

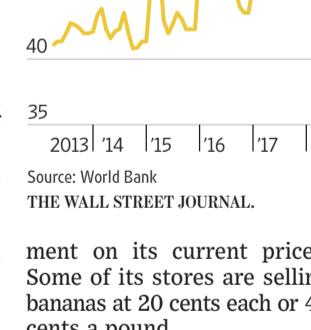
Bananas were one of the items that Whole Foods Market Inc. slashed prices on late last year after the grocer was bought by Amazon.com Inc. The company declined to com-

Bananarama

Wholesale banana prices in the U.S. have risen sharply following weather issues.

Banana price, monthly

60 cents a pound



Source: World Bank

THE WALL STREET JOURNAL

ment on its current prices. Some of its stores are selling bananas at 20 cents each or 49 cents a pound.

Patrick Galleher, chief executive of SweetFrog, a chain of stores selling frozen yogurt, said he has noticed about an 8% increase in the wholesale price of the thousands of bananas he has to buy weekly to stock his more than 350 stores

across the country. He said his company is absorbing the higher prices and notes that bananas are still one of the cheapest fruit toppings.

The weather over the past six months has been affected by La Niña, which occurs when easterly trade winds strengthen, cooling water across the central and eastern Pacific Ocean. That has caused cooler-than-normal conditions and heavy rain in banana-growing regions in Central and South America, which account for around 85% of the world's banana exports.

Banana volumes to the U.S. market were lower than normal in the first quarter, which caused wholesale prices to increase, said a spokesman for Dole Food Co., which sells more than five billion pounds of the fruit globally each year. The spokesman added that volumes are starting to improve.

Frederic Verborg, manager of innovation at Chiquita Brands International Inc., one of the world's largest banana exporters, said that tropical temperatures have normalized and that supply and demand should be back in balance soon.

Oil Prices Strike Largest One-Day Dollar Gain Since 2016

BY CHRISTOPHER ALESSI AND STEPHANIE YANG

Oil prices rose to a two-week high on Tuesday amid receding U.S.-China trade tensions and rising geopolitical upheaval in the Middle East.

Light, sweet crude for May delivery rose \$2.09, or 3.3%, to \$65.51 a barrel on the New York Mercantile Exchange, the biggest one-day dollar gain since 2016.

Brent, the global benchmark, settled up \$2.39, or 3.5%, to \$71.04 a barrel, the highest level in more than three years.

Crude prices have recently come under pressure as the U.S. threatened new tariffs on Chinese imports and Beijing responded in kind. But the market has pared losses this week as American and Chinese officials moved to soften their rhetoric over the trade spat.

"The bears got pretty well entrenched midweek last week," said Donald Morton, who oversees an energy trading desk at Herbert J. Sims & Co. "I think they all got run over here in the last 24 hours."

"Stock market bulls were faithfully followed by oil market bulls and the latter group was provided with more ammunition in the form of an increased tension in the Middle

East," said Tamas Varga, an analyst at brokerage PVM Oil Associates Ltd.

Escalating tensions in Syria following a suspected chemical-weapons attack fed concerns that renewed conflict in the Middle East could hinder oil output and weigh on global supply.

Growing expectations that the U.S. could reimpose economic sanctions on Iran, hindering its oil industry, has also

contributed to a renewed geopolitical risk premium out of the Middle East and bolstered prices in recent weeks.

"The geopolitical risk premium is going to get inflated in a big way into the weekend," said John Kilduff, founding partner at Again Capital. "Likely it will calm back down, but for now that's not the situation."

Analysts said oil prices were also supported by media reports Monday that Saudi

Arabia wants crude near \$80 a barrel, an indicator that the major oil exporter may continue to hold supply off the market to boost prices.

The coordinated effort between the Organization of the Petroleum Exporting Countries and other countries including Russia to limit output has helped eliminate a global oil glut and pushed inventory levels closer to the five-year average.

MARKETS

Political Shocks Rattle Russian Markets

The Russian ruble fell to a 16-month low and Moscow canceled a bond sale as investors continued to react to U.S. sanctions and increased geopolitical risks for Moscow.

Russian assets have tumbled since Monday after the U.S. announced sanctions

*By Mike Bird,
James Marson
and Ira Iosebashvili*

against government officials and business magnates and President Donald Trump directly criticized Moscow for its support of Syrian President Bashar Al Assad.

While the U.S. and European Union hit Moscow with sanctions in 2014, investors say Washington went further last week by ordering Americans to sell holdings in companies related to Russian magnate Oleg Deripaska. That raises the possibility that U.S. fund managers will eventually be stopped from owning other Russian assets, including government debt.

Tuesday, the ruble fell more than 5% against the dollar, before paring some of its losses. In late New York trading, the dollar was up 4.2% against the ruble to 63.16, after rising 4.3% against the Russian currency the day before.

Russia's 10-year government-bond yield rose to 7.61% Tuesday, the highest since December, from 7.3% Monday. Russia's finance ministry said that it was canceling a weekly auction of ruble-denominated government bonds due to "unfavorable market conditions."

Though Russia's RTS equity index recovered some of its steep intraday losses to end 0.4% lower, shares in Mr. Deripaska's **United Co. Rusal** PLC fell another 8.7% Tuesday in Hong Kong, its major listing, after falling 50% Monday. Also, the London Metal Exchange on Monday said it would suspend trading in Rusal's aluminum.

The latest round of sanctions hit Russian assets despite a recent improvement in the country's economic fundamentals.

How many rubles one dollar buys

Scale inverted to show the weakening ruble

| 2017 | '18

Yield on Russian 10-year government bond

Sources: WSJ Market Data Group (ruble); FactSet (RTS Index, Rusal, CPI, surplus/deficit); Reuters (yield)

The sanctions being directed at ownership of specific companies was "a game changer for the market," said Paul Greer, portfolio manager at Fidelity International.

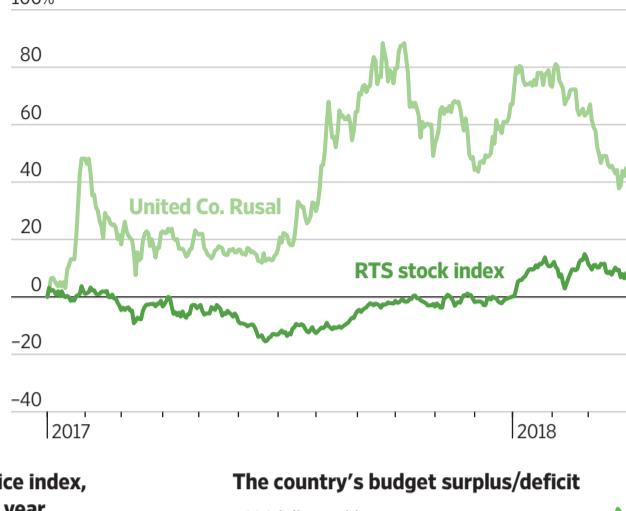
"Previous U.S. sanctions rounds against Russian companies have been only against primary-market issuance of debt and equity, something which most Russian banks and corporates have been able to navigate relatively easily," he said.

Mr. Greer expects selling of Russian assets to continue in

the near term and his firm is underweight the country's dollar-denominated debt and the ruble.

Falling inflation, growing currency reserves and a respected central bank have made Russia a popular destination among some asset managers in recent years. Global investors had pumped more than \$20 billion into Russian bonds since the end of 2016, data from the Institute of International Finance data showed.

Before this past weekend,

Performance since the end of 2016

| 2017 | '18

Russia's consumer-price index, change from previous year

12-month rolling average

| 2014 | '15 | '16 | '17 | '18

The country's budget surplus/deficit

12-month rolling average

| 2014 | '15 | '16 | '17 | '18

Analysts now expect the bank may have to slow down the pace of further cuts.

The 2014 sanctions, which followed Moscow's annexation of Crimea, helped push the ruble sharply lower and Russia into recession. After the currency lost one-tenth of its value against the dollar in one day in December that year, Bank of Russia raised its key lending rate to 17% from 10.5%.

Most economists say the main cause was a significant fall in the oil price, the country's main export.

That decline in the ruble hurt members of Russia's middle class, which had grown used to foreign holidays and imported cars. But it also ensured a healthy flow of rubles into the budget from oil sales, which are priced in U.S. dollars.

After two years of recession, the economy grew last year, albeit weakly. The central bank forecasts annual growth of no more than 2% in the next three years.

Analysts say that much now depends on whether the U.S. decides to levy more sanctions against Russian tycoons and companies.

To be sure, not all analysts believe the weakness in the ruble and Russian assets will persist. "It could create a huge investment opportunity for" non-U.S. citizens, said Jan Dehn, head of research at Ashmore Group. "It's clearly not based on Russian fundamentals—they're a very strong sovereign with good policy responses."

The oil price will also matter. Supported by higher oil prices, the ruble could reverse some of its fall and reach 60 to the dollar by the end of 2018, said Andreas Johnson, economist at Swedish bank SEB.

Banks have been raising their forecasts for oil prices in anticipation that lower crude inventories and rising geopolitical risks to global supply will help balance the market in coming months.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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Dollar Calm In Market Turbulence

Stocks have swung violently amid rising trade tensions and a modest cooling of the outlook for global growth. The dollar has made an equally important statement by doing not much at all.

The dollar fell in January, continuing 2017's decline, but that trend broke as turbulence hit markets. Since then it has moved sideways.

Brighter economic prospects outside the U.S. pushed the dollar lower last year against the euro and emerging-market currencies. Worries that eurozone data are weakening has ended that trend this year.

Sending the dollar higher would require a catalyst, although none seems to be imminent. Unlike stocks, which were highly valued after a huge rally in 2017, the dollar has already moved a long way, with the ICE U.S. dollar index falling nearly 10%.

The dollar's decline was likely slowed by the prospect of stimulus from tax and spending measures to support it. The U.S. economy could get a bump while the eurozone is more exposed to global fortunes. Steadily rising interest rates could boost the dollar as well.

A broadly rising dollar would be a worrying development for emerging-market stocks and bonds, among the few bright spots for investors this year.

The dollar's sideways motion suggests there is a lack of conviction on what happens next for the global economy.

That in itself, after the dollar's sustained decline of 2017, is a signal. The dollar may just be pausing, but its lack of movement can't be taken for granted.

—Richard Barley

Facebook's Results Have a Price

Social Graph

Facebook's operating income as a percentage of revenue



*Projection

Sources: the company; FactSet (projection)

that didn't really reflect their true cost. The company is now enacting a number of changes to its business, and more could be coming. Florida Sen. Bill Nelson noted Tuesday that if Facebook and its peers are unable to do a better job safeguarding consumer privacy, "we are going to have to."

How recent and potential future changes will weigh on

Cambridge Analytica, which wiped out nearly \$80 billion of Facebook's market value.

So investors may not be prepared for major changes to the company's business model. Wall Street currently projects Facebook's total expenses will rise by 49% this year and just 30% next year. That puts the company's operating margins around 45% for the next two years, which would still be the highest among Big Tech.

In the short term, Mr. Zuckerberg satisfied investors. Facebook's share price rose more than 2% Tuesday following his testimony.

But that optimism may prove unfounded. Facebook's social network and attendant advertising business are more resilient than some may believe. But the company's fat margins came at a cost to society that Facebook didn't bear. Those days are likely gone for good. As Facebook has learned, easy money has its price.

—Dan Gallagher

OVERHEARD

Ray Dalio sees himself as a China expert, but for someone steeped in the country's long history, he has changed his views very quickly.

The **Bridgewater Associates** founder weighed in on the brewing trade war between the U.S. and China on LinkedIn last month, saying a deal could be struck: "The Chinese way of negotiating is more through harmony than through confrontation."

On Monday after tariff announcements, Mr. Dalio grew more pessimistic. Not only was a harmonious outcome looking more remote, but the rising tensions "raise the odds of trade, capital, cyber, and/or shooting wars on the horizon," Mr. Dalio wrote.

Just one day later Chinese President **Xi Jinping** soothed tensions by pledging to further open and liberalize the Chinese economy. Mr. Dalio had advised investors to be cautious, but Mr. Xi's remarks quickly sent stocks soaring.

Stocks Can't Count on a Repeat of Last Year's Tailwinds

Cheaper, Not Cheap

S&P 500 forward price/earnings ratio



Source: FactSet

Throughout last year the potential for tax cuts mattered a lot to investors, helping drive stocks up sharply. The early fruits of this will soon be on display, as companies report first-quarter earnings that are substantially higher

than a year earlier as a result of the corporate tax cut.

But investors already know about the tax cut, and the expected boost to earnings is reflected in stock prices. With nothing like the tax cut coming from Washington this year, investors have been left with the political uncertainty Mr. Trump's presidency ushered in.

At the moment that uncertainty is pitched. Mr. Trump's trade spat with China has unsettled investors while recent departures from the White House, including last month's resignation of top economic adviser Gary Cohn, suggest the president will continue to embrace his more protectionist

instincts. The S&P 500 rose 34% from Election Day to its January peak, but has fallen 8% since then. And with a choppy market spooking investors, the Cboe Volatility Index, or VIX, has shot higher.

Aggravating the problem: Stock-market valuations even after the recent sell-off remain elevated, making it more difficult for stocks to absorb bad news without falling further. The S&P 500 trades at 16.4 times expected earnings, according to FactSet. While that price/earnings ratio is down from the 18.6 registered in January, it is still historically high.

This doesn't mean stocks can't recapture the highs they reached in January. The

economy remains strong, earnings will be solid and the Federal Reserve doesn't appear to be overly worried about inflation. But the challenge is those factors are largely priced into stocks.

Investors will need something more to get them to buy, including assurances that the U.S. and China won't get into a trade war, and that turmoil in the White House will ease. More importantly, investors may need to see some good news that they haven't yet accounted for—signs, say, that the economy will grow even more rapidly, with even less inflation than they think.

Until then, the stock market could be a perilous place.

—Justin Lahart