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As of 12 p.m. ET **DJIA** 21544.07 ▼ 0.40% **NIKKEI** 19999.91 ▼ 0.59% **STOXX 600** 382.58 ▼ 1.11% **BRENT** 48.64 ▲ 0.45% **GOLD** 1241.20 ▲ 0.68% **EURO** 1.1579 ▲ 0.87% **DLR** ¥111.86 ▼ 0.68%

What's News

Business & Finance

Goldman Sachs, once the fiercest trading shop on Wall Street, reported a 40% decline in its all-important fixed-income trading business that placed it at the back of the pack among big U.S. banks to report quarterly results. **B1**

◆ **China's formidable** internet censors now have the ability to delete images in one-on-one chats as they are being transmitted. **A1**

◆ **Investors dumped** the U.S. currency after Republican lawmakers pulled the plug on a contentious health-care bill. **B1**

◆ **Bank of America** said its second-quarter profit climbed 10% as it continued to pocket gains from rising interest rates. **B6**

◆ **Procter & Gamble** is pushing back against Peltz's effort to get a board seat at the giant company. **B1, B2**

◆ **Netflix blew through** its subscriber-growth estimate in the second quarter, adding 5.2 million users, while revenue jumped 32%. **B4**

◆ **Toys "R" Us is one** of many retailers fighting to compete online while carrying a high debt load. **B1**

◆ **Google won't have** to turn over an entire set of salary data to U.S. auditors in an investigation of pay for women. **B4**

◆ **Vector Capital's** Sizmek agreed to acquire public ad-tech company Rocket Fuel for $125.5 million. **B4**

World-Wide

◆ **Senate GOP** leaders gave up their effort to dismantle and replace the Affordable Care Act. **A1**

◆ **House Republicans** are unveiling a fiscal plan that could let them rewrite the tax code without any votes from Democrats. **A1**

◆ **Duterte** pushed to extend martial law in the Philippines. **A3**

◆ **The Trump** administration levied sanctions on Iran targeting its military unit and ballistic-missile program. **A4**

◆ **U.S. and Russian** officials met amid a dispute over American allegations that the Kremlin interfered with the 2016 presidential election. **A4**

◆ **South Korea's** slowing economic growth has created a job shortage for college graduates. **A3**

◆ **Venezuela's Maduro** came under pressure as the opposition announced plans for a parallel government. **A5**

◆ **House Republicans** are seeking to defund the EAC, the federal agency that works to ensure the voting process is secure. **A6**

◆ **A former** Texas police officer was indicted on a murder charge in the shooting death of a black teenager. **A7**

◆ **Russian-backed** separatists declared a new state in Ukraine called Malorossiya, or little Russia. **A4**

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Republicans Try New Health Path

Party's senators examine a repeal-only approach, but already there is opposition

BY KRISTINA PETERSON

WASHINGTON—U.S. Senate Majority Leader Mitch McConnell's new plan to vote on a measure repealing the Affordable Care Act met immediate resistance among Senate Republicans Tuesday, as some lawmakers expressed opposition to scrapping Obamacare without having a replacement in hand.

Mr. McConnell said Monday night that the plan Senate Republicans have been working on for weeks is now dead after Sens. Mike Lee of Utah and Jerry Moran of Kansas became the third and fourth Republicans to oppose the bill rolling back and replacing much of the 2010 law. They joined Sens. Susan Collins of Maine and Rand Paul of Kentucky, who had already come out against the bill.

Republicans could only afford to lose two votes.

In a last-ditch move, Mr. McConnell (R., Ky.) said the Senate "in coming days" would vote on a straight repeal of most of the 2010 law, which widened health coverage in the U.S. by expanding the Medicaid program and setting up subsidies for people to buy health coverage on exchanges, paid for by taxes on medical companies and higher earners. The repeal legislation passed the chamber in late 2015 but was then vetoed by former President Barack Obama, a Democrat, in January 2016.

Many conservative lawmakers in the House and Senate have said that if Republicans failed to advance their existing legislation, which maintained some of the law's taxes and other regulations but sharply cut Medicaid funding, Republicans should simply try to repeal the law, a strategy President Donald Trump had earlier rejected but embraced on Monday night.

But it quickly became clear Tuesday that there likely wouldn't be enough GOP support this week to pass a bill simply repealing the law without an agreement on what would supplant it, even with a two-year transition period included. Two Republicans publicly voiced their opposition, while a third is recovering from surgery and isn't in

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Washington

Russia-Backed Separatists Declare New State in Ukraine

ALEXANDER ERMOCHENKO/REUTERS

CONFRONTATION: The declaration marked a new phase in separatists' three-year standoff with the government in Kiev. The conflict has sparked intense conflict, including frequent artillery duels. Above, a damaged home in the rebel-controlled city of Donetsk. **A4**

GOP Sets Stage for Tax-Code Rewrite

BY RICHARD RUBIN

WASHINGTON—House Republicans unveiled an ambitious fiscal plan that would let them rewrite the tax code, revamp medical-malpractice laws, change federal employees' retirement benefits, and partially repeal the Dodd-Frank financial regulations—all in a single law without any votes from Democrats.

The strategy, embedded in the House GOP budget for the fiscal year beginning Oct. 1, faces a host of political and procedural obstacles, including many of the same ones that derailed the party's health-care bill in the Senate.

Republicans control the House, Senate and White House for the first time since January 2007, and they are trying to take advantage of that moment by pairing a landmark tax bill with at least $203 billion in deficit-reduction measures.

"With a Republican Congress and a Republican administration, now is the time to put forward a governing document with real solutions to address our biggest challenges," said Rep. Diane Black (R., Tenn.), chairman of the House Budget Committee.

Most bills can be filibustered in the Senate and require 60 votes to pass. What Republicans are trying to do is take advantage of an exception to that rule—the so-called reconciliation procedures allowed under budgetary law.

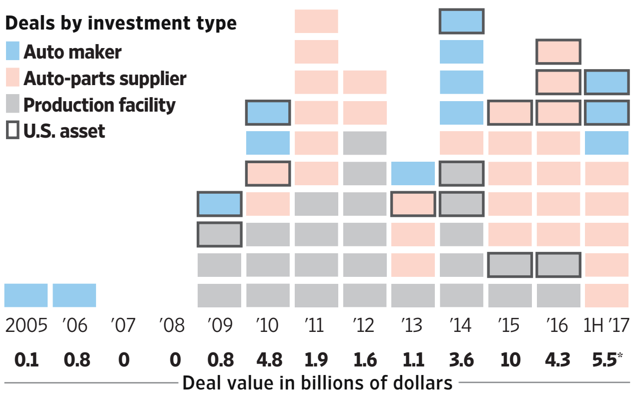
Under reconciliation, fiscally oriented bills can become law with a simple-majority vote in both chambers and a signature from the president. They can't increase long-run budget deficits and must hit fiscal targets set out by the budget. To get to that point,

Please see BUDGET page A2

Beijing's Car Ambitions Speed Up

Investment Vehicles

Chinese auto companies have been aggressively buying U.S. and other foreign assets, securing a raft of deals in the first half of 2017.



*Total excludes three deals whose values weren't disclosed
Note: Investments valued at $100 million or more
Sources: American Enterprise Institute/Heritage Foundation; Dealogic
THE WALL STREET JOURNAL.

BY TREFOR MOSS

More workers in the global auto industry are relying on Chinese companies to sign their paychecks these days.

China-based businesses have been sinking money into various automotive operations—from glass and tire makers to technology developers and car makers—for several years, reflecting Beijing's goal of eventually dominating the world's car business.

That effort accelerated during the first half of 2017, with eight overseas deals totaling more than $5.5 billion in Chinese investments, compared with nine investments for all of last year.

The list includes the takeover of troubled Japanese air-bag maker Takata Corp., the purchase of a U.S. flying-car developer and the acquisition of a sizable stake in Silicon Valley's Tesla Inc. by games and social-media company Tencent Holdings Ltd.

China's overseas auto-industry investments—more than $34 billion since 2008—have come despite a broad government clampdown on foreign acquisitions.

That reflects two factors, according to Michael Dunne, president of Dunne Automotive, an advisory firm. One is that Chinese automotive companies, unlike their peers in other sectors such as entertainment, have picked their targets carefully and secured good value for the money, he

Please see CARS page A2

The Open Is in Britain—But Don't Call It the British

* * *

Golf governing body wants Americans to identify the tournament by its true name

BY BRIAN COSTA

The organizers of the British Open don't approve this sentence.

It is true that their tournament, set to begin on Thursday, is open to any golfer that qualifies. And it is indeed held in Britain. Royal Birkdale, in the seaside town of Southport, England, is this year's host. But they are adamantly opposed to the use of the term British Open, and have launched a serious campaign to eradicate it from the American sports lexicon.

Their tournament is the Open Championship, they say, or simply the Open. The R&A, the governing body that oversees the event, views the two names as interchangeable. The only wrong name for it is the one most Americans use.

"It's an education process we've embarked on," said Malcolm Booth, the R&A's director of sales and marketing.

To win the broadcast rights beginning in 2016, NBC Sports had to agree as part of the contract that it would refer to the tournament strictly as the Open or the Open Championship. NBC, in turn, has instructed announcers not to use the phrase "British Open" on the air.

But Johnny Miller, the longtime NBC analyst and 1976 Open champion, has had to correct himself repeatedly. "I have trouble with it," he said.

Getting other networks to follow suit has been even more difficult. Moments before play-by-play voice Dan Hicks made a recent promotional appearance on CNBC, an NBC Sports publicist reminded the anchors of the tournament's proper name.

When the cameras went on, Hicks said, "First thing out of their mouth: 'The British Open

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DEALING WITH LAGGARDS AT THE OFFICE

LIFE & ARTS, A12

Censors in China Lift Their Game

BY EVA DOU

BEIJING—China's already formidable internet censors have demonstrated a new strength—the ability to delete images in one-on-one chats as they are being transmitted, making them disappear before receivers see them.

The ability is part of a broader technology push by Beijing's censors to step up surveillance and get ahead of activists and others communicating online in China.

Displays of this new image-filtering capability kicked into high gear last week as Chinese dissident Liu Xiaobo lay dying from liver cancer and politically minded Chinese tried to pay tribute to him, according to activists and a new research report.

Wu Yangwei, a friend of the long-jailed Nobel Peace Prize laureate, said he used popular messaging app WeChat to send friends a photo of a haggard Mr. Liu embracing his wife. Mr. Wu believed the transmissions were successful, but he said his friends never saw them. "Sometimes you can get around censors by rotating the photo," said Mr. Wu, a writer better known by his pen name, Ye Du. "But that doesn't always work."

There were disruptions on Tuesday to another popular messaging app, Facebook Inc.'s WhatsApp, with many China-based users saying they were unable to send photos and videos without the use of software that circumvents controls. Text messages appeared to be largely unaffected.

WhatsApp, which employs encryption that allows users to have secure conversations, is one of the few foreign messaging apps that has gone unblocked in China. Supporters of Mr. Liu had been using it to exchange information and images of the Nobel laureate in recent days.

Facebook didn't immediately respond to a request for comment.

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Japan Has New Monetary-Policy Problem

Inflation is still weak, partly thanks to price competition from e-commerce companies

BY MEGUMI FUJIKAWA

TOKYO—Japan thought it was on track to beat deflation. Then came the Amazon effect.

The country's retailers have been cutting prices in response to the rise of online rivals like **Amazon.com** Inc., disrupting what had seemed like perfect conditions for Japan to get the stable dose of inflation it has long been looking for.

In part as a result, Japan's central bank is likely to lower its price forecast for the current financial year at its policy meeting on Thursday, people familiar with its thinking said. That reflects continued resistance to price rises, despite Japan's longest economic expansion in 11 years and its tightest labor market in decades. The Bank of Japan is also likely to raise its view on the economy while keeping its policy settings on hold, the people said.

Japan isn't alone in its surprise at the slow response of prices to improved economic strength. Policy makers, economists and central bankers in the U.S. and Europe are also scratching their heads about why prices around the world can move so little while economic growth gathers momentum—a factor that usually drives inflation.

While BOJ officials continue to refer to a number of factors that are holding back price gains, e-commerce is now among them, people familiar with their thinking said.

Aeon Co., one of Japan's largest retailers, said e-commerce has made competition more severe, especially when consumers remain budget-minded. Aeon, which operates Wal-Mart-like superstores that sell food and general merchandise, cut prices on milk, shampoo and more than 250 other products in April and is planning to do so again in August.

Aeon President Motoya Okada said in April that consumer trends, including the low prices offered by internet retailers, left Japan unable to return to inflation after nearly 20 years in which prices have often been in decline.

"The end of deflation was a great illusion," Mr. Okada said.

E-commerce in Japan still accounts for less than 6% of retail sales, but its influence on price-setting may be much larger because e-commerce sales keep growing 8% to 10% a year, while overall retail sales are roughly flat. E-commerce makes up about 8.5% of U.S. retail sales.

Japan was the third-largest global market for Amazon.com Inc. in 2016 after the U.S. and Germany, accounting for sales of nearly $11 billion, while some local websites offering cut-rate fashion such as Zozotown are also growing fast.

"Price competition between e-commerce companies like Amazon and brick-and-mortar shops has become fierce in the U.S. and is beginning to turn that way in Japan," said Izuru Kato, president of Totan Research Co. "It isn't so simple that the BOJ can spur inflation by just easing monetary policy."

Amazon representatives didn't respond to requests to comment.

While consumers may welcome a better deal on shampoo, the BOJ and other central banks have long been concerned that broad overall price declines can hurt an economy by fostering a negative cycle of low corporate investment, low wage growth and general lack of vitality. The BOJ has targeted inflation of 2%, and it has pumped the equivalent of hundreds of billions of dollars into the economy each year through purchasing government bonds and other assets.

In the past, the central bank blamed sliding oil prices for its failure to hit the target. Recently, oil prices have stabilized, and Japan's price index edged into positive territory this year. Still, the core inflation rate in May—covering all prices except for fresh food—was just 0.4%.

BOJ officials looking for explanations cite the difficulty of changing the common view among Japanese consumers that prices don't go up. One person close to the central bank's policy makers said Amazon was helping entrench that view further.

The BOJ predicted in April that core consumer prices would increase 1.4% in the year ending March 2018, but it is likely to reduce that estimate, people familiar with its thinking said. Some of those people said recent data suggest it will be hard for inflation to reach the 2% target by March 2019 as the BOJ has projected.

Another theory gaining ground at the BOJ is that Japanese companies are investing in automation to improve productivity and offset the higher costs of labor and raw materials. This could help them avoid pushing up the prices they charge customers.

Analysts have long said Japan's heavily staffed service industries have plenty of room for more efficiencies. However, data so far don't show major productivity gains in Japan.

Online Pressure

Prices in Japan have been slow to rise. One reason could be price competition spurred by e-commerce, which is growing fast while overall retail sales are flat.

Note: CPI data adjusted for sales-tax increase in 2014; ¥1 trillion=$8.9 billion
Sources: Ministry of Internal Affairs and Communications (CPI); Euromonitor International (online shopping); Ministry of Economy, Trade and Industry (retail)

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BUDGET

Continued from Page One

Congress must adopt a budget first, which means the House and Senate must agree twice, once on the budget and then again on the ultimate bill.

The House Budget Committee's release on Tuesday, followed by a committee vote slated for Wednesday, marks the first step in that process.

The committee's fiscal blueprint envisions $6.5 trillion in deficit reduction over the next decade, forecasts 2.6% economic growth, and calls for cutting projected Medicare costs and reducing spending on nondefense programs in an effort to balance the budget by 2027.

Those assumptions are politically challenging, and Democrats will likely question the economic assumptions, but they are less important in the near term for the Republican legislative agenda.

The biggest impact of the budget is to set the stage for future reconciliation bills, which could attempt to achieve only a fraction of the deficit reduction the budget envisions.

The budget will assign deficit-reduction targets to 11 committees under reconciliation, and although the budget doesn't specify policy changes, the potential targets are clear. They are unlikely to include the Medicare changes included in the 10-year budget outline in this first chunk of deficit reduction. But other so-called mandatory spending programs could be affected.

The Judiciary Committee, for example, has a $45 billion target, while the Oversight and Government Reform Committee has a $32 billion number. The committees will decide exactly which policies to pursue, but agenda items could include medical malpractice and Dodd-Frank bills favored by House Republicans, though reconciliation's special rules could affect and limit them too.

As the House Budget Committee prepares for a Wednesday vote, it isn't clear whether the budget written by Ms. Black has enough support to get out of the House before lawmakers leave for their August recess at the end of next week. Conservatives have been arguing for even larger spending cuts in the reconciliation package.

The budget debate will occur even before Congress gets to the tax plan, which negotiators from the House, Senate and White House are working on.

They have expressed optimism that they can release a plan before the end of September and finish the entire process by the end of the year.

The tax plan itself is aimed to be deficit-neutral, partly paying for itself with revenue from stronger economic growth.

"This creates the vehicle for ultimately getting tax reform to the president's desk this year," said Rep. Kevin Brady (R., Texas), chairman of the tax-writing Ways and Means Committee.

Adding nontax legislation could make that task harder, because it would create a super bill with hundreds of moving parts and coalitions.

The reconciliation rules allow each budget to have three bills stem from it: one for revenue, one for spending and one for the debt limit.

The House plan operates under the assumption that the tax bill and spending cuts must be coupled. But a different interpretation of rules or a different structure of the bills could let them decouple the two measures.

Under the reconciliation rules, any bill created through that process must not add to budget deficits beyond the budget window. Although some lawmakers, including Sen. Pat Toomey (R., Pa.), have called for a longer budget window that would allow long-lasting temporary tax cuts, the House budget has a 10-year window.

Before they can advance the tax bill, the House and Senate must agree on the same version of the budget. The Senate Budget Committee hasn't yet released a budget or set a date. President Donald Trump, a Republican, doesn't need to sign the budget resolution; he would need to sign the subsequent bill into law.

The budget could change significantly in the Senate and it could also be revised to facilitate whatever tax agreement the House, Senate and White House agree on.

JACQUELYN MARTIN/ASSOCIATED PRESS

House Budget Committee Chair Rep. Diane Black, R-Tenn., back center right, questioned Budget Director Mick Mulvaney in May.

CARS

Continued from Page One

said.

The other is that the automotive sector clearly has government support at the highest levels to take a commanding position in the global market, he said.

"There is no question their ambition is to be No. 1," said Mr. Dunne. He likened the approach to the ancient Chinese game of Go, "where you gradually encircle your opponent by taking strategic assets."

In many cases, Chinese companies are doing this by acquiring parts suppliers and small car makers, or setting up joint ventures on foreign soil. U.S. assets have been high on China's shopping list.

Zhejiang Geely Holding Group Co. is investing $500 million to build a Volvo plant that will employ 2,000 people in Ridgeville S.C., for example, while auto-glass producer Fuyao Glass Industry Group Co. has spent $1 billion on U.S. manufacturing facilities, including reopening a former General Motors Co. plant in Moraine, Ohio, that will employ 2,500.

Among the eight deals chalked up in the first half of 2017 was Ningbo Joyson Electronic Corp.'s deal last month for bankrupt air-bag maker Takata. If completed, the $1.59 billion purchase would be Ningbo Joyson's fourth in two years—a streak that included last year's $920 million acquisition of Michigan-based Key Safety Systems Inc., a maker of air bags and other auto-safety equipment.

Beijing has given vehicle-industry companies free rein to expand even as it tamps down acquisitions in other sectors, said Chen Yang, Ningbo Joyson's communications director, underscoring the car sector's strategic value to Chinese policy makers.

"We have had a lot of support from the relevant government departments," said Mr. Chen. "You can't do overseas acquisitions without government support."

Geely is the most active Chinese car manufacturer in terms of foreign takeovers. It bought struggling Malaysian auto maker Proton along with its Lotus Cars unit for $235 million in March, before acquiring U.S. flying-car startup Terrafugia in June for an undisclosed fee.

Geely's 2010 acquisition and subsequent turnaround of Volvo Cars, previously an unprofitable unit of Ford Motor Co., is often cited as the most successful example of a Chinese auto acquisition to date: As well as reviving the Swedish brand, Geely used Volvo's technology to upgrade its own product lines.

Geely's absorption of foreign technology and know-how has put it "in a class by itself" among Chinese auto makers, according to Mr. Dunne, vindicating acquisitions that industry analysts initially questioned.

Other Chinese buyers have preferred to take strategic stakes in foreign vehicle makers rather than make outright purchases, as when Tencent spent $1.8 billion on a 5% stake in Tesla in March.

China National Chemical Corp.'s $7.86 billion purchase of Italian tire maker Pirelli in 2015 remains the biggest Chinese auto-sector foray to date. The nation's largest supplier to auto makers, Wanxiang Group, is also a significant competitor, claiming a 12% share of the international car-parts market outside China.

Mr. Chen of Ningbo Joyson said Chinese auto suppliers are still closing the gap on world leaders such as Germany's Robert Bosch GmbH and Japan's Denso Corp., some of which have been offloading surplus units to Chinese buyers as they themselves move into more high-tech fields thought to represent the future of the car business, such as automation and connectivity.

Bosch, for example, sold its starter-motor division to Zhengzhou Coal Mining Machinery Group Co. in May.

Ningbo Joyson, however, is investing in cutting-edge technology rather than assets that Western rivals no longer want, but is still playing catch-up, Mr. Chen said. "China does not yet have one single world-class auto company," he said.

Chinese companies that are doubling down on specific subsectors of the auto-parts market might have a better chance of securing global dominance than those aiming to diversify, said Robin Zhu, an auto analyst at Bernstein Research.

Ningbo Joyson's acquisition of Key Systems and Takata will make it a top-three global player in the vehicle-safety segment, provided it can successfully stitch its various units together, he said, while auto-glass maker Fuyao, car-trim maker Minth Group Ltd. and vehicle-interior supplier Yanfeng are among the other Chinese suppliers in growing command of their specialties.

Yet even as China's auto industry racks up overseas purchases, it remains behind overall, Mr. Zhu said: "I don't think we'll see a Chinese Bosch anytime soon."

—Lilian Lin contributed to this article.

QILAI SHEN/BLOOMBERG NEWS

A Geely vehicle on display in Shanghai in April. The firm has been an active acquirer abroad.

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WORLD NEWS

JUN MICHAEL PARK FOR THE WALL STREET JOURNAL (2)

Students preparing for civil-service exams study independently after class is finished at a cram school in Seoul. Students obsess over the lack of options if they don't pass the exams—and many don't.

What's a College Degree Worth? Not Much

South Korea's slowing economic growth has created a job shortage for college graduates

By Eun-Young Jeong And Kwanwoo Jun

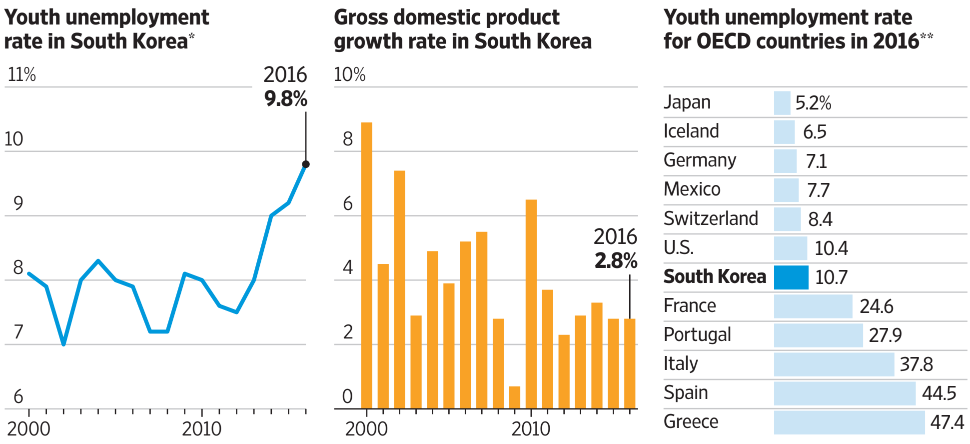
SEOUL—Choi Young-ju earned her law degree three years ago from a South Korean college. She still hasn't found a job.

For two years, Ms. Choi has been trying to pass the government's civil-service exam to get hired as a police officer—if she can be one of the less than 1% of female applicants accepted to the force. She has failed three times, a familiar tale among a generation overflowing with graduates competing for too few jobs.

Job seeker Lee Eun-Byeol reviews her résumé at a coffee shop.

Not Working

Youth unemployment in South Korea is rising as the country's economic growth slows, but it isn't as serious as in some other developed nations.



*15-29 age group **15-24 age group

Sources: South Korea's Statistical Office (South Korea youth unemployment, GDP); OECD (OECD countries)

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Ms. Choi's luck could change if South Korea's new leader gets his way. President Moon Jae-in wants to create 810,000 new public-sector jobs over the next five years, an increase of more than 60%, at a cost to the government of $18 billion.

"Unless we urgently come up with extraordinary measures to address this problem, youth unemployment will increase to the level of a national disaster," Mr. Moon told parliament on June 12, one month after he took office.

Slowing economic growth has left a job shortage for recent college graduates whose parents were virtually guaranteed work by the country's rapid 20th-century transformation into an industrial powerhouse. Simmering discontent helped drive mass protests against former President Park Geun-hye, who was forced from office in March, and powered Mr. Moon's election.

About one million people are out of work in South Korea, half of them between 15 and 29 years old. Many frustrated young job seekers can be found in Noryangjin, a Seoul neighborhood known for its fish market and a concentration of shabby low-rises housing government-exam cram schools.

"It's a gloomy place," said a 29-year-old civil servant who took four years to pass the exam, failing 17 times.

Students there obsess over the lack of options if they don't pass—and many don't. "It's like you're at the edge of a cliff," he said.

Mr. Moon is promoting his five-year plan to create jobs, spur companies to convert temporary contract workers into full-timers and increase the minimum wage.

Lawmakers have yet to approve spending to pay for the plan, an early obstacle at home for a president who must also deal with an increasingly fraught military crisis with North Korea.

Lee Phil-sang, a professor of economics at Seoul National University, said Mr. Moon's hiring splurge would be unsustainable because of underlying economic challenges. To boost employment, Mr. Lee said, South Korea needs to foster competition against the chaebols, the large, family-run business empires such as **Samsung** and **Hyundai** that dominate the economy and were vital to the country's reinvention as an industrial force.

During his campaign, Mr. Moon proposed increasing taxes to help the state pay for new hiring. His government has since said it would do so gradually to avoid stifling private-sector job creation.

Mr. Moon did get a small win over the weekend when the independent Minimum Wage Commission said it would raise the benchmark by 16.4% at the start of 2018, the largest annual rise since 2001. Mr. Moon wants the wage to go even higher, despite pushback from small businesses.

That doesn't help college graduates, who generally aren't looking for minimum-wage-level jobs.

The president said he would meet with the heads of the chaebols to spur them to help create more jobs. He has appointed a critic of the conglomerates to head an antitrust watchdog in a bid, among other things, to improve transparency and create a level playing field for smaller companies.

"There's a limit to how many jobs can be created by large companies alone," said Lee Gyoung-sang, head of the research division at the Korea Chamber of Commerce and Industry, the country's largest private business organization. "They need to support small and medium companies that they've partnered with to help them to grow and create more jobs."

A spokeswoman for the Federation of Korean Industries, a chaebol lobby group, declined to comment on the role of large conglomerates in job creation.

Young South Koreans are among the most educated in the developed world, when ranked by percentage of college graduates. But as South Korea's economic growth has slowed—to 2.8% in 2016, down from an annual average of 8.6% in the 1980s—the private sector is no longer creating enough jobs for college-educated youth.

The jobless rate for South Koreans between 15 and 29 years old reached more than 10% this year, more than double the overall rate.

Less than 3 of every 100 applicants to South Korea's large conglomerates get hired, while around 17 of 100 get jobs they apply for at small and medium-size companies this year, according to the Korea Employers Federation.

The bleak jobs picture forced as many as 17,000 college seniors to delay graduation this year and remain enrolled to avoid the stigma of a gap on their résumés.

For law graduate Ms. Choi, a 26-year-old Seoul native, to become a police officer, she will need to pass a series of exams, a physical and an interview. "If I gave up on this, I wouldn't know what to do," she said.

Duterte Pushes to Extend Martial Law in Philippines

By Jake Maxwell Watts

MANILA—Philippines President Rodrigo Duterte asked Congress to extend martial law in the southern island of Mindanao to the end of the year, arguing that the continued suspension of some civil liberties is necessary to contain a threat from Islamic State-linked militants.

The request would see the duration of martial law more than tripled, a sign of the difficulties the Philippines faces in ridding Mindanao of several violent extremist groups.

The military is struggling to end a battle in the southern city of Marawi, where Islamic militants who occupied the city eight weeks ago are still in a standoff with government forces. The uprising has been described by government officials as an attempt by armed groups to declare an Islamic caliphate in a small Muslim-majority part of Mindanao.

Mr. Duterte is seeking an extension to martial law because he has come to the conclusion that the fighting in Marawi won't be subdued by the time its term expires this weekend, according to a letter to Congress read to reporters on Tuesday by presidential spokesman Ernesto Abella. Mr. Abella didn't say why such a long extension is required.

DONDI TAWATAO/REUTERS

President Rodrigo Duterte

Several deadlines set by officials to end the siege have passed. Nearly 550 people have died since a failed attempt to arrest a militant leader triggered the battle. At least 45 of the dead are civilians, some of whom were beheaded by the militants.

Martial law allows the military to search and arrest suspects without the usual need for a warrant. Philippine law allows the president to declare martial law for up to 60 days but requires congressional approval for an extension. The president's allies dominate both houses of Congress.

The government has responded forcefully to the occupation of Marawi, declaring its intention not to negotiate with the militants and sending troops into a pitched battle for the city that included the use of heavy weaponry and airstrikes. An unknown number of civilian hostages are being held by a handful of militants who retain control of small pockets of the city.

Despite the carnage, Mr. Duterte continues to enjoy high approval ratings. A Pulse Asia survey in June found that 82% of Filipinos approved of his performance, with 5% disapproving and the rest undecided.

Those who do oppose the president have argued that martial law has been unnecessarily imposed upon the island of Mindanao, home to 22 million people and the city of Marawi. Many Filipinos remain wary of martial law, which is remembered for its use by former dictator Ferdinand Marcos, who was ousted by popular revolt in 1986.

CENSOR

Continued from Page One

Chinese internet censorship first concentrated on the development of word-screening software to root out politically objectionable content. As a result, internet users over the past couple of years turned to sending photos to evade police. In response, censors upped their game by demonstrating the ability to purge images from group chats and public posts.

In a new report, researchers from the University of Toronto's Citizen Lab said they observed that WeChat expanded its image censorship to one-to-one chats for the first time, in the wake of Mr. Liu's death on Thursday.

Citizen Lab said it is investigating how WeChat is able to filter the images. Since the images are blocked mid-transit, the speed is too fast for human intervention. The rapid blocking suggests an algorithm is at work, Citizen Lab researcher Lotus Ruan said. Though activists said they noticed image censoring over the past year, Ms. Ruan said Citizen Lab didn't detect this kind of targeted, person-to-person image blocking when it was investigating censorship in the spring.

Tencent Holdings Ltd., the Chinese internet company that operates WeChat, didn't respond to requests for comment. Companies are required to strictly censor their platforms, a front-line defense that is augmented by police forces dedicated to internet monitoring.

JASON LEE/REUTERS

A WeChat booth at a conference in Beijing in April.

Because WhatsApp is a foreign service, China can't order it to implement fine-toothed censorship. Instead, to stop the transmission of certain images on WhatsApp, they have to disrupt the sending of images for all users in China.

The use of enhanced image filtering comes as Chinese authorities move to step up surveillance by using new data-driven technologies. Security cameras with facial recognition software are being deployed to catch jaywalkers and track criminal suspects. Local governments are rolling out "social credit" systems that catalog the digital lives of its citizens, ranging from their internet history to bill payments.

A high-stakes leadership shuffle in the fall that is likely to see Chinese President Xi Jinping further consolidate his power could also help explain the evolution in censorship. Internet controls tend to tighten significantly in the run-up to major political events in China.

These capabilities are closing a censorship gap that activists have counted on—that the sheer mass of messages was too much for censors to handle.

"If you hire a million network police, it still wouldn't be enough to filter 1.4 billion people's messages," said Bao Pu, a Hong Kong-based publisher of political books that are banned on the mainland. "But if you have a machine doing it, it can instantly block everything. It doesn't matter if it's a billion messages or 10 billion."

—Alyssa Abkowitz and Josh Chin contributed to this article.

U.S. Hits Iran With Additional Sanctions

Curbs on military unit, missile program follow confirmation Tehran is complying with accord

BY FELICIA SCHWARTZ

WASHINGTON — The Trump administration levied additional sanctions against Iran, targeting its elite military unit and ballistic-missile program.

The move on Tuesday follows a late-night notification to Congress on Monday that Iran was continuing to comply with the 2015 international nuclear agreement, a determination that came after an internal administration debate over whether certify Iran's compliance.

"This administration will continue to aggressively target Iran's malign activity, including their ongoing state support of terrorism, ballistic missile program, and human-rights abuses," said Treasury Secretary Steven Mnuchin in imposing the new sanctions.

Referring to the elite Islamic Revolutionary Guard Corps, Mr. Mnuchin said, "We will continue to target the IRGC and pressure Iran to cease its ballistic-missile program and malign activities in the region."

Iran's mission at the United Nations didn't respond to a request to comment.

On Monday, Iran's foreign minister, Javad Zarif, said at an event in New York that Tehran is receiving "contradictory signals" from the Trump administration but will continue to comply with terms of the deal.

EBRAHIM NOROOZI/ASSOCIATED PRESS

Revolutionary Guard officers march in a parade marking the 36th anniversary of Iraq's 1980 invasion of Iran outside Tehran in 2016.

The Treasury Department on Tuesday designated 16 entities and individuals it said supported the IRGC.

The State Department also designated two Iranian organizations involved with Tehran's ballistic-missile program.

"These sanctions target procurement of advanced military hardware, such as fast attack boats and unmanned aerial vehicles, and send a strong signal that the United States cannot and will not tolerate Iran's provocative and destabilizing behavior," Mr. Mnuchin said.

The Joint Comprehensive Plan of Action, as the 2015 nuclear agreement is formally known, was championed by the Obama administration as a way to obtain Iran's agreement to significantly cut back its nuclear program in exchange for relief from international sanctions.

President Donald Trump criticized the deal during his presidential campaign and has threatened to rip it up.

For now, however, his administration is continuing a review of the accord and officials said Monday that they would look to work with allies to strengthen its enforcement and fix what they described as its flaws, including clauses that allow some restrictions on Iran's nuclear program to expire.

In announcing the decision to recertify Iran's compliance, Trump administration officials said Iran wasn't adhering to the spirit of the deal and vowed that the administration would look to levy additional sanctions to address concerns about terrorism as well as other issues.

Among the individuals and entities blacklisted in Tuesday's action are Iran-based Rayan Roshd Afzar Co. and three associated individuals.

The Treasury Department said the company produced technical components for the IRGC's drone program and also produced tools that supported the IRGC's efforts to block social media and telecommunications access in Iran.

Qeshm Madkandaloo Shipbuilding Cooperative Co. was sanctioned for supplying equipment to the IRGC's navy and the U.S. sanctioned Turkey-based Ramor Group and its owner Resit Tavan for providing goods to Qeshm Madkandaloo.

The Trump administration also blacklisted a China-based procurement agent and several related China-based entities related for supporting Iran's military activities.

The Treasury Department also moved against Iran-based Ajily Software Procurement Group, which it said uses hackers to steal engineering software from the U.S. and other Western countries.

The Treasury said the group sells some of the software to Iran's military, which cannot acquire it otherwise because of U.S. export controls.

Requests for comment from Rayan Roshd Afzar Co., Qeshm Madkandaloo Shipbuilding Cooperative Co., and Resit Tavan, the owner of Ramor Group, also weren't returned.

Ajily Software Procurement Group couldn't be reached to comment.

The action against Ajily followed a move on Monday by the Justice Department against some related individuals.

The Justice Department charged two Iranian men it said worked with a third man, who was pardoned by President Barack Obama as part of a prisoner swap with Iran that took place as the deal took effect in 2016.

The two men were accused of hacking a Vermont software company and selling sensitive software to Iran, and the Treasury Department said the men were affiliated with the Ajily procurement group.

—Asa Fitch in Erbil, Iraq, contributed to this article.

Rebels Proclaim New Ukraine State

BY NATHAN HODGE

MOSCOW—Russian-backed separatists declared a new state in Ukraine on Tuesday, ratcheting up a confrontation with the Kiev government as the Trump administration steps up its efforts to resolve the three-year-old crisis.

A statement released by the separatist Donetsk News Agency declared the formation of a new state called Malorossiya, or Little Russia—a name once used to refer to Ukrainian lands within the czarist empire. The new state, the declaration said, would include all the regions of Ukraine except Crimea, the Black Sea peninsula annexed by Russia in 2014.

VALERI KVIT/EUROPEAN PRESSPHOTO AGENCY

A Ukrainian serviceman checks his weapon near the front line of the conflict in the government-held city of Avdiivka on July 8.

"We agree that the new state will be called Little Russia, since the very name 'Ukraine' has discredited itself," the statement said.

Ukraine, which won independence from the Soviet Union in 1991, has been locked in conflict since separatists took over the Donetsk and Luhansk regions of eastern Ukraine, the country's industrial center.

There were signs Tuesday that not all the separatists supported Tuesday's declaration. The separatist leadership in the Luhansk region said it didn't send representatives to the discussion about creating Little Russia.

The long-running conflict has sparked intense combat, with frequent artillery duels. Fighting has continued despite a European-brokered cease-fire deal that was reached in Minsk in 2015. Over 10,000 people have been killed to date.

Russia's state-controlled media gave heavy play to Tuesday's declaration, but the Russian government distanced itself from the separatist statement. Boris Gryzlov, the Russian government's envoy to the peace talks, said the declaration had no legal force.

"This initiative does not fit into the Minsk process," he said. "I take it only as an invitation to discussion."

The announcement drew swift condemnation from Ukrainian officials. Oleksandr Turchynov, the secretary of the National Security and Defense Council of Ukraine, blamed Russian President Vladimir Putin for inciting the rebels.

Calling separatist leaders "Kremlin clown puppets," Mr. Turchynov said the declaration was "proof of Mr. Putin's aggressive plans and his maniacal reluctance to resolve the issue in eastern Ukraine peacefully."

The Ukraine crisis has been a flashpoint in U.S.-Russia relations. The U.S. and the European Union imposed sanctions on Moscow for its annexation of Crimea and its backing of separatists.

U.S. Secretary of State Rex Tillerson recently visited Kiev to shore up support for Ukrainian President Petro Poroshenko, saying sanctions would remain in place until the Russian government reverses its policies, which the U.S. and Ukraine say has included furnishing heavy weaponry and the covert deployment of Russian troops.

In a further push for a lasting cessation of hostilities, President Donald Trump recently appointed Kurt Volker, who has served previously as the U.S. Permanent Representative to the North Atlantic Treaty Organization, as Washington's special representative for Ukraine negotiations.

The front lines in Ukraine's east have largely solidified, with neither rebels nor government forces making significant territorial gains in recent months.

Moscow Pushes Back Ahead of U.S. Talks

Moscow turned up the rhetorical heat against the U.S. on Monday as high-ranking U.S. and Russian officials met in Washington amid a continuing dispute over American allegations that the Kremlin interfered with the 2016 presidential election.

By Nathan Hodge in Moscow and Paul Sonne in Washington

The Obama administration, in response to Russia's alleged meddling in the election, late last year expelled 35 Russians it said were intelligence operatives serving under diplomatic cover. The State Department also denied Russian diplomats access to two Russian government-owned compounds in the U.S.

Speaking to reporters Monday in Minsk, Russian Foreign Minister Sergei Lavrov called the closing of the compounds "theft in broad daylight, just highway robbery."

The accusation came just before talks between Deputy Russian Foreign Minister Sergei Ryabkov and U.S. Undersecretary of State Thomas Shannon. The State Department didn't comment on the outcome of the meeting between Messrs. Ryabkov and Shannon. The White House declined to comment.

Russian-U.S. relations have been in an abysmal state since Moscow's seizure of the Black Sea peninsula of Crimea in 2014 from Ukraine. But Mr. Lavrov on Monday extended an olive branch to the Trump White House, blaming the retaliatory diplomatic measures on the Obama administration, which he said was trying to destroy U.S.-Russia relations. The Trump administration has pledged to try to restore them.

After the Obama administration introduced sanctions over the U.S. election, Russian President Vladimir Putin elected not to expel U.S. diplomats. But Russian Foreign Ministry spokeswoman Maria Zakharova recently hinted that Russia might take retaliatory measures against the U.S. diplomatic mission in Moscow.

Ahead of the Washington meeting, Russian state television gave heavy play to the subject of the diplomatic compounds, with legal commentator Gasan Mirzoyev telling state TV broadcaster Rossiya 24 that he was "absolutely sure that our side will take adequate steps in response" if the Russians aren't granted access to the compounds.

Trump Administration Unveils Plans for Remaking Nafta

BY WILLIAM MAULDIN

WASHINGTON—The Trump administration released its road map for remaking the North American Free Trade Agreement that aims to preserve "Buy America" provisions and reduce the U.S. trade deficit, but steps back from some of President Donald Trump's most fiery campaign rhetoric on trade with Mexico and Canada.

The blueprint for a new Nafta shows the White House trying to navigate the shoals of striking a deal with its closest trading partners that can pass in U.S. Congress. It contains nods to Mr. Trump's base of voters fearful and angry over lost U.S. manufacturing jobs—including the broad objective for reducing the U.S. trade deficit with Nafta countries and an effort to retain rules that favor U.S. companies in government procurement.

The plan also backs an unspecified mechanism to prevent countries from manipulating their currencies for trade advantage, an issue of increasing concern among lawmakers and some economists, though one less central to U.S. trade ties with Mexico and Canada. It also includes provisions meant to challenge Mexico on labor and environmental issues.

In the 2016 campaign Mr. Trump repeatedly threatened to withdraw from Nafta, calling it the "worst trade deal maybe ever signed anywhere." The plan released Monday didn't deviate substantially from established U.S. trade policy.

The Mexican government welcomed the U.S. guidelines and said it expects the three partners to be ready to begin formal negotiations by Aug. 16. The blueprint "will help set out more clearly the subjects to be negotiated and the timing of the modernization process," the economy ministry said.

Canada Foreign Minister Chrystia Freeland said the country welcomed the opportunity to improve the existing Nafta framework. The government would do so "while defending Canada's national interest and standing for our values," she said.

The plan drew a muted response from wary business groups and Republican lawmakers, whose votes will be needed to pass any agreement signed by Canada and Mexico.

Democratic lawmakers, meanwhile, attacked the blueprint as vague and insufficient, indicating the challenge Mr. Trump faces in winning support across party lines. And some of the Nafta objectives laid out in the document could alienate officials in Mexico City and Ottawa, including a goal of eliminating a dispute settlement system that allows trading partners to challenge duties imposed by Washington on goods allegedly dumped at below market costs.

The criticism underscores the challenge Mr. Trump—or any president—faces in negotiating a new deal in a heated political environment. Less than two years ago, Barack Obama hammered out the Trans-Pacific Partnership with 11 Pacific nations but couldn't get the deal to a vote in Congress as the 2016 election geared up.

Mr. Trump's previous threats of withdrawing from the deal could still give him some leverage. Some issues show common ground between Mr. Trump, who has complained about unfair trade practices in Mexico, and Democratic lawmakers, who want much stronger labor and environmental provisions in Nafta to keep companies from moving abroad.

JOSE LUIS GONZALEZ/REUTERS

Trucks are seen waiting to enter the U.S. from Tijuana, Mexico, in February.

In Monday's road map, the Trump administration backed much stronger labor standards in the new Nafta than the previous ones, which were added late in negotiations as a side pact to win congressional approval of the original pact in 1993.

Mr. Trump's proposed strengthening of those provisions wasn't enough to draw the immediate support of Democrats. Sen. Ron Wyden (D., Ore.), the top Democrat on the Senate committee that oversees trade, called the blueprint "hopelessly vague both in explaining how the administration's specific objectives will benefit the United States on key topics ranging from intellectual property rights and investment, to currency manipulation and government procurement."

Mr. Wyden's Republican counterpart, Sen. Orrin Hatch of Utah, applauded the administration's commitment to working with Congress but said "future negotiating objectives must include stronger protections for intellectual property rights, upgraded rules and enforcement procedures for American exporters and investors…."

Amid Curbs, Sudan Minds Its Business

BY MATINA STEVIS

KHARTOUM, Sudan—In the capital of a country widely deemed a pariah state, the hustle is always on.

"We bring in all the stock in suitcases from Dubai and Doha," said Ali Kamal Ali, whose tiny electronics shop is heaving with smartphones and cases featuring the Eiffel Tower and the Grand Mosque of Mecca. "Why do you think those flights are always packed?"

But nearly two decades of U.S.-led international economic sanctions, which the U.S. delayed lifting last week, have locked this nation of 40 million people out of the Western financial system and spooked many investors.

The financial isolation—along with the strategically important country's designation as a terror sponsor and the International Criminal Court's pursuit of longtime President Omar al-Bashir for war crimes—has fostered a special kind of business acumen in executive suites and sand-caked streets: forcing businesses in this former colonial outpost to snare alternative sources of finance, sidestep trade barriers and find creative ways to import consumer goods.

The International Monetary Fund says investments from Persian Gulf states have been critical in keeping this struggling economy afloat, especially after 2011, when the oil-rich south seceded to become independent South Sudan, taking most of the country's revenue with it.

Pockets of Khartoum are starting to look like Gulf capitals. Skyscrapers bankrolled by Saudi, Kuwaiti and Qatari investments tower over the Blue and White Nile rivers that converge here. One recently developed business and residential district is called Riyadh.

Pockets of Khartoum are starting to look like capitals of Persian Gulf states.

Osama Abdellatif, the country's most prominent tycoon, built a desert conglomerate that employs 8,500 people, working mostly with Middle Eastern banks and selling to the Gulf's wealthy consumers.

"The impact of these sanctions on our business has been extreme, the biggest problem being banking," said Mr. Abdellatif, at his sprawling DAL Group compound, where state-of-the-art German and Swiss machines churn out thousands of bottles of Coca-Cola, packs of flour and cartons of milk a day. "Banks are extremely scared of doing business here," he added.

A $8.9 billion fine against French lender BNP Paribas in 2015 after it admitted violating sanctions sent a chilling message to major financial institutions. Correspondent banks, financial institutions that were intermediaries between Sudan and the rest of the world, pulled out soon after, rendering trade finance virtually impossible, the IMF said.

While the government and big business has turned to the Gulf for finance, the U.S. blockade has become a fact of life for Sudanese consumers.

There are no international automated-teller machines and debit-card payments are impossible, but that hasn't deterred would-be entrepreneurs.

At the swanky Impact Hub, a co-working space featuring a coffee bar and hipster furniture, tech-savvy Sudanese youth are trying their hand at startups, many focused on smart solutions to mitigate the impact of sanctions.

Ahmed Abdalla, a cybersecurity expert by day at African mobile giant MTN, is working on a mobile-payments platform, SIM Pay, which uses prepaid

ASHRAF SHAZLY/AGENCE FRANCE-PRESSE/GETTY IMAGES

President Omar al-Bashir, who is wanted by the International Criminal Court for war crimes.

mobile-phone airtime to allow people to transact across the country. "People were counting down with the hope sanctions would be lifted," he said.

Diplomats here expect Washington to drop sanctions in the fall, as planned during the final days of the Obama administration.

"When the sanctions were implemented, the hope was that there would be a popular uprising against Bashir," one Western diplomat said. "Twenty years on, I think we can safely say that didn't work."

Some congressmen and rights activists have campaigned against ending sanctions, suggesting a shift to "smart sanctions" on individuals and businesses connected to Mr. Bashir, in office for 27 years, and with alleged links to terrorism.

Sudan was first placed on the list of state sponsors of terrorism in 1993, when it harbored Osama bin Laden and other terrorists in Khartoum, and was placed under comprehensive economic sanctions in 1998 by the Clinton administration after the bombings of the U.S. embassies in Kenya and Tanzania.

The sanctions were bolstered in 2007 by President George W. Bush as well as Congress in response to worsening fighting in Sudan's Darfur region.

Even if the U.S. lifts sanctions in October, Sudan's crippled economy will take many years to recover.

As part of a separate set of sanctions that aren't under review, the U.S. is blocking debt relief. Sudan owes more than $55 billion to external lenders, about half its economic output, the IMF says.

Unless Washington reverses that policy, Khartoum can't apply for debt forgiveness.

For now, businesses in sweltering Sudan must wait to come in from the cold.

"Sudanese love to buy new technology, they want to be part of all fashions," said Ahmed Murad, whose market stall sells knockoff Chanel T-shirts emblazoned with the misspelled "CHANNEL." "When the sanctions go, I'll get the real stuff and open a boutique," he said.

Venezuela Opposition Plans Strike to Press Maduro

BY KEJAL VYAS AND ANATOLY KURMANAEV

CARACAS—Venezuelan President Nicolás Maduro came under growing pressure as the opposition announced plans for a parallel government and U.S. President Donald Trump warned of sanctions if his government moves ahead with plans to rewrite the constitution.

"It's time for the zero hour," the vice president of congress, Freddy Guevara, said at a press conference on Monday flanked by other foes of Mr. Maduro.

Mr. Guevara called for a 24-hour strike on Thursday, a day before lawmakers in the opposition-controlled National Assembly are scheduled to name replacements for some of the magistrates allied with Mr. Maduro on the country's top court.

The opposition's new strategy came as the Trump administration said it would impose "swift economic actions" if Mr. Maduro goes ahead with a planned election on July 30 to the constituent assembly charged with rewriting the constitution. "The United States will not stand by as Venezuela crumbles," Mr. Trump said. The president said Venezuelans' "strong and courageous actions continue to be ignored by a bad leader who dreams of becoming a dictator."

People familiar with the discussions in the White House say the administration has been pondering sanctioning Venezuela's state-controlled oil company and its executives or taking an even tougher measure, such as finding a way to curtail the oil revenues on which Mr. Maduro's government depends.

"My sense is there's an intensive review on a variety of options," said Michael Shifter, president of the Inter-American Dialogue, a policy group in Washington. "I wouldn't be surprised about discussions on very severe measures against the Venezuelan government. If so, I hope they do more good than harm."

The Trump administration hasn't publicly commented on the scope of its potential sanctions against Venezuela.

More than 7.5 million Venezuelans at home and abroad cast ballots on Sunday in an unofficial plebiscite organized by the opposition to serve as a mass repudiation of the unpopular Mr. Maduro's efforts to create a constituent assembly on July 30 that would redraft the constitution. The opposition, along with international human-rights groups and several governments, say the move is an attempt by the increasingly authoritarian leader to seize more power and bypass elections.

Voters on Sunday were presented with three questions. More than 98% of those who voted were against the government on the constitution redo, urged the holding of general elections and demanded that the military, which has helped Mr. Maduro by cracking down on protesters during three months of deadly civil unrest, abide by the law.

Mr. Guevara and other opposition leaders said they were working to create a "government of national unity," an alliance between longtime government foes and dissidents from within Mr. Maduro's ruling Socialist Party. Some formerly loyal lieutenants in the government have openly broken with Mr. Maduro recently, saying he rules in a dictatorial manner.

"This path that we're forced to take carries risk," opposition lawmaker Juan Andrés Mejía said, regarding the creation of parallel institutions. "This state of national unity will not be recognized by everyone. The important thing is for it to be recognized by the people."

Mr. Maduro has alleged that all actions by the opposition amount to an effort to dislodge him undemocratically. His rivals are calling for immediate general elections that polls show the president and his allies would lose. The country is racked by sky-high inflation, food shortages, crime and an economy in contraction, making the government unpopular with four out of five Venezuelans, recent polls say.

The turnout in Sunday's unofficial plebiscite was below the 7.7 million votes that put the opposition in control of congress in 2015. But organized with scant resources and without the support of state electoral authorities, the vote still provided a boost for the opposition as pressure mounts on Mr. Maduro to resolve Venezuela's debilitating economic and political crisis.

Farmers and business leaders expressed cautious support on Monday for the opposition's call for the strike.

Gabriela López, a manicurist from a working class Caracas neighborhood of Catia, said business has fallen so much at her nail salon that it is almost not worth her showing up. "You might as well go on strike, if it gives any chance of getting rid of this government," she said.

CARLOS GARCIA RAWLINS/REUTERS

Freddy Guevara, vice president of the Congress, on Monday announced a 24-hour general strike to increase pressure on the government.

WORLD WATCH

UNITED KINGDOM

Inflation Eased Unexpectedly in June

U.K. consumer inflation slowed unexpectedly in June, new figures showed, offering a tentative sign that a squeeze on households evident since last year's Brexit vote may soon begin to ease.

The slowdown in the rate of inflation from the near-four-year high the previous month will be welcomed by the U.K.'s Conservative government, which has come under pressure over declining living standards just as it begins to negotiate Britain's exit from the European Union.

The data will also cast doubt over the prospect of an interest-rate rise, which some Bank of England officials have signaled might be needed this year to bring inflation back to the bank's 2% goal.

Sterling weakened by nearly 0.2% against the U.S. dollar shortly after the data were published as the prospect of a rate increase faded.

Annual price growth slowed to 2.6% in June, the Office for National Statistics said. This was significantly below the forecast of analysts polled by The Wall Street Journal, who expected it to hold steady at May's 2.9%, its highest since mid-2013.

The June slowdown in inflation was driven largely by falling gasoline and diesel prices, and the rate remained higher than in the recent past, government statisticians said. However, the core inflation rate—which excludes the most volatile products such as food, alcohol and gasoline—also saw a visible annual drop, to 2.4%, 0.2 percentage point below the May reading.

—Wiktor Szary and Jason Douglas

TURKEY

Court Imprisons Six Rights Activists

A Turkish court jailed Amnesty International's Turkey director and five other human-rights activists pending trial for allegedly aiding an armed terror group—making them the latest suspects in a massive government crackdown initially launched against alleged supporters of last year's failed coup.

In a decision Amnesty International called a "crushing blow for rights in Turkey," the court in Istanbul also decided to release four other activists from custody pending the outcome of a trial, but barred them from traveling abroad. They will have to report regularly to police.

The 10—Amnesty's Turkey director Idil Eser, seven human-rights defenders and their German and Swedish trainers—were detained in a July 5 police raid on a hotel on the island of Buyukada, off Istanbul, where they were attending a digital security workshop.

—Associated Press

EUROPEAN PRESSPHOTO AGENCY

SPLIT FIRE: A forest fire raged along the Adriatic coast, causing damage in villages around Split, reaching the ancient port city's suburbs late Monday. Officials say around 80 people have been hurt.

EUROPEAN UNION

U.K. Resumes Brexit Talks With EU

The U.K. and the European Union began Brexit talks in earnest, with a four-day negotiating session on a set of thorny issues the EU wants largely resolved before discussions turn to a future trade deal.

U.K. Brexit Secretary David Davis and the EU's top negotiator, Michel Barnier, returned to negotiations in Brussels for the first time since the official opening of talks on June 19, with the focus on U.K. and EU citizens' rights after Brexit and how much London must pay to cover the U.K.'s outstanding financial commitments to the bloc.

The two sides are due to discuss how to manage the U.K.'s border with Ireland after withdrawal, expected in March 2019.

The EU has insisted progress must be made on these and other separation issues before it will consider discussing future economic ties to the U.K.

— Jason Douglas and Laurence Norman

U.S. NEWS

Senator Again Defies Republican Chiefs

Utah conservative has been at odds with leaders on several high-profile votes

BY SIOBHAN HUGHES

WASHINGTON—Sen. Mike Lee is known around the Capitol for keeping a low profile. When he joined fellow Republican Sen. Jerry Moran on Monday in torpedoing for now a GOP health bill, Mr. Lee reminded his colleagues that he was willing to press high-profile fights on principle at the risk of unsettling party leaders.

The Utah Republican has, in fact, built a career on taking such firm stands.

The youngest member of the Senate when he was elected in 2010 at age 39, Mr. Lee won his seat by defeating a better-funded, three-term Republican incumbent.

Three years later, Mr. Lee worked with GOP Sen. Ted Cruz of Texas in an attempt to stop the Affordable Care Act from taking effect, an effort that led to a government shutdown.

In 2014, he backed Mr. Cruz in a fight that forced vulnerable Republicans up for re-election to cast votes to raise the U.S. borrowing limit, votes they had expected to escape.

In each of those instances, Mr. Lee put himself on the opposite side of the party's powerful Republican leader, Sen. Mitch McConnell of Kentucky. Each time, Mr. Lee has stuck to a theme of being a conservative who has the courage of his convictions. And Mr. Lee has readied arguments to explain his position, as he did again on Monday to say why he refused to agree to allow Republican leaders even to begin a Senate debate on the health-bill overhaul.

"In addition to not repealing all of the Obamacare taxes, it doesn't go far enough in lowering premiums for middle-class families, nor does it create enough free space from the most costly Obamacare regulations," Mr. Lee said in explaining why he wouldn't cast a procedural vote in favor of the GOP bill.

Mr. Lee was joined by Mr. Moran of Kansas, another low-key Republican lawmaker. But Mr. Moran isn't a maverick like Mr. Lee and is known for being a team player. He also has a reputation as being close to Senate Republican leaders and recently headed the Senate GOP's campaign arm, making him part of the party's leadership.

But Mr. Moran said Monday that the Republican bill wasn't a true repeal of the Affordable Care Act, often called Obamacare, and that it didn't address the rising costs of health care.

That two such different lawmakers would simultaneously announce their opposition showed the breadth of discontent with the bill in the Republican conference.

Mr. Lee isn't known for seeking to bask in the spotlight. His past fights to block the ACA or impose conditions on a debt-ceiling increase, or even his 2015 decision to side with Sen. Rand Paul (R., Ky.) over Mr. McConnell in a messy battle over renewing the Patriot Act, have typically involved letting other Republicans lead the charge.

Even when Mr. Lee last year urged Donald Trump to drop out of the presidential race, following the release of an 11-year-old video showing the nominee making crass comments about women, Mr. Lee was at the vanguard but not the first to issue such a call.

This time, Mr. Lee played to form. In coming out against a "motion to proceed" to debating the GOP plan, he announced that Mr. Moran would take the same position. The maneuver had the effect of ensuring that neither man would be cast as the single deciding vote in stopping the GOP plan from coming to the floor.

With a narrow 52-48 Senate majority, Mr. McConnell couldn't spare any more defections after two other Republicans—Mr. Paul and Sen. Susan Collins of Maine—had locked in their opposition. Mr. McConnell needs 50 Republicans, plus a tiebreaking vote cast by Vice President Mike Pence, to pass the GOP health plan because no Democrats support the measure.

For days, Mr. Lee had telegraphed his unease with the GOP health plan, which incorporated language proposed by Mr. Cruz to allow insurers to sell cheaper, bare-bones health-insurance plans as long as they also sold plans that complied with the ACA. Republican leaders had tweaked the language of the Cruz provision, a change accepted by Mr. Cruz himself, who said he could vote to begin debate.

But Mr. Lee was worried the change would prevent premium prices from falling enough.

By Monday, it was clear that Mr. Lee's concerns were something for Republican Senate leaders to worry about. It was also clear that assumptions that Mr. Lee would vote in tandem with Mr. Cruz were off base.

J. SCOTT APPLEWHITE/ASSOCIATED PRESS

Sen. Mike Lee's opposition helped lead the Senate Republican leadership to call off a health-bill vote.

HEALTH

Continued from Page One

Washington to vote.

"I did not come to Washington to hurt people," Sen. Shelley Moore Capito (R., W.Va.) said in a statement Tuesday morning. "I cannot vote to repeal Obamacare without a replacement plan that addresses my concerns and the needs of West Virginians."

Ms. Collins also said Tuesday she wouldn't support a repeal-only approach.

"I do not think that it's going to be constructive to repeal a law that at this point is so interwoven within our health-care system and then hope that over the next two years we will come up with some kind of replacement," Ms. Collins said. "That would create great anxiety for individuals who rely on the ACA."

Mr. McConnell can lose no more than two GOP votes to pass the repeal-only measure, and other Republicans, including Sen. Rob Portman of Ohio, signaled their concerns over that approach Tuesday morning. The intraparty turmoil appeared increasingly likely to leave the GOP in the perilous position of not being able to deliver on their yearslong pledge to roll back the 2010 law.

GOP leaders have warned their rank-and-file that taking no action on health care could end up being a major political liability, as well as open the party to criticism over its failure to pass legislation despite controlling both chambers of Congress and the White House.

Mr. McConnell defended his approach Tuesday morning.

"We will now try a different way to bring the American people relief from Obamacare—I think we owe them at least that much," Mr. McConnell said.

Mr. McConnell was scheduled to meet Tuesday with House Speaker Paul Ryan (R., Wis.) for their regular weekly meeting.

"The Senate's got to pass a bill for us to even move the process forward," Mr. Ryan said. "That's the next step. So we're hoping that they can achieve that next step so that we can bring real relief."

But Mr. McConnell appeared close to running out of options on Tuesday as Republicans voiced opposition to voting simply on repealing the law.

When Republicans voted on the repeal-only bill in 2015, they knew Mr. Obama would veto it, making their vote largely symbolic. Of the GOP senators currently in the chamber, 49 voted for it at the time. Ms. Collins was the only sitting Republican senator who voted against it then.

Many GOP lawmakers have already said that they would vote differently now that the stakes are far higher and that repealing the law without having a replacement ready could destabilize an already-fragile insurance market and mean many constituents would fear losing their health coverage. As a result, it remained very unlikely that the repeal-only measure would pass.

There are other hurdles as well. To take the vote, which would come as an amendment to the existing health-care bill passed by the House, Senate Republicans would have to vote "yes" on a procedural hurdle, the "motion to proceed" that allows the chamber to begin debating a bill on the Senate floor.

Both Ms. Collins and Ms. Capito said Tuesday they were unlikely to support the procedural vote for a repeal-only approach. With Sen. John McCain (R., Ariz.) out recovering from a surgery, Mr. McConnell doesn't now have the votes to bring up the health-care bill, even if he wins back some of the conservatives who initially opposed the procedural motion because they said the Senate plan fell short of fully repealing the law. Both Messrs. Lee and Moran said Tuesday they would now support the motion to proceed.

On Twitter, the GOP president wrote Tuesday that lawmakers should "let Obamacare fail" before working on a new plan.

Vice President Mike Pence, addressing industry retail leaders on Tuesday morning, said that he and the president fully supported Mr. McConnell's call for senators to vote on repealing large swaths of the law now, and then turning to fashioning a new health-care system.

"Obamacare has failed and Obamacare must go," Mr. Pence said. "The president and I fully support the majority leader."

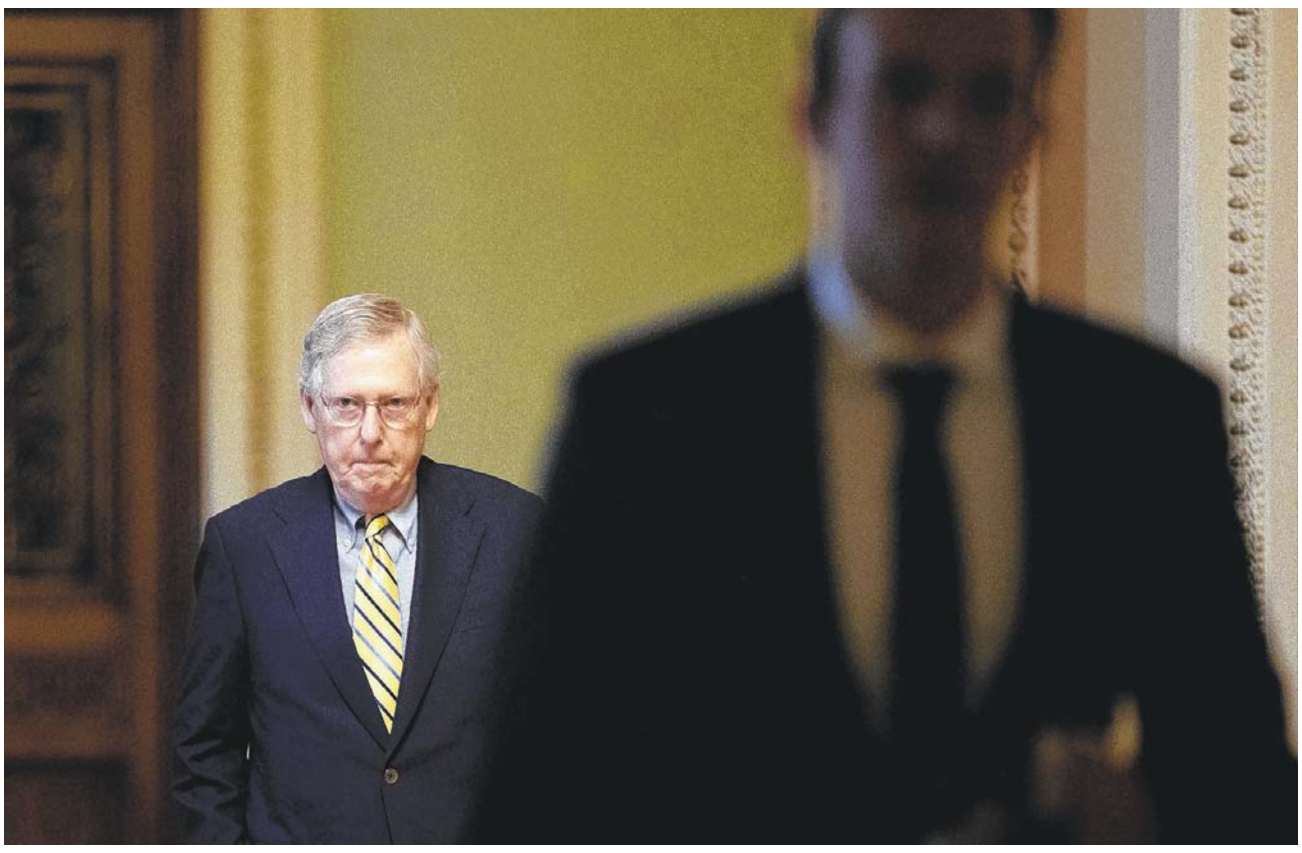
But Mr. Pence went on to say that the Senate had two choices: to vote now on repeal and move to replace the health law later, or to take up what he called the carefully crafted legislation that passed in the House.

Mr. McConnell, known for being a canny political strategist with an eye to the next set of Senate elections, would be forcing his colleagues to take a tough vote that could be used against them.

For instance, Sen. Dean Heller, a Republican who is up for re-election next year in Nevada, would be compelled to cast a vote on the bill that could become fodder in attack ads. Mr. Heller opposed an earlier draft of the Senate bill but hasn't taken a stance on the latest version.

Under Senate procedures, if the repeal measure were to overcome these hurdles and get majority support, senators would then have the chance to further amend the House health-care bill. If that were to pass the Senate—and then clear the House again—it would go to the White House for Mr. Trump's signature.

—Siobhan Hughes and Louise Radnofsky contributed to this article.



ANDREW HARNIK/ASSOCIATED PRESS

Senate Majority Leader Mitch McConnell said the Senate would consider a straight repeal of most of the 2010 health law.

Nominee Regrets Tax-Shelter Role

BY RICHARD RUBIN AND LAURA SAUNDERS

WASHINGTON—President Donald Trump's pick to run the Treasury Department's tax policy office said he wished he had acted differently when the accounting firm he helped lead was marketing aggressive tax shelters.

David Kautter was director of Ernst & Young LLP's national tax practice when the firm was selling sophisticated tax shelters to business owners.

"I was not involved in the decision to get involved in tax shelters and I've never designed or drafted one myself," Mr. Kautter told the Senate Finance Committee at his confirmation hearing on Tuesday. "Looking back, I should have been more active."

Sen. Ron Wyden (D., Ore.) said the committee's vetting process found that Mr. Kautter was regularly informed of decisions that let Ernst & Young profit.

"I remain troubled that he was at the top of a department that engaged in these practices," Mr. Wyden said, citing documents that Mr. Kautter had received at the time. "Up to this morning, you have taken no responsibility for a very dark chapter," Mr. Wyden said.

Mr. Kautter, who is both a certified public accountant and a lawyer, was at Ernst & Young from 1982 to 2010, where he specialized in employee benefits. He led the firm's national tax practice from 2000 to 2010.

Ernst & Young and other firms were marketing those shelters during the 1990s and were first exposed late in the decade.

During the boom, firms charged high fees for complex schemes with names such as "BLIPS," "DAD," and "Cobra." They promised to shrink or wipe out taxes on transactions, such as the exercise of stock options or the sale of a long-held asset, by using techniques that were legal.

Critics and the IRS argued that the shelters were shams that cheated Uncle Sam out of billions in taxes.

Ernst & Young was among several top accounting firms penalized for marketing these shelters. It paid $15 million in 2003 and $123 million in 2013 in connection with tax shelters and admitted misconduct by some employees from 1999 to 2004.

While large, these penalties were smaller than the $456 million KPMG agreed to pay in 2014 to help resolve similar issues.

Committee Chairman Orrin Hatch (R., Utah), said he hopes the panel can advance Mr. Kautter's nomination soon.

"The committee has seen no evidence whatsoever that would call into question his honesty [or] his integrity," Mr. Hatch said.

BILL CLARK/CQ ROLL CALL/GETTY IMAGES

David Kautter's former firm marketed aggressive tax shelters.

New York Seeks Manafort Records

BY MICHAEL ROTHFELD

New York prosecutors have demanded records relating to as much as $16 million in loans that a bank run by a former campaign adviser for President Donald Trump made to one-time campaign Chairman Paul Manafort, according to a person familiar with the matter.

The subpoena by the Manhattan district attorney's office to the Federal Savings Bank, a small Chicago bank run by Steve Calk, sought information on loans the bank issued in November and January to Mr. Manafort and his wife, the person said. The loans were secured by two properties in New York and a condominium in Virginia, real-estate records show. Asked about the subpoena Monday, Mr. Calk said he had no comment. A spokesman for Mr. Manafort declined to comment.

Mr. Manafort, a Republican political consultant who spent years working for a pro-Russia party in Ukraine, is among the Trump associates at the center of federal and congressional investigations into alleged Russian meddling in last year's election. Mr. Manafort hasn't been accused of wrongdoing and has said any suggestion that he coordinated with Russia is unfounded.

The Wall Street Journal reported in May that Manhattan District Attorney Cyrus R. Vance Jr. and New York Attorney General Eric Schneiderman had begun examining real-estate transactions by Mr. Manafort, who has spent and borrowed tens of millions of dollars in connection with property across the U.S. over the past decade. Investigators at both offices are examining the transactions for indications of money laundering and fraud, people familiar with the matters have said.

Climate-Change Measure Approved

By Alejandro Lazo

SAN FRANCISCO—California Gov. Jerry Brown scored a major win for his climate-change agenda Monday when the legislature approved an extension of the state's cap-and-trade program.

Mr. Brown had struggled to get Democrats on board, with some more business-friendly members concerned about the program's effect on jobs and some environmentalists objecting that it gives too much to industry. Under the program, California businesses pay for the carbon dioxide they emit while reducing the emissions over time. The state's goal is to cut emissions to 40% below 1990 levels by 2030.

California Gov. Jerry Brown, center, scored a major win for his climate-change agenda Monday night when the legislature approved an extension of the state's cap-and-trade program.

RICH PEDRONCELLI/ASSOCIATED PRESS

In the end, Republican members—enticed by measures such as a tax break for manufacturers and a fee waiver for rural residents—joined Democrats to extend the program from 2020 through 2030. Republicans played a deciding factor in both houses, providing one critical vote in the state Senate and seven in the Assembly.

"Tonight, California stood tall and once again, boldly confronted the existential threat of our time," Mr. Brown said shortly after the vote. "Republicans and Democrats set aside their differences, came together and took courageous action. That's what good government looks like."

Some Republicans sharply criticized the program, though, saying it will drive up gas prices and utility bills for California consumers.

"Mark my words, today is the start of the next great California recession," said Sen. Ted Gaines, a Republican representing 11 rural counties in the state's northeast. "I can't support this bill. I am going to protect California's poor and the working class, not double their fuel costs."

Monday's two-thirds margin—the threshold for new taxes in the state—should insulate the program from further legal challenges like the one brought earlier by the California Chamber of Commerce. It sued the state, arguing cap and trade is an illegal tax on businesses, but the program was upheld by a state appeals court in April, and the California Supreme Court last month declined to hear the group's appeal.

After the loss, the Chamber backed cap and trade as a better option than more-onerous regulations. Last week it endorsed the governor's plan.

The legislative victory is a boost for Mr. Brown, who has played the role of global-warming crusader abroad but has struggled to enact pieces of his climate agenda back home. In pushing the program Thursday, the 79-year-old Democratic governor warned of an apocalyptic future if climate change continues unabated.

California began using a cap-and-trade program to curb greenhouse-gas emissions in 2013. The state imposes a limit on the CO_2 that industry is allowed to release and then auctions or gives away permits for those emissions. Businesses are free to sell permits they don't need, allowing market forces to distribute and price these allowances.

Money from the quarterly auctions, so far totaling $4.9 billion, will also go toward a state fund used for projects that include one of Mr. Brown's priorities: a high-speed rail train from Los Angeles to San Francisco.

Legislators on Monday also approved a bill to address air quality in the state, backed by Democrats concerned over the environment. They also approved a ballot measure that, if approved by voters, will give Republicans in the state more say on how cap-and-trade funds are spent.

Some members of California's Republican establishment had endorsed the plan in recent days, including former Republican Gov. Pete Wilson on Monday.

State Sen. Tom Berryhill, of Twain Harte, Calif., the lone Republican in the state Senate to support the cap-and-trade measure, said the protections for small-business owners and rural Californians—and his belief that the program is preferable to more-direct regulation—won his vote.

Missouri To Create Painkiller Database

By Jeanne Whalen

Missouri's governor signed an executive order creating a system to monitor prescriptions for controlled substances including opioid painkillers, after a failed effort in the legislature left Missouri the only state lacking such a tool.

Supporters of prescription monitoring applauded the governor's move, but said the system won't be as robust as one legislators aimed to create, and urged legislators to establish a stronger system to track prescriptions and stop consumers from obtaining controlled substances from multiple sources.

Neighboring states have complained that Missouri's lack of such a database has made it a magnet for people looking to abuse opioids through multiple prescriptions, because they know doctors and pharmacies there can't check their history.

Gov. Eric Greitens said the state would establish the system in phases. As a first step, the state's health department will analyze prescription and pharmacy dispensing data provided by pharmacy-benefit managers such as **Express Scripts**, to look for inappropriate prescribing or dispensing patterns. The health department will alert law-enforcement and professional licensing boards about suspicious activity, according to the executive order signed on Monday.

In the second phase, the health department will require pharmacies to submit controlled-substance prescription information to the health department, which will alert law-enforcement and professional licensing boards about suspicious activity.

The program won't allow doctors or pharmacies to check a central database to see whether a particular patient is obtaining prescriptions from multiple doctors, a tool available in other states that public-health experts say is essential to prevent doctor-shopping.

"I am happy to see the governor engaged, but his options are limited without support by the state legislature," said Sam Page, a physician and chairman of St. Louis County's council, who has pushed for a statewide database. He said the governor's order aids law enforcement "but doesn't help doctors take care of patients or refer addicted patients to the proper treatment."

A multiyear effort by many legislators to adopt a prescription-monitoring system has repeatedly run into opposition from a small group of legislators, who say a database containing sensitive prescription details would violate patient privacy.

The state's legislative session this year ended without the measure coming to a final vote.

Fishing Ban Angers Minnesota Tourism Sector

By Quint Forgey

Gov. Mark Dayton just wanted to catch some bass on a popular Minnesota lake. But lakefront residents aboard a flotilla of some 40 vessels decided to catch the governor.

As Mr. Dayton dropped anchor July 8 on Mille Lacs Lake—a more than 200-square-mile body of water about 100 miles north of the Twin Cities—the small armada encircled him for roughly an hour, waving signs protesting a new ban on fishing walleye, Minnesota's state fish. When he sailed out of the swirling fleet, they followed his boat to shore blasting patriotic songs like Lee Greenwood's "God Bless the USA."

The state's Department of Natural Resources says the ban will preserve the walleye and ensure it remains fishable for future generations, but this generation's lakefront business owners are furious.

VIVIAN LAMOORE/MILLE LACS MESSENGER/AP

Protesters circled Minnesota Gov. Mark Dayton over a ban on walleye fishing. Many upper Midwest towns depend on tourists.

"Walleye fishing is a Minnesota tradition," said Linda Eno, who has operated the lakefront Twin Pines Resort for 23 years and was one of the protest's organizers. Ms. Eno said business at her resort has fallen 60% over the past decade.

The governor was to discuss the bans with the lakefront community later that same day, but canceled the meeting after the waterborne demonstration. He since announced he will reschedule the talks, but a spokesman said no date has been set.

"It's been a very tough time for people. I recognize that," the governor told reporters after he left the boat. "It's been a very, very hard time."

The standoff on the water highlights the importance of the more than $54 billion outdoor-recreation market across hundreds of towns in the upper Midwest, which count on a steady stream of visitors who fish, hunt and cross-country ski, depending on the season.

A bad year for snow or poor fishing conditions can spell the difference between profit and loss for an entire year for many businesses.

The walleye bans on Mille Lacs cover three prime fishing weeks this month and most of September and November. And even when walleye fishing is allowed, the tasty fish must be released back into the water.

Locals claim increasingly harsh restrictions have taken their toll on the community, shuttering up to 50 businesses. Terry Thurmer, who has owned Terry's Boat Harbor Marina for 28 years, said the catch-and-release provision means his charter boat business could lose up to 95% of its yearly profit.

"It's just awful," Mr. Thurmer said. "I don't think the state should have a right to control people's lives, but that's what they're doing."

Chris Niskanen, a spokesman for the natural resources department, said it has tightened regulations on walleye fishing because the population hasn't been reproducing at sufficient rates. Officials speculate it is because newer generations of fish are having trouble reaching sexual maturity. The state co-manages the walleye allocation with eight Chippewa Native American bands.

Paul Venturelli, a fisheries professor at the University of Minnesota, said there are similar situations in Wisconsin and the lakes of Canada, where bass are expanding northward into lakes they never occupied.

"I don't think those large [walleye] quotas are coming back," he said. "I think that Mille Lacs is trending toward a new normal."

A possible silver lining is the emergence of Mille Lacs as a premier destination for bass fishing. But locals like Ms. Eno are doubtful a heightened bass fishing presence will compensate for the temporary loss of the walleye. "The bottom line is there's not enough bass people to fill in the void of walleye fishermen," she said.

U.S. WATCH

ECONOMY

Foreigners' Demand For Homes Surges

Foreign demand for U.S. homes is surging, helping push up prices in major U.S. markets.

In all, foreign buyers and recent immigrants purchased $153 billion of residential property in the U.S. in the year ended in March, nearly a 50% jump from a year earlier, according to a National Association of Realtors report released Tuesday.

That surpassed the previous record for foreign investment set in 2015, when foreigners purchased nearly $104 billion of U.S. residential property.

The dramatic increase was a surprise given the strong U.S. dollar, turmoil in the political arena and restrictions on Chinese buyers looking to take money out of the country, all of which were expected to damp demand.

"It was surprising that it increased and the fact that it increased quite substantially is even more surprising," said Lawrence Yun, chief economist at the National Association of Realtors. Foreign buyers, he said, "are not deterred."

The surge was driven largely by Canadians flocking south to avoid their own, even more overheated real-estate markets. U.S. home prices are starting to look like a bargain compared with Vancouver and Toronto, which saw prices rise nearly 30% in the year ended in March. The gains slowed to a 6% year-over-year increase in June.

Chinese buyers remained the largest purchasers of U.S. homes by dollar volume, with $31.7 billion worth of purchases in the year, followed by Canadians, British, Mexicans and Indians. The bulk of buyers from China, India and Mexico were residents, while Canadians and Brits were mostly buying second homes.

—*Laura Kusisto*

TEXAS

Ex-Officer Indicted in Death of Black Teen

A former Texas police officer was indicted by a grand jury on a murder charge Monday in the April shooting death of a black teenager, Dallas prosecutors said. Former Balch Springs police officer Roy Oliver, who is white, was accused of firing into a car that Jordan Edwards, 15 years old, was in with his brother and friends as they drove away from a party.

The case is one of several over the past few years to spur an outcry over police treatment of minorities.

Police in the Texas case said they had been responding to reports of underage drinking at a party in the Dallas suburb when they heard gunshots and encountered a frenetic scene as teens began fleeing.

After first saying that the car Jordan was in had backed toward officers, Balch Springs Police Chief Jonathan Haber said video footage showed the vehicle was actually moving away from police when Mr. Oliver, 37, fired on it.

Mr. Oliver turned himself in after being charged in the days following the shooting, and has since been free on bond. His lawyer didn't immediately respond to requests for comment.

Mr. Oliver was fired by the Balch Springs Police Department following the shooting.

—*Dan Frosch*

JOEL BISSELL/MUSKEGON CHRONICLE/ASSOCIATED PRESS

TOPPLED: One of two smoke stacks at former Sappi paper mill property, standing over 200-feet-tall crumbles to the ground after it was imploded on Tuesday in Muskegon, Mich. City officials were concerned that the 'Power House Stack No. 1' was a safety risk after large cracks developed in the stack.

Billionaires Build an Uneasy Partnership

Bill Gates, Prince al-Waleed feuded after buying Four Seasons Hotels

By Anupreeta Das
And Craig Karmin

A decade ago, two of the world's wealthiest men came together to buy **Four Seasons Holdings** Inc., home to some of the most expensive lodging around.

The deal was surprising both for its lofty price tag, $3.8 billion, and for the unusual partnership, involving tech titan Bill Gates and Saudi Prince al-Waleed bin Talal.

The financial crisis soon pummeled the luxury-hotel business. The partners then took to feuding, about matters ranging from helping fund new hotel developments to who should be chief executive. After a truce in 2013, they have been trying to whip their investment into shape.

Inside the Four Seasons in Moscow. Some new properties, such as a 77-room hotel in Miami Beach, have opened to strong reviews.

ANDREY RUDAKOV/BLOOMBERG NEWS

It has been no slam dunk, falling short of ambitious targets for new hotel developments. At the same time, the focus on fast growth has been causing some business partners and industry analysts to question whether standards and brand appeal can be maintained as Four Seasons hotels become more numerous.

In buying Four Seasons, Mr. Gates and Prince al-Waleed were at the forefront of an investment trend. The superrich, often through structures called family offices, increasingly have been teaming up to acquire whole companies, planning to keep them long term.

Family offices hold more than $4 trillion in assets, approaching the total invested in hedge funds and private-equity funds combined. The wealthy clans sometimes invest together because they consider themselves like-minded in being long-term investors. That doesn't guarantee an easy partnership, however, as evidenced in this deal, as it was described by former executives, current and former board members, business partners and industry observers familiar with events at Four Seasons.

The first Four Seasons was a motor lodge in a rundown part of Toronto, opened in 1961 by Isadore Sharp, a son of Polish immigrants to Canada. By the time he began looking to sell the publicly traded company in 2006, Four Seasons was known for personalized service and top-of-the-line amenities.

Rather than owning its hotels, Four Seasons forms partnerships with investors and developers, then keeps tight control by managing the properties. Four Seasons hotel owners include billionaires such as Oracle Corp. founder Larry Ellison and Beanie Baby mogul Ty Warner.

By 2006, Prince al-Waleed's investment firm, **Kingdom Holding** Co., already owned about 25% of Four Seasons stock as well as several hotels. Mr. Sharp consulted him about his sale plans. Prince al-Waleed recommended bringing in Mr. Gates's investment firm, **Cascade Investment** LLC, which also owned some Four Seasons shares.

The three men agreed to a deal in which Cascade and Kingdom would each own 47.5% of the company, while Mr. Sharp would have the other 5% and remain chief executive for five years.

The sale closed in early 2007, near the peak of the real-estate boom. The price, 47 times one measure of earnings, reflected the era's optimism, as well as projections that Four Seasons would continue to expand at an increasingly rapid pace.

"From a valuation perspective, they were seen as having paid a lot of money," said Jonathan Stanner, former CEO of **Strategic Hotels & Resorts Inc.**, who partnered with Four Seasons to build hotels. "But people reasoned that as long-term investors they could justify the high price."

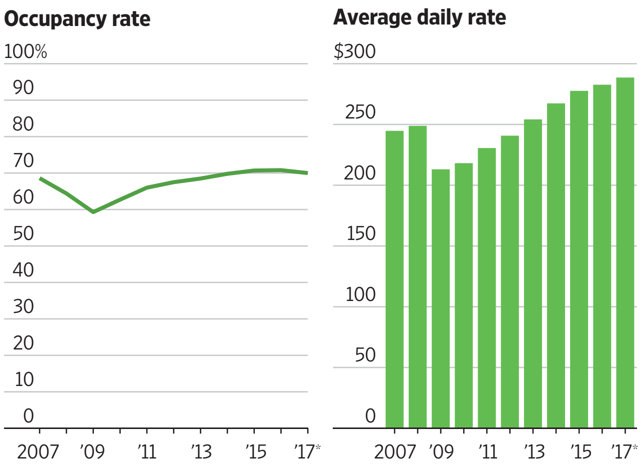
The purchase brought together family investment firms with quite different cultures. Cascade is run by Michael Larson, a low-profile money manager with a brusque manner and penchant for the color pink. Mr. Gates rarely gets involved. Cascade doesn't have a website and provides scant details of its investments.

Kingdom welcomes publicity, putting out press releases, photos and video clips documenting Prince al-Waleed's meetings. The prince shot to prominence in 1991 after buying a stake in a predecessor to Citigroup Inc. Forbes confirms that he once accused the magazine of understating his wealth in its annual ranking of the richest people.

Mr. Sharp, in an autobiography, told of being hosted by Prince al-Waleed on his 288-foot yacht in the south of France and joining the prince on the slopes at Jackson Hole, Wyo. Cascade executives, in their work, didn't share this taste for the high life. When the Four Seasons board met one year at the George V in Paris, a luxury hotel owned by Kingdom, some Cascade employees stayed in more modest accommodations.

Better Lodging

Daily room rates and occupancy levels for luxury hotels in the U.S. are at their highest in 10 years.



*2017 figures through May
Source: STR Inc.

THE WALL STREET JOURNAL.

Kingdom marked down the value of its Four Seasons holding every year between 2008 and 2012, according to annual reports it publishes because a small portion of Kingdom trades in Riyadh. The value recovered slightly in the next two years but was still below the 2008 value as recently as 2014, the most recent available data. Cascade doesn't disclose how it values its Four Seasons stake.

Sarmad Zok, the chief executive of Kingdom's hotel business, said both investors are happy with their partnership and the performance of their investment.

In buying Four Seasons, Mr. Gates and Prince al-Waleed were at the forefront of an investment trend. The superrich, often through structures called family offices, increasingly have been teaming up to acquire whole companies.

Premium price

Kingdom, which had bought much of its Four Seasons stake in 1994 for less than the 2007 deal price, was happy to let Mr. Sharp continue to run the show. Cascade had paid a premium price, based partly on rosy growth projections from Mr. Sharp's bankers. The bankers said the company could more than double its number of hotels in a decade, to 160.

The 2008 financial crisis left that plan in tatters, as both hotel developers and luxury-minded travelers cut back. "One can only imagine Cascade felt it had been bamboozled," said Laurence Geller, an investor who has in the past owned numerous Four Seasons hotels and now owns a property from a rival brand. "What was said was not reality."

As occupancy rates fell in the recession, some hotel owners pushed Four Seasons for cost cuts, from scrapping huge displays of fresh flowers to outsourcing laundry.

At one meeting, Cascade executives argued that to save money at a Cascade-owned Four Seasons in Whistler, British Columbia, they should stop replacing guests' sheets every day unless requested. Mr. Larson's view was that wealthy travelers were also environmentally conscious. Mr. Sharp disagreed, saying guests paying as much as $700 a night should have their sheets washed daily, according to people familiar with the meeting. In a compromise, guests were given the option of placing a pine cone on their sheets if they didn't need them washed every day.

Mr. Sharp said he didn't recall those conversations with Cascade.

Rift over CEO

Mr. Sharp stepped down as CEO in 2010 but set the condition that he should be succeeded by his protégé, company president Kathleen Taylor, who then took over. Cascade executives would have preferred an outside candidate because they felt that Ms. Taylor didn't represent enough of a break with the past and wouldn't engineer the rapid expansion they were counting on, according to people familiar with the company.

Kingdom executives were supportive of Ms. Taylor, which surprised some Cascade executives who thought that their partners felt the same.

During Ms. Taylor's tenure, the rift became a distraction. The board found it hard to approve capital commitments needed to win over investors in new hotels. Cascade executives sometimes withheld their support to signal they wouldn't put capital behind a chief executive they didn't support, those familiar with the company said.

After months of tension, top executives from Cascade and Kingdom met to settle the matter, gathering in early February 2013 at London's Savoy hotel. Joining were Mr. Gates and Prince al-Waleed, in one of the few times the two billionaires sat down to discuss their investment.

The meeting ended with a decision to replace Ms. Taylor. "It was time to make a change," said Mr. Sharp, who drew the job of dismissing her. "It was my role to take the responsibility," said the founder, now 85. Ms. Taylor declined to comment.

With this dispute over, Cascade and Kingdom sought to put aside their remaining disagreements and push growth and profitability, moving swiftly to make up for the years lost to the recession and its aftermath. Cascade's hotel specialist, Randy Jack, and Kingdom's Mr. Zok led the search for Ms. Taylor's successor and picked Allen Smith, a veteran of real-estate investing. Messrs. Jack and Zok became more active in running Four Seasons, discussing the business regularly and together courting potential new hotel developers.

Some differences persisted. A few months after the truce, Prince al-Waleed said publicly he favored an initial public offering of Four Seasons within a couple of years. Cascade appeared to disagree, releasing a brief statement saying it was "in for the long term."

"There are times when we have a divergence of vision, and when that happens, we have a discussion and the best idea prevails," said Mr. Zok.

Hotel analysts say Four Seasons has been growing faster than most other five-star brands, at a time when the luxury market is enjoying a boom. In the U.S., luxury room rates and occupancy levels are at or near their highest levels ever, according to industry data tracker STR Inc.

Still, Four Seasons is falling somewhat short of its internal goals, even after revising them downward after the recession. In 2013, the company set a target for 120 hotels by end of this year, according to a person familiar with the matter. It now has 105 properties in operation, with more than 50 under development or in the planning stage. A Four Seasons spokeswoman said the company hopes to get to 108 properties by the end of 2017.

Four Seasons has grown partly by defying industry conventions. In New Orleans it plans a 330-room hotel, even though many say luxury service suffers when hotels build much more than 200 rooms.

The company is comfortable with a larger property in New Orleans because the city is "supply starved with luxury product," said Mr. Smith, the CEO. He said Four Seasons has quite a few other hotels with over 300 rooms, and "the reviews in terms of service levels remain exceptionally high."

Four Seasons also has sometimes opened a second hotel in a city, such as New York and Boston. Traditionally, it avoided doubling up for fear of angering an existing owner. Mr. Smith said the company pursues the strategy "judiciously" and "with sensitivity to the owners involved."

It has become more ambitious globally, opening hotels in emerging markets. The company recently expanded its board to include younger representatives as it tries to woo millennials and engage guests using technology and apps.

Some new Four Seasons properties, such as a 77-room hotel in Miami Beach, have opened to strong reviews. Nadim Ashi, whose investment firm owns the property, said room rates are averaging $1,000 a night.

Four Seasons decentralized some functions last year after listening to some hotel owners' complaints. They no longer have to buy supplies such as light fixtures from the company, giving them more control of costs.

Reputation risk

Some of the changes risk Four Seasons' reputation, said Piers Schmidt, founder of **Luxury Branding**, a U.K. consultancy. In a survey his firm did in 2015, based on analysis of hotel reviews on travel website TripAdvisor, Four Seasons ranked 13th. Other surveys rank Four Seasons higher; a 2017 J.D. Power study about North American hotel guest satisfaction that was just released) ranked Four Seasons third in the luxury segment, behind **JW Marriott** and Ritz-Carlton.

Mr. Schmidt said luxury brands that expand rapidly risk diluting their culture by hiring staff too quickly or promoting managers too fast, and "I do believe that's the case with Four Seasons."

Four Seasons spokeswoman Sarah Tuite called the results from Luxury Branding's study "inconsistent with what we see in multiple third-party tracking sources."

Four Seasons has seen an exodus of veteran executives in recent years. Mr. Smith said that "invariably, changes ensue" when a company shifts from founder-led to a more corporate structure.

A rapid expansion of this sort raises a different concern to Ellis O'Connor, co-head of MSD Hospitality, a unit of Michael Dell's family office that owns two Four Seasons hotels. "With luxury hotel operation, scarcity is part of the allure," Mr. O'Connor said. "You can't turn it into a commodity and get above-market rates."

People familiar with the Four Seasons operation said Cascade and Kingdom appear determined not to weaken the chain as it grows, and have broken off 14 partnerships with owners whose properties weren't up to standard.

That is a "clear indication we are striking an appropriate balance between growing the brand and actively managing the quality of our portfolio," Mr. Smith said. "We will never compromise quality for the sake of growth."

GOLF

Continued from Page One

is coming our way!'" The publicist sighed, "Oh, the R&A is not going to be happy about this."

Likewise, the R&A last year appealed to American print media outlets in the hope that a change in the published name for it will prompt stateside fans to use the proper reference. But most U.S. news organizations continue to call it the British Open, as has been their custom for more than a century.

Players who qualify for the tournament receive a placard in the mail that emphasizes its singular place in golf. "Welcome to The Open," it reads in large, bold lettering. The bottom of the card reads: "The One. The Open."

But players compete in many opens, from the U.S. Open to the Houston Open to the Shriners Hospitals for Children Open. For clarity's sake, some still use the B word for this one.

"We all fall into that trap," said Ernie Els, a two-time Open champion. Speaking to a small group of reporters after the final round of last month's U.S. Open, Els confessed, "I do call it the British Open, but..."

A British journalist standing nearby interjected: "Booo!"

The R&A notes that while the tournament is held annually in Britain, it is a global event. Qualifying tournaments this year were held in nine countries across five continents. But much of the pride Britons take in the proper name comes from the fact that their Open was the first.

Before 1860, golf at the highest level was a competition between private clubs rather than individuals, said Tony Parker, historian at the World Golf Hall of Fame. The start of the Open Championship in 1860—at Prestwick Golf Club in Scotland—wasn't just a new tournament. It was the birth of modern golf competition.

"There are some jingoistic Americans that say, 'Well, we would have done it, but we had a Civil War,'" Parker said. "Well, yeah, but we did have a Civil War, and that kept golf off the playing field for a while."

The first U.S. Open was played in 1895. Officially, the Open Championship retained its name. But by 1903, Parker said, American newspapers were calling it the British Open. That has been the popular name for it in the U.S. ever since.

The British media require no education, having long used the proper name, in print and on the airwaves. But the influence of American media has created some confusion about the name in other countries where the R&A does business.

Alastair Johnston, the long-time IMG executive who has represented the R&A in media rights, licensing and sponsorships since the 1990s, said the B word has complicated some licensing negotiations in Asia.

"Business partners in Japan are saying, 'Please call it the British Open because it will mean more to people here,'" Johnston said. "We're not able to give them the name that they want."

For the R&A, it is a circular problem: Because most people in the U.S. know it as the British Open, even those who know better still call it the British Open, which only adds to the popular notion that it is the British Open.

American Stewart Cink, the 2009 Open champion, said that whenever he is in Britain, he refers to it strictly as the Open. But if he is talking to someone in the U.S., he calls it the British Open.

"The whole idea when you're talking is for communication," Cink said. "People in America don't know what the Open is."

Booth said the R&A has seen progress, both among players and fans, in part because of the influence of its social-media channels. The previous broadcast partner, ESPN, was also contractually obliged to use the proper name, Johnston said. A native Scotsman, Johnston added that he doesn't have to correct Americans in conversation quite as often as he used to.

But there remains some confusion both in the U.S. and abroad. Contrary to what the R&A said, three-time Open champion, said it is no longer correct to call it the British Open Championship.

"Now it's 'The Open,'" Faldo said. "In another five years, it will just be called 'The.'"

LIFE & ARTS

YOUR HEALTH | By Sumathi Reddy

When Videogames Can Help

Children with anxiety and ADHD can learn to control their emotions by playing games connected to a heart-rate monitor

IT ISN'T OFTEN that children are encouraged to play videogames.

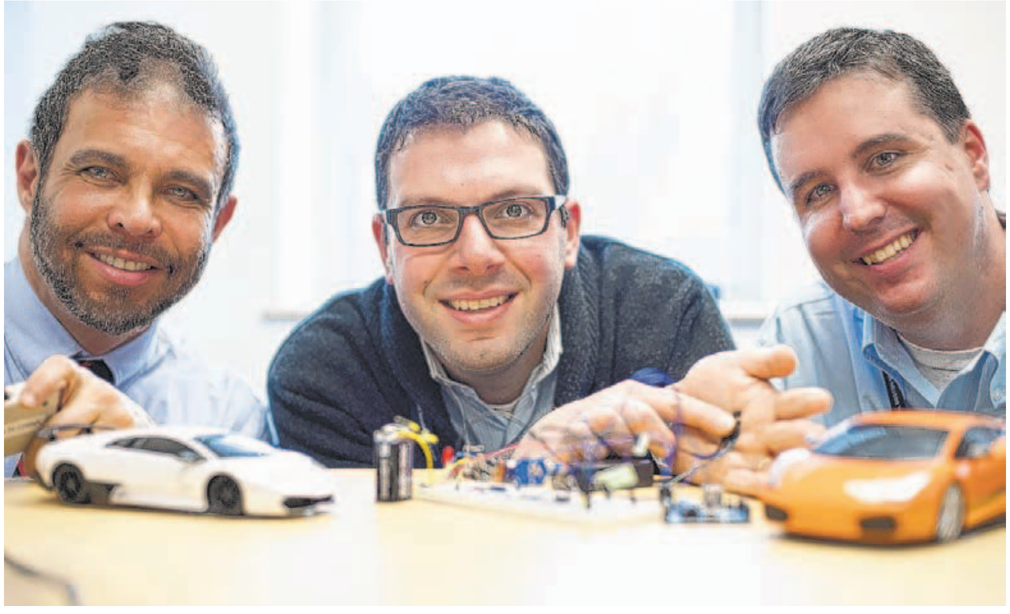
But a group of Boston Children's Hospital researchers have developed videogames for children with conditions such as attention deficit hyperactivity disorder (ADHD) and anxiety, or those who just need to learn how to control their emotions better.

The videogames track a child's heart rate, displayed on the screen. The games get increasingly difficult as the player's heart rate increases. To be able to resume playing without extra obstacles the child has to calm themselves down and reduce their heart rate.

"What we're trying to do is build emotional strength for kids," said Jason Kahn, co-founder and chief scientific officer of Mighteor, a Boston-based company and spinoff of Boston Children's Hospital. BCH runs an accelerator and funded some of the research and development of the products. They retain a small piece of ownership of Mighteor. Dr. Kahn worked as a developmental psychologist at Boston Children's for seven years and maintains an affiliation there but launched the company in November.

The games help children "build muscle memory," he said. So once they are able to reduce their heart rate over and over again the response of physiologically calming themselves down becomes more automatic.

FROM TOP: MIGHTEOR; KATHERINE C. COHEN/BOSTON CHILDREN'S HOSPITAL



Above, Quinn Feldman, 7-years-old, breathes to lower his heart rate while playing a Mighteor videogame. Below from left: Dr. Joseph Gonzalez-Heydrich, Dr. Jason Kahn and Pete Ducharme, LICSW, of Boston Children's, who created mobile videogames to build emotional strength.

Melissa Feldman, a 39-year-old occupational therapist in Milton Mass., said she heard about the Mighteor videogames through a blog. She enrolled in a pilot group in September for her children, Carson, 10-years-old, and Quinn, 7-years-old, who have been diagnosed with anxiety disorders, among other conditions.

The games have helped the boys stop and give pause when their emotions feel out of control, she said. "I think being able to visualize that happening when they are breathing and seeing their heart rate come down and connecting that has really helped," she said.

Ms. Feldman said she's also seen a lot of carry-over into real life. "I've seen it become a much more automatic response for them," she said.

Her older son, Carson, agrees. He says the games have helped him remain calm in situations where he's upset, like when he misbehaves and can't swim in his pool.

"I think it's a fun way for kids to control their heart rate when their feelings are high and energetic," he said.

Still, he said the games aren't quite as fun as the regular videogames he plays on his mother's computer and phone. "They're maybe three-quarters as fun," he said. His favorite is still Minecraft.

The impact of the games was tested in two studies. In a pilot study, they first tested the game in a psychiatric inpatient unit with children with anger management issues, said Joseph Gonzalez-Heydrich, director of the developmental neuropsychiatry clinic at Boston Children's. They found improvements in just five days and published the results in 2012 in a study in the journal Adolescent Psychiatry.

"A lot of these kids we are seeing are not interested in psychotherapy and talking," said Dr. Gonzalez-Heydrich, who is head of the scientific advisory board of Mighteor, and said he has a small amount of equity in the company. "But they will work really hard to get good at a videogame."

In a subsequent outpatient study the researchers randomized 20 youth to 10 cognitive behavior therapy sessions and videogame therapy that required them to control their heart rate, and 20 youth to CBT with the same videogame but not linked to heart rates. All the adolescents had anger or aggression problems, said Dr. Gonzalez-Heydrich, who was senior author of the study.

Therapists interviewed the children's primary caregiver before and two weeks after their last therapy session. They found the children's ratings on aggression and opposition were reduced much more in the group that played the game with the built-in biofeedback. The ratings for anger went down about the same in both groups.

The findings were presented at the American Academy of Child and Adolescent Psychiatry conference in 2015. The study is currently under review for publication.

Some doctors are skeptical that this type of biofeedback using videogames can work as a therapy. Russell Barkley, a clinical professor of psychiatry at **Virginia Commonwealth University** Medical Center, noted that the studies looked at youth with high levels of anger, but not specifically with ADHD or anxiety, suggesting that further study as a therapy for anger control in particular may be warranted.

The Mighteor games became commercially available in June. Before that about 200 children had been participating in a pilot project.

The company has about seven videogames available now and hope to have 50 in a year. Now, customers can buy a three-month, $249 subscription to the platform giving them access to all the games. The subscription includes a tablet and wristband that acts as a wireless heart monitor, as well as coaching sessions for parents. After that, the cost is $19 a month.

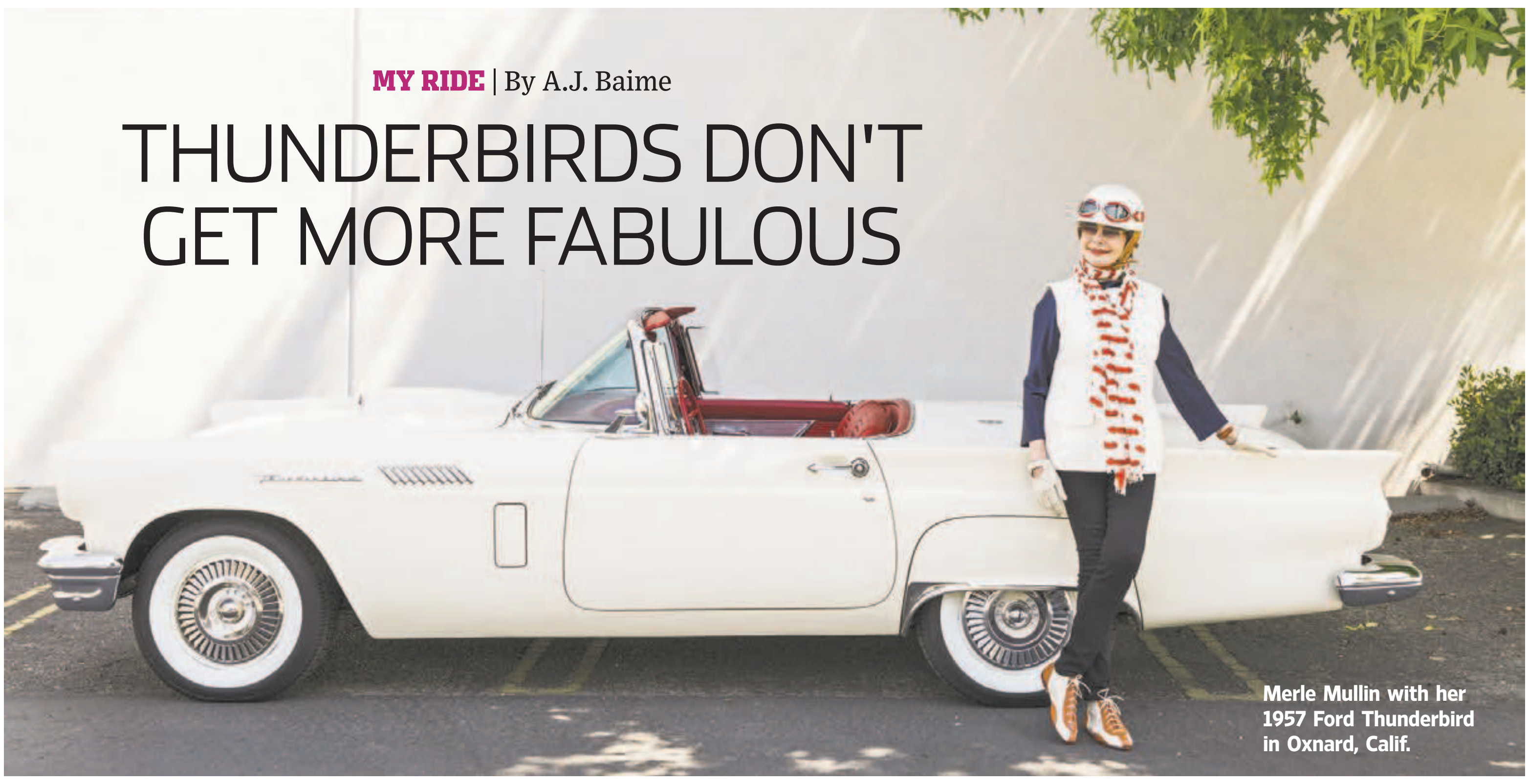
Dr. Kahn said they recommend that children play the games 45 minutes a week. The product is geared toward children ages 6 to 14. Parents receive six coaching sessions from clinical social workers when they sign up.

Kyle Smith, a child and adolescent psychiatrist at Primary Children's Hospital in Salt Lake City, said last year he began using the videogames as part of the therapy used in an outpatient program for children with anxiety. The children come to the hospital three days a week, where they attend cognitive behavioral therapy sessions.

He incorporates the videogames but the feedback is variable he said. "Certain kids really seem to take to it quite well and it's motivating for them," he said. "And there's other kids who have a harder time. If they have motor coordination difficulty or sensory problems it can be a little tougher."

MY RIDE | By A.J. Baime

THUNDERBIRDS DON'T GET MORE FABULOUS



Merle Mullin with her 1957 Ford Thunderbird in Oxnard, Calif.

EMILY BERL FOR THE WALL STREET JOURNAL

Merle Mullin, an artist/designer from Los Angeles, on her 1957 Ford Thunderbird, as told to A.J. Baime.

On the occasion of my first anniversary with my husband Peter, in 2001, we had dinner at the **Hotel Bel-Air**. After, I asked the valet for my BMW station wagon. He returned with this beautiful white Thunderbird. I said, "This is not my car." My husband said, "I guess you'd better get in and drive it home."

I figured out quickly: This was not a joke. I had owned a 1957 T-Bird years earlier, and I had often said to my husband, "I wish I had never sold that car. How did I not know it would become such a classic?"

He had made a lot of phone calls to find out what color my old T-Bird was, and what model year, and he had purchased this car for me. I was stunned to the bottom of my feet.

The T-Bird is an icon. Ford first introduced the car for model year 1955, and along with the Corvette, it is considered to be one of the first American sports cars. Ford was known at the time for more staid, functional cars, so this was an anomaly, and very few from this era were built.

My husband and I redid the suspension, so the car drives very smoothly. I love the simplicity. When you look at the dashboard and then you look at the dashboard of, say, a Tesla, the difference is remarkable.

Later this summer, I will be driving this car—which turns 60 this year—in a rally called It's All About the Girls! Women from seven countries, with their cars, will meet in Les Baux-de-Provence, France. We will spend five days on driving excursions, for fun and to raise money for charities.

I became a car girl by osmosis, as I am surrounded by car talk.

[Ms. Mullin's husband Peter is the founder of the **Mullin Automotive Museum** in Oxnard, Calif., and chairman of the board of the Petersen Automotive Museum in Los Angeles.] I have been fortunate enough to drive wonderful cars, but the T-Bird is extra special. All my passion for motoring, for my husband and for my memories of youth are embodied in this one car.

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

REVIEW & OUTLOOK

The Trumps and the Truth

Even Donald Trump might agree that a major reason he won the 2016 election is because voters couldn't abide Hillary Clinton's legacy of scandal, deception and stonewalling. Yet on the story of Russia's meddling in the 2016 election, Mr. Trump and his family are repeating the mistakes that doomed Mrs. Clinton.

The best defense against future revelations is radical transparency.

That's the lesson the Trumps should draw from the fiasco over Don Jr.'s June 2016 meeting with Russians peddling dirt on Mrs. Clinton. First Don Jr. let news of the meeting leak without getting ahead of it. Then the White House tried to explain it away as a "nothingburger" that focused on adoptions from Russia.

When that was exposed as incomplete, Don Jr. released his emails that showed the Russian lure about Mrs. Clinton and Don Jr. all excited—"I love it." Oh, and son-in-law Jared Kushner and Beltway bagman Paul Manafort were also at the meeting. Don Jr. told Sean Hannity this was the full story. But then news leaked that a Russian-American lobbyist was also at the meeting.

Even if the ultimate truth of this tale is merely that Don Jr. is a political dunce who took a meeting that went nowhere—the best case—the Trumps made it appear as if they have something to hide. They have created the appearance of a conspiracy that on the evidence Don Jr. lacks the wit to concoct. And they handed their opponents another of the swords that by now could arm a Roman legion.

* * *

Don't you get it, guys? Special counsel Robert Mueller and the House and Senate intelligence committees are investigating the Russia story. Everything that is potentially damaging to the Trumps will come out, one way or another. Everything. Denouncing leaks as "fake news" won't wash as a counterstrategy beyond the President's base, as Mr. Trump's latest 36% approval rating shows.

Mr. Trump seems to realize he has a problem because the White House has announced the hiring of white-collar Washington lawyer Ty Cobb to manage its Russia defense. He'll presumably supersede the White House counsel, whom Mr. Trump ignores, and New York outside counsel Marc Kasowitz, who is out of his political depth.

Mr. Cobb has an opening to change the Trump strategy to one with the best chance of saving his Presidency: radical transparency. Release everything to the public ahead of the inevitable leaks. Mr. Cobb and his team should tell every Trump family member, campaign operative and White House aide to disclose every detail that might be relevant to the Russian investigations.

That means every meeting with any Russian or any American with Russian business ties. Every phone call or email. And every Trump business relationship with Russians going back years. This should include every relevant part of Mr. Trump's tax returns, which the President will resist but Mr. Mueller is sure to seek anyway.

Then release it all to the public. Whatever short-term political damage this might cause couldn't be worse than the death by a thousand cuts of selective leaks, often out of context, from political opponents in Congress or the special counsel's office. If there really is nothing to the Russia collusion allegations, transparency will prove it. Americans will give Mr. Trump credit for trusting their ability to make a fair judgment. Pre-emptive disclosure is the only chance to contain the political harm from future revelations.

This is the opposite of the Clinton stonewall strategy, which should be instructive. That strategy saved Bill Clinton's Presidency in the 1990s at a fearsome price and only because the media and Democrats in Congress rallied behind him. Mr. Trump can't count on the same from Republicans and most of the media want him run out of office.

If Mr. Trump's approval rating stays under 40% into next year, Republicans will begin to separate themselves from an unpopular President in a (probably forlorn) attempt to save their majorities in Congress. If Democrats win the House, the investigations into every aspect of the Trump business empire, the 2016 campaign and the Administration will multiply. Impeachment will be a constant undercurrent if not an active threat. His supporters will become demoralized.

* * *

Mr. Trump will probably ignore this advice, as he has most of what these columns have suggested. Had he replaced James Comey at the FBI shortly after taking office in January, for example, he might not now have a special counsel threatening him and his family.

Mr. Trump somehow seems to believe that his outsize personality and social-media following make him larger than the Presidency. He's wrong. He and his family seem oblivious to the brutal realities of Washington politics. Those realities will destroy Mr. Trump, his family and their business reputation unless they change their strategy toward the Russia probe. They don't have much more time to do it.

China Disqualifies Hong Kong's Democrats

A Hong Kong court has disqualified four opposition legislators for failing to take the oath of office, though the president of the Legislative Council accepted the oaths in October. The decision means that pro-democracy legislators no longer have sufficient votes to block legislation, which may allow Beijing and its local supporters to pass laws to restrict civil liberties.

The city legislature now has the votes to restrict civil liberties.

Over the past two decades, many of Hong Kong's pro-democracy legislators have used the oath-taking ceremony to stage protests, for instance, by changing the words. The council president allowed them to take the oath again. But in November China's National People's Congress (NPC) reinterpreted the territory's constitution, the Basic Law, to prevent two legislators from retaking the oath.

Hong Kong's government used that decision to bring a case against the four disqualified last week. The judge cited the NPC's requirement that legislators "sincerely believe" in the oath. And he found that the manner of the oath-taking—including the tone and speed of their speech, the holding of an umbrella, and comments made at the ceremony—showed they did not.

This sets a precedent for challenging other legislators' sincerity. Chinese officials state that the purpose of the NPC decision was to bar "separatists," a category that they suggest could include those who argue for expanding or even merely maintaining the high degree of autonomy guaranteed by Hong Kong's Basic Law.

The government could disqualify more legislators for their public statements, although Hong Kong Chief Executive Carrie Lam says she has no plans to do so. Electoral officials prevented some candidates from running in September's election because their support for the Basic Law was deemed insincere.

The number of opposition legislators is already limited by rules that minimize the number of directly elected seats. Reducing the opposition even more may allow the government to pass legislation to criminalize calls for self-determination. It tried to do so in 2003 but withdrew the bills after mass protests and defections by pro-government lawmakers. In May China's third-ranking Politburo member, Zhang Dejiang, said Beijing would strengthen its control over Hong Kong and called on the territory to pass antisubversion laws.

The disqualified legislators can appeal to the Court of Final Appeal, and by-elections for the six empty seats could become a referendum on the antisubversion laws. But all signs point to Beijing's determination to coerce the Hong Kong executive and judiciary to tame the opposition. If they do, expect the demonstrations to shift from the legislature to the streets.

America's Summer Labor Shortage

U.S. employers from Cape Cod bed-and-breakfasts to Alaskan fisheries have been begging the Trump Administration for more seasonal guest-worker visas. Summer is nearly half over, and on Monday the Department of Homeland Security finally agreed to issue 15,000 additional H-2B visas.

Trump's 15,000 extra guest-worker visas aren't nearly enough.

The H-2B visa program covers a myriad of industries that rely on seasonal labor, including seafood, construction, skiing, tourism and landscaping. These jobs typically pay well, though they can be grueling and their temporary nature deters native-born Americans from applying. Some summer jobs in tourism used to be filled by teens who now spend their summers studying or volunteering.

Foreign workers have become even more crucial as labor markets have tightened amid near record-low unemployment in many states. Unemployment is a mere 2.3% in Colorado, 2.7% in Hawaii and 3.2% in Maine. According to the Bureau of Labor Statistics, there were 755,000 job openings in food services and accommodations in May, up 12% from a year ago.

H-2B visas are capped annually at 66,000, and the labor shortage was exacerbated after Congress last year refused to extend a provision in the law that allowed foreigners who had previously worked on H-2Bs to count toward the limit. But the omnibus budget that Congress passed in May let Homeland Security Secretary John Kelly increase the number of visas in consultation with Labor Secretary Alexander Acosta.

While the 15,000 additional visas will no doubt be welcomed by employers, they won't satisfy the growing demand for labor. More than 120,000 seasonal visas were requested this year, so tens of thousands of summer positions in hotels, fisheries and elsewhere will go unfilled. Businesses in disparate industries will be competing for too few foreign workers. And because the government usually requires between 30 to 60 days to process visas, workers may not arrive in time to benefit some employers. The result will be reduced economic output and perhaps shorter vacations for U.S. workers.

The decision to grant the new visas is a de facto admission that the U.S. has a labor shortage. Why hurt the economy by providing so few?

For the Love Of Charlie Gard

MAIN STREET
By William McGurn

So Charlie Gard's fate now comes down to this: whether an American doctor can persuade a British judge that little Charlie's life is worth living.

The child cannot see, cannot hear, and suffers from a genetic disorder for which there is no cure—yet he has exposed the great fault line between the post-Christian West and its past. For most of history, men and women have regarded suffering as part of life. But as medicine tames once-deadly afflictions and the idea of some larger meaning to the cosmos wanes, suffering comes to appear less a part of the natural order than an intolerable anomaly.

Follow this logic to the end and you will arrive at London's Great Ormond Street Hospital for Children. The hospital dates to 1852, when it was founded by a doctor hoping to relieve "the shockingly high level of infant mortality." How curious that this same hospital now argues *for* infant mortality, or at least for the mortality of one particular infant.

Hospital experts say it's in Charlie's "best interests" that he be denied the experimental treatments because he "has no quality of life." Better for him to die, they say, than risk suffering. Never mind the judge's original admission that "no one can be certain whether or not Charlie feels pain."

Let us stipulate a distinction between removing someone from life support, as the hospital proposes, and taking active measures to induce death. Put another way, if Connie Yates and Chris Gard—Charlie's parents—decided to remove their son from his ventilator and allow nature to take its course, it would be a difficult but eminently defensible position.

But the claim asserted by the representatives of Britain's state-run health-care system is more sweeping and insidious: This is our call, they say. Such is the Great Ormond Street Hospital's sense of dominion, says Ms. Yates, that it refused to allow Charlie to come home to die, wrapped in the loving arms of his mom and dad.

In the Book of Exodus the Israelites were warned that theirs is a "jealous God," but there is no god more jealous than single-payer health care. For at the heart of single payer is single authority. Isn't it striking how resentful the legal and health-care authorities are that Charlie's family has raised \$1.7 million, thus taking money off the table as an excuse to deny him the offered treatments?

Against the emotional outbursts of the parents, the official pronouncements all aim to convey a sense of reasonableness, with soothing references to the law, the selflessness and expertise of those pushing to overrule Charlie's parents, and, of course, the complexity of the situation.

Still, the deck has been stacked from the beginning. The giveaway is the appointment of a guardian to represent Charlie's interests, even as the court rulings concede it would be difficult to find a more devoted mother and father. Now we learn that the lawyer who represents Charlie in court runs a charity with connections—surprise!—to a sister organization that promotes assisted suicide and until 2006 called itself the Voluntary Euthanasia Society.

His case is the latest example of a once unthinkable practice becoming acceptable.

The Great Ormond Street Hospital even wants the last word on love: "In one respect, Charlie is immensely fortunate" to have such loving parents. Because in this context "in one respect" really means, "*not* in the sense that has to do with decisions about their son's life." In other words, the parents' love disqualifies them. In choosing a guardian to represent Charlie against his parents, the courts sided with the doctor who characterized Charlie's mom and dad as a "spanner in the works."

It wasn't long ago that people worried about the cheapening of human life were predicting practices such as legal abortion would lead to the acceptance of things once thought unthinkable. Euthanasia, for example, or the weeding out of children deemed not perfect enough. These people were dismissed as Cassandras. They now look like prophets.

Charlie Gard's story comes after a case in the Netherlands where an elderly women suffering from dementia woke up and resisted as she was about to be euthanized—only to have the doctor order her family to hold her down for the fatal injection. Meanwhile, how many moms and dads of children with Down syndrome have had complete strangers come up to ask, "Didn't you have a test?" Translation: Surely you wouldn't have had this child had you known.

The essence of civilization is that the strong protect the weak. But Charlie Gard shows that the barbarian no longer comes wielding a club and grunting in some undecipherable tongue. These days the barbarian comes as an expert, possessed of all the requisite certification—and an unquestioned faith in his absolute right to impose final judgments about the "quality of life" of other people's loved ones.

Write to mcgurn@wsj.com.

LETTERS TO THE EDITOR

Mission Investing Helps Our Charitable Goals

Regarding James Piereson and Naomi Schaefer Riley's "Big Foundations Double Down on Government Mistakes" (op-ed, July 10): Heron invests all its assets to help people and communities help themselves out of poverty. We're unapologetic in our belief that this complex work requires the muscle, scale and "can-do" spirit of large public and private enterprises too.

A foundation's fiduciary duty of obedience to mission is relevant to all our assets. We invest our capital in enterprises we believe are making a "net contribution" to society. The authors are entitled to reject mission investing, but they get the math wrong when they say "mission-based investing also can create serious distortions in the market." Would that we foundations had that kind of money.

But we don't, not even close. The total assets of foundations in the U.S. is around \$800 billion, less than the near \$1 trillion annual revenue of the top three Fortune 500 companies. Our ability to backstop failing government services is equally limited: that \$800 billion equals about 14 months of the nation's K-12 public-school budget.

Businesses and nonprofits alike depend on both private and government revenue, along with various subsidies. All nonprofits, including those the nonprofit William E. Simon Foundation supports, get government tax subsidies. Investments are bets, not guarantees or subsidies. Investing in companies like Tesla no more distorts the market than investing in nuclear power or oil.

Mission investing is already far bigger than foundations. Insurance giant Swiss Re has moved its \$130 billion in assets to "ethical investments," while BlackRock's recent renewable-energy fund is oversubscribed. The market is speaking: Impact investing is the future of capitalism.

Clara Miller
President, Heron Foundation
New York

Should the Press Get a Pass on Antitrust Law?

David Chavern ("How Antitrust Undermines Press Freedom" (op-ed, July 11) cleverly argues for an antitrust exemption for the U.S. news media to gain leverage against the advertising power of Facebook and Google. But Mr. Chavern misses a key point. American antitrust law exists to protect consumers, not existing competitors from new competition.

Google and Facebook have challenged newspapers by providing a service (advertising sales) at a lower cost and in a superior fashion than newspapers, their competition. Mr. Chavern proposes creating a cartel as a solution, which would effectively raise prices for consumers (advertising buyers). This is expressly what antitrust laws exist to prevent.

Facebook and Google aren't engaging in anticompetitive conduct. They provide vast amounts of valuable services free to billions of people, and their paid services are cheaper and superior than those offered by their competitors.

If Mr. Chavern doesn't like that, his industry is free to compete with them the old-fashioned way by seeking to provide a better product at a competitive or cheaper price. Attempting to prop up an industry on the backs of unwilling consumers by creating a cartel isn't the answer.

Dylan Naegele
Arlington, Va.

How sorry we all feel for Mr. Chavern and his mourning of the end of press freedom, the latter meaning the end of the dominance of the left's stranglehold over what we read and hear in "the news." The rise of the internet, controlled by moguls firmly committed to the left and the Democratic Party, is ironically crushing the old media which had given us only one voice—that of the Democratic Party.

What an irony.

Nick Chickering
Whitefish, Mont.

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.

OPINION

Forcing Beijing's Hand on North Korea

By Daniel Blumenthal And Derek Scissors

After decades of diplomacy in Korea, it's clear there is no deal to strike. Kim Jong Un wants to reunify the Korean Peninsula under his rule and eject America from the region. North Korea's actions since the first nuclear crisis, more than two decades ago, show this is not mere talk. The regime has used every agreement for 20 years to build more weapons and extort more money. Mr. Kim is close to having a nuclear-armed intercontinental ballistic missile, threatening the U.S. and its allies. The only solution is to remove him. But how?

> Its corporate shell game enables Pyongyang to circumvent sanctions.

A war would be extremely costly. The better choice—though still not an easy one—is to put serious pressure on China to cut off its trade with North Korea. At the same time, the U.S. should make clear it is open to working with Beijing to replace Mr. Kim with a regime willing to forgo weapons of mass destruction.

The coercion of China should be two-pronged. First, the U.S. should further tighten its alliance with Japan and South Korea, forcing Beijing to reckon with its encirclement in Northeast Asia. For China, a well-armed, interlinked Northeast alliance system is a strategic catastrophe.

But the real change would be to move from pinprick sanctions on Chinese companies doing business with North Korea to economic coercion. North Korea is already effectively under a global embargo—with one glaring exception. Pyongyang's trade with China—which accounts for 90% of its total trade—has increased in recent years, customs data show.

North Korea receives almost all its imports from China, including oil products. Chinese minerals feed Pyongyang's industrial and military production. Payments sent for North Korean seafood and textiles serve the same purpose.

Rising trade is no accident. China and North Korea have recently created shipping and modern rail routes to boost trade. The Guomenwan border trade zone that opened in October 2015 in Dandong, China, was established to promote bilateral economic links. These moves mock the United Nations sanctions to which China has pledged fidelity.

This obviously undermines U.S. interests, and it is time to respond meaningfully. A few companies that do business with North Korea are under international sanctions, but this imposes little cost on China.

AFP/GETTY IMAGES

The Friendship Bridge between Dandong, China, and Sinuiju, North Korea.

Often companies cease their activity (or disappear entirely), and new ones arise to replace them.

True sanctions would go further. It's a sham to pick out individual Chinese enterprises for sanctions as if they are independent of the government. The Communist Party can control the economy. Many Chinese companies are simply interchangeable tools, used by the party at different times for different purposes.

The West shouldn't play China's shell game. Beijing shouldn't be allowed to effectively determine who is subjected to sanctions for North Korean links, as if these are rogue entities that have nothing to do with the party-state. One Chinese state bank shouldn't be allowed to do global business while another suborns North Korea.

The correct targets are the huge state-owned sisters of the entities doing business with North Korea, those with sizable international business and assets. When it comes to China's support for North Korea, there is little difference between one state-sponsored metals firm and another. Don't impose sanctions only on Limac Corp. for its supposed venture in the North; put them also on Minmetals, the dominant firm and a major global presence. Don't stop at penalizing Dalian Global Unity Shipping as if it's separate from the Chinese state; target kingpin China Ocean Shipping. Don't subject Bank of Dandong to sanctions without also targeting the behemoth Industrial and Commercial Bank of China.

This is what a serious attempt to change Chinese behavior would look like. It would put enormous pressure on the Communist Party to relieve the pain inflicted on Chinese elites. Such economic coercion hasn't been tried because it's risky. If sanctions actually begin to hurt China, Beijing will retaliate before it cooperates. The recently announced Sino-American beef deal will be first in the firing line, along with U.S. exports of soybeans, aircraft and other goods and services.

Many will fret that the U.S. is causing instability. But Americans have to choose: Is economic tension with China as bad as a nuclear-armed North Korea?

Or is North Korea a "clear and present danger," as U.S. Defense Secretary Jim Mattis has said? If so, all means short of war should be used to depose Mr. Kim. The tension with China needn't be permanent: Sanctions would vanish if China helps remove the Kim regime and works toward a peaceful peninsula. The other option is to live with a nuclear-armed Kim Jong Un.

Mr. Blumenthal is director of Asian studies and Mr. Scissors a resident scholar at the American Enterprise Institute.

Interprovince Investment Revives China's Growth Rate

By Yuen Yuen Ang

China's growth rate of 6.9% in the second quarter beat the expectations of analysts, who expected the economy to continue to slow. Equally surprising is the rebound in manufacturing sentiment. The Caixin purchasing managers index for June edged above 50 into expansionary territory last week.

The recent resurgence is likely more than a temporary blip. In part it reflects better global demand for Chinese products. But it's also the result of longer-term shifts in China's manufacturing landscape that will increase productivity.

Chinese industrialists began to move production to poorer interior regions, away from the more developed coastal cities, in the early 2000s. This process, known as industrial transfer, is now in full swing. It encompasses not only the physical relocation of factories, but also investment in inland businesses, creation of new distribution chains and so forth.

One example is Li-Ning, a privately owned athletics-goods company founded by former Chinese Olympian Li Ning in Guangdong province. In 2008, Li-Ning invested 10 billion yuan ($1.48 billion) in a large production facility in Hubei province's Jingmen city. The factory produces 30 million pairs of shoes and 67 million athletic suits annually, most of which are sold to Chinese consumers.

Industrial transfer is hard to measure because, unlike industrial output, it is dynamic and multifaceted. Even officials at the National Development and Reform Commission, China's top economic-planning agency, acknowledge that they lack systematic measures of the migration.

One commonly used estimate of industrial transfer is interprovince investment, a term that first appeared in some provincial-government reports in the 2000s. It is a novelty compared to foreign direct investment, which has been recorded in Chinese statistics since the 1980s.

The scale of interprovince investment is impressive. In 2015, the value in five central provinces alone—Anhui, Henan, Hubei, Hunan and Jiangxi—was 2.5 times that of FDI throughout China. In 2011, Hubei received 333 investment projects from the coast, of which 70% were in manufacturing.

Industrial transfer injects new growth opportunities into poor inland regions, but it also frees up resources for high-end manufacturing and services on the coast. Chinese policy makers term this dual structural shift "emptying the cage to change the bird."

> Rising production costs on the coasts have caused the Chinese manufacturing landscape to shift inward.

But Beijing didn't predict, let alone plan, this wave of industrial migration. It occurred spontaneously among coastal producers, primarily in the private sector and in response to market pressures.

During the 2000s, labor and land costs rapidly rose and local governments stiffened environmental regulations, killing the profits of low-end manufacturers. Some headed overseas, while others moved inland. In central China, labor costs are less than a quarter of those in Shanghai, and enforcement of regulations is also lax.

China's cabinet, the State Council, reacted belatedly to the bottom-up surge of industrial transfer, making it a top priority in 2010. Earlier policies of regional development centered only on providing financial assistance to and building infrastructure in the poor interior. After 2010, the leadership actively encouraged industrial transfer, primarily by creating "special recipient zones" throughout central China. These enjoy preferential policies similar to the special economic zones on the coast.

As a result, central and western provinces are now in the midst of an "investment frenzy." Belatedly mimicking the practices of coastal governments in the 1980s and 1990s, inland governments are mobilizing their civil servants to attract domestic investors using attractive benefits.

Li-Ning, the sporting goods company, was fiercely courted by several competing cities. It ultimately chose Jingmen for its "dedicated services." The Jingmen government took care of the company's every need, from land and labor supply to electricity.

If the interior takes over low-cost, labor-intensive manufacturing while the coast advances technologically, China will command both the low and high ends of production within a single market. That would give it a formidable competitive advantage.

Yet China's process of industrial transfer faces some obstacles. Coastal investors run into corruption and weak property rights in inland locations. Large companies like Li-Ning fare well but smaller ones falter. Environmentalists worry whether pollution will migrate from rich to poor regions. While labor costs are lower in the interior, they too are rising.

Nevertheless, China's manufacturing landscape is undergoing a sea change. Domestic investors are eclipsing foreign ones. Domestic consumption is surpassing exports. Supply chains are being remade. The regional shifts in manufacturing may allow China to grow faster for longer than many analysts thought possible.

Ms. Ang is associate professor of political science at the University of Michigan. She is the author of "How China Escaped the Poverty Trap" (Cornell, 2016).

A Step Toward Scientific Integrity at the EPA

By Steve Milloy

The Trump administration in May began the process of replacing the small army of outside science advisers at the U.S. Environmental Protection Agency. In June, 38 additional EPA advisers were notified that their appointments wouldn't be renewed in August. To Mr. Trump's critics, this is another manifestation of the administration's "war on science." Histrionics aside, the administration's actions are long overdue.

The most prominent of the EPA's myriad boards of outside advisers are the Science Advisory Board and the Clean Air Scientific Advisory Committee, or CASAC. Mostly made up of university professors, these boards also frequently draw members from consulting firms and activist groups. Only rarely do members have backgrounds in industry. All EPA boards are governed by the Federal Advisory Committee Act, which requires that they be balanced and unbiased. While the EPA is required by law to convene the SAB and CASAC, the agency isn't bound by law to heed their advice.

The EPA's Obama-era "war on coal" rules and its standards for ground-level ozone—possibly the most expensive EPA rule ever issued—depend on the same scientifically unsupported notion that the fine particles of soot emitted by smokestacks and tailpipes are lethal. The EPA claims that such particles kill hundreds of thousands of Americans annually.

The EPA first considered regulating fine particles in the mid-1990s. But when the agency ran its claims past CASAC in 1996, the board concluded that the scientific evidence didn't support the agency's regulatory conclusion. Ignoring the panel's advice, the EPA's leadership chose to regulate fine particles anyway, and resolved to figure out a way to avoid future troublesome opposition from CASAC.

In 1996 two-thirds of the CASAC panel had no financial connection to the EPA. By the mid-2000s, the agency had entirely flipped the composition of the advisory board so two-thirds of its members were agency grantees. Lo and behold, CASAC suddenly agreed with the EPA's leadership that fine particulates in outdoor air kill.

During the Obama years, the EPA packed the CASAC panel. Twenty-four of its 26 members are now agency grantees, with some listed as principal investigators on EPA research grants worth more than $220 million.

Although the scientific case against particulate matter hasn't improved since the 1990s, the EPA has tightened its grip on CASAC. In effect, EPA-funded researchers are empowered to review and approve their own work in order to rubber-stamp the EPA's regulatory agenda. This is all done under the guise of "independence."

Another "independent" CASAC committee conducted the most recent review of the Obama EPA's ground-level ozone standards. Of that panel's 20 members, 70% were EPA grantees who'd hauled in more than $192 million from the agency over the years. These EPA panels make decisions by consensus, which has lately been easy enough to achieve considering they are usually chaired by an EPA grantee.

> Scott Pruitt sweeps out Obama-era science advisers. The agency needs truly independent ones.

Would-be reformers have so far had no luck changing the culture at these EPA advisory committees. In 2016 the Energy and Environment Legal Institute, where I am a senior fellow, sued the agency. We alleged that the CASAC fine-particulate subcommittee was biased—a clear violation of the Federal Advisory Committee Act. We found a plaintiff who had been refused CASAC membership because of his beliefs about fine particles.

Unfortunately, that individual wasn't willing to take a hostile public stand against the EPA for fear of professional retribution. We ultimately withdrew the suit.

The EPA's opaque selection process for membership on its advisory boards has opened the agency to charges of bias. In 2016 Michael Honeycutt, chief toxicologist of the Texas Commission on Environmental Quality, was recommended in 60 of the 83 nominations to the EPA for CASAC membership. The EPA instead selected Donna Kenski of the Lake Michigan Air Directors Consortium. Ms. Kenski received only one of the 83 recommendations. While no one objected to Mr. Honeycutt's nomination, Sen. James Inhofe (R., Okla.) lodged an objection to Ms. Kenski's nomination, claiming she had exhibited partisanship during an earlier term on the committee.

Congress has also tried to reform the EPA's science-advisory process. During the three most recent Congresses, the House passed bills to provide explicit conflict-of-interest rules for EPA science advisers, including bans on receiving EPA grants for three years before and after service on an advisory panel. The bills went nowhere in the Senate, where the threat of a Democrat-led filibuster loomed. Had they passed, President Obama surely would have vetoed them.

President Trump and his EPA administrator have ample statutory authority to rectify the problem. As Oklahoma's attorney general, Scott Pruitt spent years familiarizing himself with the EPA's unlawful ways. He is in the process of reaffirming the independence of the agency's science advisory committees. This won't mean that committee members can't have a point of view. But a committee as a whole must be balanced and unbiased. Mr. Pruitt's goal is the one intended by Congress—peer review, not pal review.

Mr. Milloy served on the Trump EPA transition team and is the author of "Scare Pollution: Why and How to Fix the EPA."

Notable & Quotable: JFK

Niall Ferguson writing in London's Sunday Times, July 16:

Here is one contemporary verdict on the Kennedy administration, written before the president's death. It had "demoralised the bureaucracy and much of the military." It had engaged in "government by improvisation and manipulation." It had relied on "public relations gimmicks."

It had "no respect for personal dignity" and treated people "as tools." It had "brutalised our allies within Nato." It was undermining the US reputation for reliability—"the most important asset any nation has". The State Department was "a shambles, demoralised by the weakness of the secretary of state and the interference of the White House." Its foreign policy was "essentially a house of cards". Thus the young Henry Kissinger.

The resemblances between the two presidents are more than superficial. In particular, both were too much inclined to see politics as a family affair. . . . What the Trump presidency has revealed most clearly is not the way the presidency has changed as an institution, but the way the American press has changed.

Or maybe not. Perhaps, if JFK had been a Republican, he would have been treated with the same ferocious animosity as DJT is treated today for much less heinous acts.

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WORK & FAMILY | By Sue Shellenbarger

When the Office Laggard Is Your Pal

It's one of the most awkward professional situations—do you confront your colleague, run to your boss or keep quiet?

DOMINIC BUGATTO

IT'S GREAT TO HAVE a friend on your team at work—unless your friend isn't pulling his weight.

It may not feel like your place to tell a friend to work harder, but ratting him out to the boss isn't very appealing, either. Walking the line between being a good friend and a good employee requires figuring out whether your friend is likely to listen to any critique you give, and if so, delivering the message in a kind but firm way.

Tattling on a teammate can backfire. John Malloy once complained to his boss that his friend, a fellow assistant coach on an elite college swim team, was running disorganized practices. "Something has to be done about this. He's just not getting the job done," Mr. Malloy says he told the head coach.

Word leaked out that he'd gone behind his co-worker's back, hurting the team, says Mr. Malloy, president of the Santee, S.C., office of **Sanford Rose Associates**, an executive-search company. "I deeply regretted saying anything."

Many bosses don't want to hear such complaints. "I ask them, 'Why are you telling me? Why aren't you telling the person who's causing the issue?'" says Ed Mitzen, founder of Fingerpaint Marketing, a Saratoga Springs, N.Y., marketing agency.

But few employees feel safe giving or receiving criticism from teammates, says Robert S. Rubin, a management professor at DePaul University. Employers encourage teams to collaborate but expect employees to compete for raises and promotions, fostering mixed motives that undermine co-workers' willingness to help each other.

Keith Valory hated seeing colleagues on a previous job hurt by teammates' harsh critiques. The climate was so competitive that a friend who was actually performing well quit the company, says Mr. Valory, chief executive officer of Plex, a Los Gatos, Calif., maker of a streaming media app. He tries to create a kinder culture at Plex by having employees do anonymous peer reviews semiannually that are edited and delivered by managers. More than 95% of Plex employees give the process high ratings, he says.

Friends may be more able than others to deliver criticism kindly. Chris Bryant took aside a friend on a team he led at a previous employer to tell him he wasn't pulling his weight. "It was difficult, because we had a good time going to each other's barbecues" outside work, says Mr. Bryant, principal at Empire Studios, a New York video production company. Facing the performance problems early motivated his friend to move to a job that was a better fit before he damaged his track record.

Workplace friendships are linked to improved job performance, but coping with role conflicts, misunderstandings and disagreements with friends on the job can be emotionally draining, says a 2016 study in the journal Personnel Psychology. If conflicts over serious ethical or legal issues arise and can't be resolved by talking it over, it's best to end the friendship, says Eileen Habelow, managing partner of Learning-Link, a Cambridge, Mass., corporate-training firm.

Bosses should get involved if an employee's behavior crosses legal or ethical boundaries, or if a friend's performance continues to cause problems after repeated attempts by teammates to help.

It's wise to figure out before raising performance problems whether your friend is likely to listen, says Tasha Eurich, a Denver organizational psychologist and author of "Insight," a book on self-awareness. If your friend thinks she's already nearly perfect and belittles others who give her feedback, she's not likely to pay much attention, Dr. Eurich says. If she knows she's performing poorly but doesn't care, you'll have to persuade her that she's actually causing problems for herself or others.

It's more likely that your friend is open to change but doesn't realize it's needed, Dr. Eurich says. One way to start the conversation is to wait for an opening. If your friend expresses disappointment about a performance review, ask if it would be OK to share your thoughts, then describe problem behaviors you've seen.

Another option is to open with a question, Dr. Rubin says, such as, "I noticed that you missed a major deadline, which isn't like you. Is everything OK?"

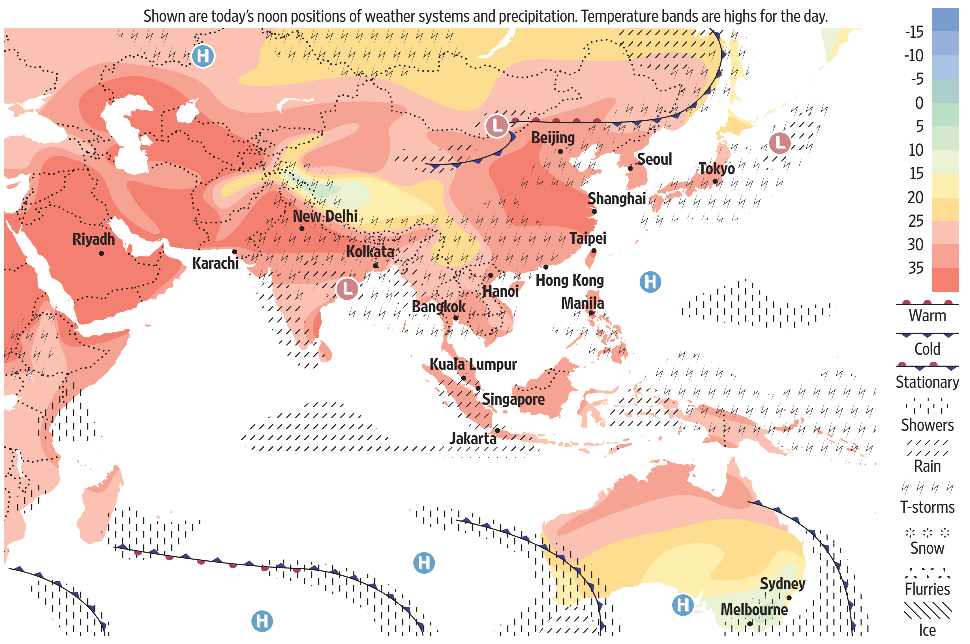
Avoid throwing around labels. Declaring that your friend has a poor work ethic or is too aggressive will only put him on the defensive, says Dana Brownlee, an Atlanta corporate trainer. Cite specific behaviors, such as leaving early during rush periods.

Finally, affirm your support for your friend and ask how you can help. Human-resources executive Eileen Timmins of Chicago was in a bind when a teammate years ago procrastinated on his part of a deadline project. To avoid complaining to their boss, she researched his role and completed part of his work herself, so she could meet her deadline. Her friend was grateful, she says, and his performance soon improved.

Weather

AccuWeather.com

Shown are today's noon positions of weather systems and precipitation. Temperature bands are highs for the day.

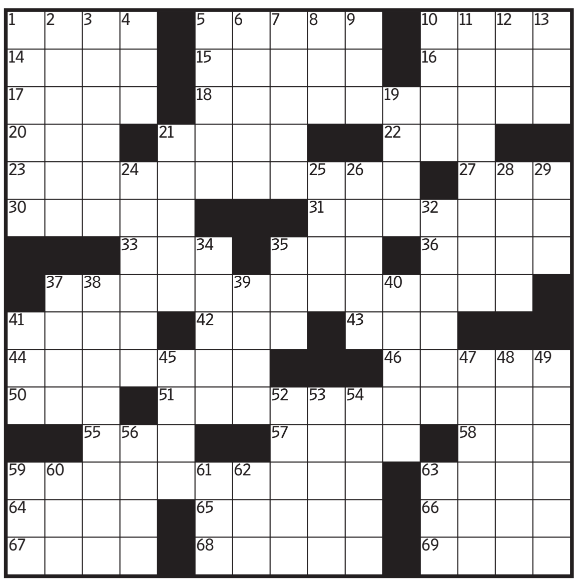


Global Forecasts

s...sunny; pc... partly cloudy; c...cloudy; sh...showers; t...t'storms; r...rain; sf...snow flurries; sn...snow; i...ice

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Amsterdam	29	17	t	22	13	t
Anchorage	17	13	r	19	12	c
Athens	30	23	s	31	24	s
Atlanta	33	23	t	34	23	s
Baghdad	49	30	s	46	28	s
Baltimore	34	22	pc	35	24	pc
Bangkok	32	25	t	32	25	t
Beijing	32	25	t	33	23	t
Berlin	27	18	pc	27	17	t
Bogota	18	10	c	19	9	pc
Boise	35	17	s	34	16	s
Boston	31	22	pc	30	21	pc
Brussels	30	18	t	23	11	t
Buenos Aires	14	6	pc	15	5	pc
Cairo	36	24	pc	34	24	s
Calgary	26	11	s	27	12	pc
Caracas	32	26	c	30	26	c
Charlotte	34	21	pc	35	23	s
Chicago	29	20	t	31	23	t
Dallas	36	26	s	37	27	s
Denver	35	18	s	34	18	c
Detroit	31	20	pc	30	22	t
Dubai	45	34	pc	44	34	s
Dublin	21	9	t	17	11	pc
Edinburgh	20	11	t	18	11	pc
Frankfurt	33	19	pc	26	15	t
Geneva	31	18	pc	28	17	t
Hanoi	30	25	t	30	25	t
Havana	33	24	pc	32	23	pc
Hong Kong	31	27	c	31	27	r
Honolulu	31	25	pc	31	24	sh
Houston	34	24	t	34	25	t
Istanbul	27	21	pc	28	22	pc
Jakarta	32	25	t	32	24	t
Johannesburg	19	2	s	20	2	s
Kansas City	35	25	s	36	26	s
Las Vegas	38	29	t	39	29	t
Lima	21	15	pc	21	15	s
London	25	15	t	22	14	pc
Los Angeles	29	19	pc	29	19	pc
Madrid	33	20	pc	33	18	pc
Manila	31	26	t	31	26	t
Melbourne	12	8	sh	11	3	pc
Mexico City	22	13	t	24	11	pc
Miami	33	27	pc	33	27	pc
Milan	33	19	pc	31	20	s
Minneapolis	29	21	pc	30	22	c
Monterrey	34	23	pc	35	21	pc
Montreal	29	19	pc	27	18	pc
Moscow	20	12	pc	21	12	sh
Mumbai	29	24	r	30	24	r
Nashville	36	23	s	36	24	s
New Delhi	36	29	t	36	28	t
New Orleans	32	25	t	33	25	pc
New York City	31	24	pc	33	25	pc
Omaha	36	26	s	38	27	pc
Orlando	32	23	t	32	23	t
Ottawa	28	16	pc	27	16	pc
Paris	30	18	t	25	14	t
Philadelphia	33	24	t	34	25	pc
Phoenix	39	30	pc	39	29	pc
Pittsburgh	32	20	pc	30	21	t
Port-au-Prince	36	23	pc	37	21	s
Portland, Ore.	28	15	s	25	13	c
Rio de Janeiro	20	18	sh	24	18	s
Riyadh	44	29	pc	44	27	pc
Rome	29	18	pc	30	19	s
Salt Lake City	37	26	pc	35	23	t
San Diego	25	21	pc	26	21	pc
San Francisco	22	13	pc	22	13	pc
San Juan	32	27	s	31	26	pc
Santiago	20	5	s	22	5	s
Santo Domingo	33	24	s	33	24	s
Sao Paulo	14	12	sh	21	13	pc
Seattle	25	14	s	23	13	c
Seoul	32	25	pc	32	26	c
Shanghai	37	29	pc	39	29	t
Singapore	31	26	pc	30	25	c
Stockholm	21	11	pc	21	9	pc
Sydney	18	9	pc	17	8	s
Taipei	36	27	pc	36	27	pc
Tehran	36	23	s	37	23	s
Tel Aviv	32	25	s	30	25	s
Tokyo	31	26	t	32	26	pc
Toronto	29	17	t	28	18	t
Vancouver	22	14	c	21	13	pc
Washington, D.C.	35	26	pc	35	26	pc
Zurich	32	18	pc	25	16	t

The WSJ Daily Crossword | Edited by Mike Shenk



LOVE STORY | By Gary Cee

Across

1 Lovers' adventure
5 Candidate's concern
10 Infatuated
14 Passionate god
15 "Love Story" author Segal
16 Hieroglyphic creature
17 Obsidian source
18 Addictive match-three game
20 Ephemeral sculpting medium
21 Film character whose last word was "Rosebud"
22 Tried-and-true
23 Happy time for a home buyer
27 FDR-DDE go-between
30 Acapulco address
31 Go past the scheduled end time
33 Blow away
35 Christmas evergreen
36 Theater honor
37 Personal matter
41 Sign up
42 Straightaway
43 Vicious with a guitar
44 Spaghetti sauce seasoning
46 Shows its age, in a way
50 Victorious shout
51 Diet-busting dessert
55 Dobbs of Fox Business Network
57 Outstanding amount
58 Verb for you
59 The CPU has direct access to it
63 Uproar
64 Spots in a yearbook photo?
65 Loons and cuckoos
66 California city nicknamed "Zinfandel Capital of the World"
67 Hard throws, in baseball
68 Bestow happiness on
69 Warning sign

Down

1 Flea market finds
2 Source of wisdom
3 Turn the page, so to speak
4 Free radio ad, for short
5 Sticky bun nut
6 Sumatran swinger, for short
7 Like some pads
8 TV panel type
9 Reserved
10 Brownie, e.g.
11 Capital on the Persian Gulf
12 "M*A*S*H" extras
13 Bat material
19 Name in the "Fargo" credits
21 Renowned Russian ballet company
24 Planter's activity
25 La Scala highlight
26 Gang domains
28 Show signs of waking
29 Ball bearer
32 Prepare for a road trip
34 "Shall we?"
35 Hardly any
37 Minute opening
38 White wine of Germany
39 Warner Bros. creation
40 Walk destination
41 Rapture
45 "I coulda been somebody, instead of ___" ("On the Waterfront")
47 Zigzagging course
48 Hothead's harangue
49 Try to mediate
52 Be smitten with
53 Bullies' targets, often
54 Deep chasm
56 Popular bills at discount stores
59 Tourist's aid
60 Opening day pitcher, probably
61 Fade away
62 "Cool" amount of cash
63 Character in Progressive ads

Previous Puzzle's Solution

▶ Solve this puzzle online and discuss it at WSJ.com/Puzzles.

TECHNOLOGY: NETFLIX LURES MILLIONS OF NEW SUBSCRIBERS B4

BUSINESS & FINANCE

Yen vs. Dollar 111.8640 ▼ 0.68% **Hang Seng** 26524.94 ▲ 0.21% **Gold** 1241.20 ▲ 0.68% **WTI crude** 46.19 ▲ 0.37% **10-Year JGB** yield 0.069% **10-Year Treasury** yield 2.262%

Goldman's Traders Disappoint Again

Bank's gains from private-equity holdings fail to dispel doubts about core business

By Liz Hoffman

Goldman Sachs Group Inc.'s bond traders laid another egg in the second quarter.

Goldman, once the fiercest trading shop on Wall Street, reported a 40% decline in its all-important fixed-income trading business that placed it at the back of the pack among big U.S. banks to report quarterly results.

The poor showing followed an equally bad first quarter, and drowned out a surprise earnings beat on Tuesday, which Goldman owed to gains in its portfolio of private-equity stakes.

The firm, run by Chairman and Chief Executive Lloyd Blankfein, reported earnings of $3.95 a share on revenue of $7.89 billion, both better than analysts had forecast. Yet its shares fell as investors looked through to shakiness at Goldman's core, and they tumbled further as Chief Financial Officer R. Martin Chavez addressed concerns on a conference call.

"We didn't navigate the market as well as we want to," he said, echoing nearly verbatim comments he made three months ago about the fixed-income business. "Everyone in our business is intently focused on this topic and at a granular, molecular level are working on it, as are all of us in the leadership team."

Goldman shares were off 2.5% at $223.61 in midday trading on Tuesday.

Goldman's traders have struggled to find their footing as markets churn quietly higher and trillions of dollars shift from human portfolio managers to algorithms and index funds that don't try to beat the market, but simply match it.

That has led to less demand for Goldman's specialty: exotic trading products that allow investors to make one-of-a-kind bets on asset prices.

The firm blamed "a challenging environment characterized by low levels of volatility, low client activity and generally difficult market-making conditions," and it cited weakness in nearly all the major products it sells, from interest-rate derivatives to credit products.

The results will likely amplify criticism that Goldman hasn't responded quickly enough to changing investor preferences and market conditions. A rejiggering of the trading division's leadership last fall failed to jolt the desk from its malaise, which culminated in having its revenue surpassed in the first quarter by Morgan Stanley, Goldman's archrival historically weaker in debt trading. Morgan Stanley reports its earnings Wednesday.

Saving the quarter for Goldman was its portfolio of private company stakes, which rose 88%. Goldman has held on more tightly to merchant banking than rivals, and rising markets push up the prices for the shares it holds.

But investors tend to discount the lumpy revenues in the unit. Charles Peabody of research firm Compass Point called Goldman's results a "low quality beat ... aided by [private equity] gains that the marketplaces won't pay up for."

Goldman's trading business

Please see BANK page B2

RICHARD DREW/ASSOCIATED PRESS

The firm's quarterly results beat estimates but its shares slumped.

HEARD ON THE STREET
By Stephen Wilmot

Food Fight Intensifies For Major Brands

American consumer brands are under attack. Now they are facing a new challenge as supermarket shoppers increasingly go generic.

Americans want goods that are wholesome, meaning both healthy and, less tangibly, authentic. Food brands, in particular, were slow to react. Many have ceded ground to fresh produce or startups with heartwarming, web-marketed back stories. A well-known example is Yoplait, **General Mills**' yogurt label, whose decline mirrored the rise of Chobani, a New York-based brand launched by a Turkish immigrant 10 years ago.

Big food is responding with additive-free recipes, homespun yarns and Facebook ad campaigns. But they face an uphill struggle as a third, even more formidable, source of competition gathers steam: **Wal-Mart**, **Aldi** and **Amazon.com** house brands.

Supermarkets' "private label" goods have historically been less important in the U.S. than in other mature markets. They accounted for 17% of U.S. sales last year, according to Euromonitor, less than half their market share in the U.K. and Germany.

One factor has been the low U.S. market share of discounters, which dominate Germany's grocery landscape and recently upended the U.K.'s. Discounters often achieve low prices by stocking only one brand of a given product, sourced directly

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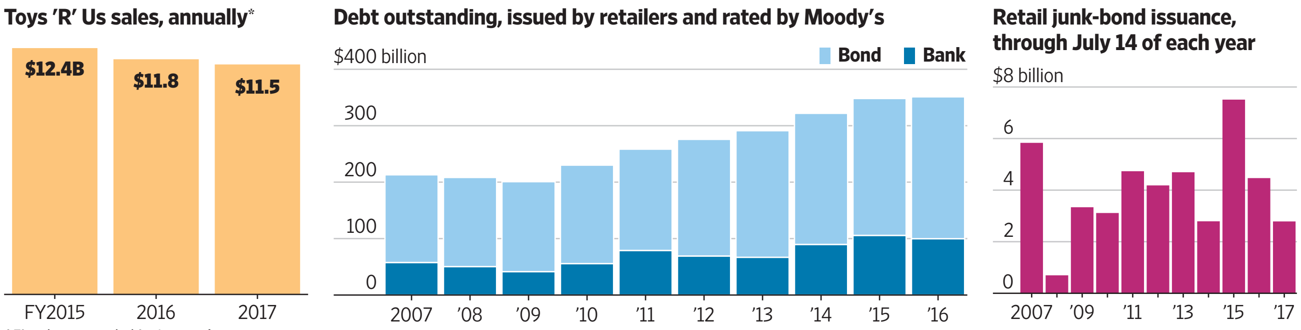
STEVE RUSSELL/TORONTO STAR/GETTY IMAGES

Toys 'R' Us has been spending heavily to boost its online sales even as the toy retailer contends with $5 billion in debt.

Sales at traditional retailers such as Toys 'R' Us have come under pressure with the rise of online rivals, a squeeze intensified by the heavy debt burdens of many such firms. The slowdown has made raising debt more difficult for many in the sector.



*Fiscal years ended in January'
Sources: the company (sales); Moody's (debt); Dealogic (issuance)

THE WALL STREET JOURNAL.

Heavy Debt Loads Shake Retailers

By Miriam Gottfried

Toys "R" Us Inc. will get a new website this summer as it struggles to compete online with its cash-rich rivals. The toy retailer, laden with $5 billion in debt, has spent $100 million over the past several years to help boost its online sales.

That isn't likely to stop the toy chain from falling further behind its rivals. **Wal-Mart Stores** Inc. bought Jet.com last August for $3.3 billion and since then has purchased three more online retailers. **Target** Corp. is investing billions to lower prices and improve online sales.

Toys "R" Us is one of many retailers fighting to keep up. High debt loads, increasingly nervous lenders and falling sales make it impossible to invest enough to compete online. And when companies do generate online sales, the margins are so tight that future investments are harder to make.

Macy's Inc. had $5.5 billion in net debt at the end of the first quarter. A year ago, it said it would improve its performance and use the cash to pay down debt. Instead, the retailer struggled and had to use nearly two-thirds of its free cash flow last year to pay off $750 million in maturing debt. It bought back more this year, further hurting its ability to fund plans to revive sales, including improving its mobile app and expanding its off-price concept Backstage to more stores.

Worries that borrowing will become more expensive or won't be there at all have prompted some relatively healthy companies to focus on paying down their debt, which further limits the amount they can invest.

Retailers sold just four high-yield bonds this year worth $2.8 billion, compared with seven bonds worth $5.7 billion last year. That is down from a 20-year peak of 28 bonds totaling $10.7 billion in 2013, according to Dealogic. The amount of retail bank and bond debt rated by Moody's is up 65% since 2007.

Toys "R" Us and other struggling chains can likely survive for years, but they will constantly struggle to catch up with the competition while still turning a profit. During holiday 2015, the toy retailer had to resort to "sales prevention" by halting some online deals after a deluge of web orders overwhelmed its ability to get products to customers in

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Dollar Sinks as Health Bill Fails

By Saumya Vaishampayan

The dollar's doldrums are deepening.

On Tuesday in Asia, investors dumped the U.S. currency after it emerged that Republican lawmakers were pulling the plug on a contentious health-care bill—the latest sign that President Donald Trump is having trouble implementing his policy agenda.

The ICE U.S. Dollar Index, which measures the U.S. currency against six global counterparts, fell 0.3% in Asian trading Tuesday to a 10-month low. The index is heavily weighted to the euro and yen, both of which gained about 0.3% against the dollar.

That left the dollar index down 7.2% in 2017.

The selling followed data showing investors were already less bullish on the world's reserve currency than they have been in more than three years.

The setback for Mr. Trump was "just the last straw," said Andy Ji, Asian currency and rates strategist at Commonwealth Bank of Australia in Singapore. "The health-care bill is just a small part of the big puzzle."

Investors started selling the dollar soon after two Republican senators became the third and fourth Republicans to oppose the latest version of the bill to repeal and replace the Affordable Care Act, effectively killing Mr. Trump's top legislative priority. The failure suggested Mr. Trump's other legislative efforts, such as overhauling the tax code and implementing fiscal stimulus, might also encounter obstacles.

Recent lower-than-expected inflation in the U.S., which could give the Fed reason to hesitate on raising rates, and the prospect of tighter monetary policy in other developed economies have also fed declines in the dollar.

One sign of how much dollar optimism has evaporated is the falling number of net bets on the currency's strength by hedge funds and other speculative investors. The figure for the week ended July 11 was the lowest since June 2014, according to data from the U.S. Commodity Futures Trading Commission.

Such bets had soared as the dollar index climbed to a 14-year high in the wake of November's presidential election, fueled by hopes that Mr. Trump's proposed policies would stimulate the economy and force the U.S. Federal Reserve to accelerate rate increases, making the dollar more appealing to investors seeking yield.

Some analysts said they believe the dollar has more room to weaken.

P&G Repels Trian In Bid Over Board

By Sharon Terlep

Over the years when **Procter & Gamble** Co. wasn't able to sell more Tide or Pampers, the company could at least point to one clear success: a sweeping, $10 billion cost-cutting plan executed ahead of schedule.

Now that victory is murky. Activist investor Nelson Peltz said Monday that he would seek a single board seat in a shareholder vote at the company's annual meeting in October, making P&G the largest company to ever face a proxy fight.

Mr. Peltz's **Trian Fund Management** LP argues that P&G failed to capitalize on a five-year savings plan that shrank the company by tens of thousands of employees, more than a dozen factories and hundreds of brands. Trian casts doubt on whether a second, five-year, $10 billion savings plan announced by P&G last year will produce results.

On Monday, P&G began mounting its defense, first pointing to a series of metrics outlining the company's improved profit margin, leaner structure and healthy cash generation.

"Over the past two years,

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NIKKI RITCHER FOR THE WALL STREET JOURNAL

Activist investor Nelson Peltz is campaigning for a seat on the board of Procter & Gamble.

INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

INDEX TO PEOPLE

BANK

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is more reliant on swashbuckling stock pickers than peers, a strategy that paid off in years past but now puts the bank on the wrong side of huge shifts in the money-management industry. As more money moves from actively managed funds to passive ones, trillion-dollar pools of assets trade less frequently and generally need less-complex and fewer services.

Goldman has made a push over the past year or so to win more business from corporate treasurers and passive managers, as well as to improve client service and better track where top clients are spending their trading commissions and fees.

So far, it hasn't worked. Goldman's six-month trading revenue fell 10% from last year, dropping to the lowest level in Mr. Blankfein's decade-long tenure. Commodities trading, a business he once ran, had its worst quarter in Goldman's 17 years as a public company, as the firm struggled to adequately hedge its inventory.

Goldman has seen a stream of departures among rank-and-file fixed-income salespeople and traders in recent months. Continued woes in the division are likely to ramp up pressure for another shake-up.

"This was a meltdown," Octavio Marenzi, CEO of capital markets consultancy Opimas, said of the business's results. "Fixed-income trading took a massive blow at Goldman Sachs, far worse than we have seen at other banks."

The story was better in equities, which posted its best quarter in two years. Revenue of $1.89 billion increased 17% from a year ago. A surprising bright spot was cash stock-broking, which has faced a yearslong decline as electronic trading gutted fees.

Investment-banking reported a 3% decline in revenue from a year ago, with merger fees down 6% and stock and debt underwriting basically flat.

Goldman has leaned hard on investment banking in recent years, though there are signs that it also may be slowing. A record deal boom in 2015 and 2016 is cooling, and some companies have been postponing deals as they wait to see if the Trump administration can achieve promised tax and regulatory changes.

Goldman's investment-management division reported a 13% rise in revenue and net inflows of $25 billion, though nearly all of that came from the acquisition of a business that courts big pension funds.

Goldman's return on equity, a key measure of profitability, stood at 8.7% in the quarter. Goldman is one of a few banks that has reliably exceeded 10%—a level typically demanded by investors—since the crisis. But in recent quarters, Goldman's ROE has slipped. During the second quarter, it stalled in the same place it was year ago.

HEARD

Continued from the prior page
from manufacturers, and getting savings from scale.

But now the big European discounters are expanding in the U.S. **Lidl** launched on June 15 with six stores in North Carolina, just a few days after its key rival, Aldi, unveiled a five-year, $5 billion U.S. expansion plan.

These expansion efforts themselves don't need to succeed to force change. The threat alone will hasten the shift of U.S. grocery toward private label. "Embrace your own private brands before your shoppers embrace someone else's," was the primary piece of advice from consultants at Bain & Co. in a recent note on the discounter challenge for U.S. grocery executives.

Wal-Mart doesn't disclose the share of total sales coming from its own brands, but executives say it is rising. The company knows the trend well: Its subsidiary **Asda** has been one of the chief victims of the U.K. industry rout.

The more-upscale team of Amazon and Whole Foods will speed the push into private label. The tech giant has been plowing resources into its AmazonBasics range; the Whole Foods equivalent, 365 Everyday Value, anchors the grocer's new, compact store format, 365. Ever attuned to millennial trends, Silicon Valley has even thrown up an online retailer called Brandless that sells $3 health-conscious private-label goods.

The impact on traditional manufacturer brands is twofold. Volumes are likely to slip as retailers make shelf space for their own offerings. And retailers, in an ever fiercer competitive environment, can use the growth of their products as leverage to whittle down suppliers' fatter margins.

Some companies look less exposed than others. Those with big overseas operations, such as **Nestlé**, **Unilever** and Mondelez, or must-have brands, like Kraft Heinz, stand a better chance of seeing off the new competition than those with U.S.-centric portfolios or lots of third- or fourth-placed brands. Bernstein thinks Campbell's, Conagra, General Mills, Kellogg and Smucker's are all at risk.

European groups are rushing for the exit: Nestlé's U.S. candy bars, Unilever's margarines and **Reckitt Benckiser**'s U.S. food brands, including French's mustard, are all up for sale.

Shifting consumer tastes caught U.S. food companies off guard. The rise of private label will make it hard for them to fight back.

BUSINESS & FINANCE

In a Break From Form, Peltz Goes on the Offense

By David Benoit

Trian Fund Management LP doesn't wage proxy fights often, but when it does, it goes big.

The investor launched a campaign Monday to get cofounder Nelson Peltz elected to the board of **Procter & Gamble** Co. Worth $222 billion, P&G is the largest company to ever face such a campaign. Because of P&G's size, Trian's ability to win support from other investors will be in a particularly bright spotlight, and it will have to convince them that its brand of activism can help companies and not distract from work already being done. P&G rejected naming Mr. Peltz to the board and said in a statement it "is confident that the changes being made are producing results."

Typically, Trian has tried to avoid the perception it fights companies. It has branded itself as a "highly engaged shareholder," not an activist, but instead a sort of uber-adviser to executives and boards. It seeks a board seat at nearly all of its companies so that it can tap the "perfect information" only insiders have and can change the discussion about what is working and what isn't.

Trian's performance lately has lagged behind broader markets. A major Trian fund is up 1.5% in 2017 through the first week in July, according to an investor document, dragged down by a 15% slump in **General Electric** Co., and a recent drop in food distributor **Sysco** Corp. after **Amazon.com** Inc. announced its plan to buy **Whole Foods Market** Inc. The S&P 500 index, meanwhile, rose 9.3% through June and an index of activist funds tracked by HFR Inc. rose 4.2% in the same period.

Trian says its presence helps companies grow their earnings and stock price more than average. Of the boards Mr. Peltz has joined, the companies have averaged annual returns that beat the S&P 500 by 8.8 percentage points, Trian said in a presentation.

Trian's willingness to work with companies privately has often led it to negotiate its way onto the board instead of needing a fight. Since it started in 2005, it has only had two prior proxy fights—with H.J. Heinz Co. and DuPont Co.—and there were nearly 10 years between them.

In 2015, Trian ran a fight against DuPont. At the time, a win by Trian would have made DuPont the largest company ever to lose a shareholder vote, but it waged a successful countercampaign.

P&G seems ready to make a similar case to DuPont's: CEO David Taylor only started in November 2015 and has been moving to turn the gigantic organization. The board backs his plan, people familiar with the matter said.

—Rob Copeland contributed to this article.

P&G

Continued from the prior page
P&G has accomplished the most significant portfolio transformation in its history," the company said. "Today, P&G is a leaner, more agile, more accountable and more efficient organization."

The company also criticized Trian, arguing the hedge fund "has not provided any new or actionable ideas to drive additional value for P&G shareholders beyond the continued successful execution of the strategic plan that is in place."

Trian, in meetings with P&G Chief Executive David Taylor and other managers, offered no specific suggestions on how the company could better optimize cost savings, and was generally complimentary, according to people familiar with the situation. P&G ultimately saw no value in adding Mr. Peltz to the board, they said.

Mr. Peltz first spoke with Mr. Taylor on Feb. 16, two days after Trian disclosed its investment in the company. Over the next four months, Mr. Peltz spoke with executives and board members a number of times, according to a regulatory filing.

Among the discussions was an hourlong meeting on May 4 between Mr. Peltz and P&G's top 30 executives, moderated by Mr. Taylor. Later that month, Mr. Peltz told P&G that he didn't want to break up the company, a filing with the Securities and Exchange Commission said.

Throughout, Mr. Peltz maintained that P&G wasn't moving quickly enough and that a board seat would put him in better position to help the company execute its plans. On July 11, Mr. Taylor and P&G's lead director, Jim McNerney, "listened to Mr. Peltz's ideas, but did not agree to give him a Board seat," the filing said.

The activist isn't saying explicitly it wants more costs cut than the $10 billion P&G has targeted, and isn't giving specifics on how it would tackle the costs. But Trian is concerned about whether the goal will be hit.

Trian says years of P&G's underperformance in revenue and the stock market have raised questions about why the board should be given another year to execute without Mr. Peltz in the boardroom.

Central to Trian's case is the fate of roughly $3 billion of the $10 billion in P&G's previous cost reductions. P&G said the other $7 billion in savings were lost to currency fluctuations, which Trian doesn't dispute.

Trian is concerned about whether P&G can hit its cost-cutting targets.

Trian argues, however, that if P&G were operating efficiently, the $3 billion would have shown up in increased sales and profit growth, both of which have been stalled for years.

Trian is concerned the latest cost-cutting initiative "could be as ineffective as the 2012 productivity program in driving sales growth, earnings growth and shareholder creation," Trian said in a regulatory filing Monday.

In a presentation to investors last month, P&G finance chief Jon Moeller said that cost-cutting alone won't be enough to turn around years of sluggish sales. To drive faster revenue growth, the Cincinnati-based company also needs to reinvest savings to improve product formulations and packaging, sales coverage and advertising, among other areas.

In April, the company first detailed plans for the second round of cutting it announced last year. P&G took heat from Wall Street after initially unveiling the plan with scant details about where the savings would come from. The biggest reductions will be in cost-of-goods sold, with $4.5 billion coming from materials, $1.5 billion in manufacturing expense and $1 billion in transportation and warehousing savings. An additional $3.5 billion would come from cuts to marketing and trade spending.

—David Benoit contributed to this article.

SHAILESH ANDRADE/REUTERS

A Mahindra showroom in Mumbai. The auto maker plans to invest a further $1 billion in the U.S.

Mahindra Doubles U.S. Push

By Mike Spector

Mahindra & Mahindra Ltd. plans to double its bets in the U.S. over the next five years, spending $1 billion in an effort to strengthen the Indian company's brand as President Donald Trump pressures foreign and domestic companies to steer investments toward America.

"We believe in America," Chairman Anand Mahindra said Monday during a discussion with reporters and a separate interview with The Wall Street Journal in Midtown Manhattan. He played down Mr. Trump's rhetoric on trade, investment and immigration, pointing to encouraging business conditions in the U.S.

"For the moment, the cycle seems to be very much in favor" of a robust U.S. economy, Mr. Mahindra said. He added that he is "not the expert" on whether attractive economic conditions resulted from previous Obama administration policies or the current White House.

Mahindra's plan, which builds on $1 billion invested in the U.S. to date, would double the company's American employment to roughly 5,000 people, executives said. The Mumbai-based conglomerate, which executives refer to as a federation of independently run businesses, manufactures sport-utility vehicles and faces competition in its home market from established auto makers rushing to India.

Its efforts are also small when stacked against established auto makers. In the U.S., Toyota Motor Corp. plans to spend $10 billion over the next five years.

While its auto sales are far smaller in the U.S., Mahindra is ramping up more, recently establishing an engineering center outside Detroit and a nearby factory expected to start building a utility vehicle in October. Mahindra is currently bidding to replace the U.S. Postal Service's fleet of delivery trucks. Winning that contract would significantly add to Mahindra's $1 billion investment plan in the U.S., executives said.

DEBT

Continued from the prior page
time for Christmas. The company had planned to launch its new website ahead of Christmas 2016 but was forced to delay it to fully test the new platform.

On a conference call with analysts June 15, Chief Executive David Brandon said a clunky online registry tool and the lack of a subscription feature for parents to receive regular shipments of diapers and other products were holding back Toys "R" Us's baby business. "It's just one of a number of examples where we're limited in terms of how we can compete until we transition over to our new website," Mr. Brandon said.

Meanwhile, **Amazon.com** Inc. sold about $4 billion worth of toys last year, more than one-third of what Toys "R" Us sells, according to analytics firm One Click Retail. Amazon's toy sales were up 24%, compared with 5% for the overall market and five years of declines for Toys "R" Us.

For large retail chains, one of the few levers left to pull are store closures. "We're in a period where we're going to see indefinite top-line and gross-margin declines until there have been enough store closures," said Jenna Giannelli, a retail credit analyst at Citigroup. Store closures will likely continue for the next five years or so as leases expire, she said.

Toys "R" Us, which was taken private in 2005 in a $6.6 billion leveraged buyout by Bain Capital, KKR & Co. and Vornado Realty Trust, has swapped debt coming due this year and next for longer-term debt with a higher interest rate. Analysts expect it to do the same with another $400 million bond due next year, but that could be tough. On June 20, S&P Global Ratings lowered its outlook for the retailer, saying that if markets are nervous or the company's business gets worse, it might not be able to pay off that bond when it comes due.

Toys "R" Us declined to comment.

Macy's has been forced to rethink its strategy in other ways. In March 2015, Chief Financial Officer Karen Hoguet said the company "liked having control of our real estate." That November, Macy's announced it was exploring joint ventures for its four flagship properties. In 2016, it sold its men's store in San Francisco's Union Square, reached an agreement to sell its downtown Minneapolis store and began work on a plan to shrink its store on Chicago's State Street to make way for a buyer or joint-venture partner.

When Macy's laid out plans at its investor day two weeks ago for a revamped marketing strategy and greater focus on exclusive products, it warned that its 2017 gross-margin rate could be weaker than it had expected in February. It cited excess inventory and bigger discounting in the beauty business. As recently as November 2016, Macy's was touting lower inventory levels.

DANIEL ACKER/BLOOMBERG NEWS

Wal-Mart Stores bought Jet.com last August for $3.3 billion.


DISNEY/ASSOCIATED PRESS

A lawsuit filed by Rearden represents a challenge to Disney's ability to profit from its blockbuster 'Beauty and the Beast.'

Disney Is Sued Over Films

At issue are ownership rights to facial-capture technology used in several movies

By Ben Fritz

A lawsuit against **Walt Disney** Co. has roped the entertainment giant into a long-running legal dispute over ownership rights to a visual-effects technology, potentially threatening the company's ability to profit from the top-grossing movie so far this year.

Rearden LLC, a company controlled by Silicon Valley entrepreneur Steve Perlman, on Monday sued Disney in U.S. District Court in San Francisco, alleging copyright, patent and trademark infringement, stemming from Disney's use of a facial-capture technology in the March blockbuster "Beauty and the Beast," as well as 2014's "Guardians of the Galaxy" and 2015's "Avengers: Age of Ultron."

Rearden is seeking injunctions to stop Disney from selling or showing these movies until the two companies reach a deal. "Beauty and the Beast" has grossed $1.26 billion globally.

The dispute centers on a technology called MOVA Contour. In "Beauty and the Beast," it was used to turn actor Dan Stevens's facial performance into that of the beast. In "Guardians" and "Age of Ultron," it was used in the portrayal of the alien Thanos.

The lawsuit alleges Disney knew, or should have known, that Rearden—not Digital Domain, the visual-effects firm Disney paid for the work—had sole rights to MOVA.

Disney didn't respond to a request to comment.

Since 2015, Rearden has been fighting in court against companies affiliated with Digital Domain over MOVA.

Various studios have used the technology, with no resulting legal conflict, in films including "The Curious Case of Benjamin Button," "Gravity" and Disney's "Tron: Legacy." Mr. Perlman has alleged a former employee stole the technology and unlawfully sold it to the Digital Domain-affiliated companies.

In June, a federal judge issued a preliminary injunction preventing Digital Domain from continuing to use MOVA. A trial in the case was held in December, and a ruling is pending.

Digital Domain declined to comment.

MOVA was launched to much fanfare in 2006 by Mr. Perlman, a former Apple Inc. executive best known for selling WebTV to Microsoft Corp. in 1997. The system, which translates an actor's movements to a digital character, won a science and technology Academy Award in 2015.

In the lawsuit filed Monday, Rearden alleges that Disney should have known the technology didn't belong to Digital Domain because in 2013, its movie studio considered acquiring the technology from the former employee.

At the time, Rearden sent a letter stating that it owned the technology and Disney dropped out of the bidding as a result, according to testimony from the former employee. In addition, the lawsuit alleges, Disney previously contracted directly with Rearden to use MOVA on four films released in 2010 to 2012.

In addition to the injunctions, Rearden is seeking orders to destroy all infringing copies of "Guardians of the Galaxy," "Avengers: Age of Ultron" and "Beauty and the Beast" and is asking for financial damages.

Lockheed Gets Lift From F-35 Sales

By Doug Cameron And Ezequiel Minaya

Lockheed Martin Corp. boosted its full-year profit guidance on rising sales of its F-35 combat jet and the prospect of higher military spending at home and overseas.

The world's largest defense company by sales also reported forecast-beating quarterly profits on Tuesday and continued a stock buyback program that has lifted its shares into record territory.

Investors expect Lockheed Martin to be a key beneficiary of President Donald Trump's plans to boost military spending over the next several years, while heightened tensions in Europe, the Middle East and parts of Asia are also driving sales of the company's missiles and defense systems.

Marillyn Hewson, chief executive, said the company remains focused on growth, though sales next year are expected to be at the low end of its guidance for annual revenue to grow at between 3% and 5%. International sales already account for 27% of total revenue, which could rise if Lockheed succeeds in a bid to shift production of its F-16 fighter jet to India in return for an order for as many as 100 aircraft. U.S. production of the plane is due to end later this year.

The F-35 is central to Lockheed's growth, already delivering almost one-quarter of the company's sales, and profit continues to rise despite a high-profile effort to reduce the cost of the Pentagon's most expensive weapons program.

Sales in Lockheed's aeronautics business, which includes the F-35, rose almost 20% in the second quarter compared with the prior year as it delivered 14 of the jets and sold more support services. Lockheed last month secured a $5.6 billion deal to support production of the next batch of jets and is also eyeing a follow-on sale of more than 400 aircraft that would potentially be the largest single arms deal in history.

Its shares were up nearly 1% at $291.30 Tuesday morning.

While operating profit rose in the quarter ended June 25, a higher tax charge reduced net profit to $942 million from $1.02 billion the year earlier, with per-share earnings dipping to $3.23 from $3.32. Revenue rose 9.6% to $12.69 billion.


ERIC PIERMONT/AGENCE FRANCE-PRESSE/GETTY IMAGES

Lockheed Martin delivered 14 F-35 jets in the second quarter.

AMC Denies It Got Dalian Aid

By Wayne Ma

BEIJING—**AMC Entertainment Holdings** Inc. said Tuesday it never got financial help from Chinese parent company **Dalian Wanda Group** for the acquisitions of four cinema chains in the U.S. and Europe.

The movie exhibitor said in a written statement that its acquisitions of Starplex Cinemas, **Odeon & UCI Cinemas Holdings** Ltd., **Carmike Cinemas** Inc. and **Nordic Cinema Group Holding** AB over the past two years came from a combination of U.S. bank loans and cash.

Wanda and mainland China-based banks have never been a source of funding for AMC, the Kansas City, Mo., theater chain said, adding that Wanda never gave financial guarantees or provided credit enhancements.

AMC's statement comes after Chinese regulators met with executives at China's big state-owned lenders June 20 and advised them that six of Wanda's recent foreign transactions were at odds with government capital restrictions enacted last year, according to a document from one of the participating banks that was reviewed by The Wall Street Journal.

Among the six were AMC's deals for Odeon, Carmike and Nordic, which had already been completed, according to the document and a person familiar with the matter. AMC paid a combined $2.5 billion, including debt, for the three companies.

AMC's shares fell 11% on Monday after the document was widely reported. Its shares were up 2% at midday Tuesday after it denied receiving financial assistance from Wanda or Chinese banks for any of the deals.

Wanda bought AMC for $2.6 billion in 2012. Since then, the U.S. theater chain has been growing mainly through acquisitions and is now the world's largest theater chain.

UAW Takes Aim at Nissan Plant

By Christina Rogers

The United Auto Workers union is stepping up efforts to represent workers at a Japanese auto factory in Mississippi, its most visible organizing drive since President Donald Trump won the election and breathed new life into the Buy American movement.

The UAW, long pushing an America-first agenda that aligns with Mr. Trump's stance on free trade, will stage a vote at **Nissan Motor** Co.'s plant in Canton, Miss., the first week of August. The 82-year-old union has attempted to organize workers at foreign-owned assembly plants for decades, but has largely struck out.

ROGELIO V. SOLIS/ASSOCIATED PRESS

UAW President Dennis Williams at a rally near the plant in March.

The UAW won a deal with Nissan this week that allows about 4,000 full-time plant workers to participate in the vote. It needs a majority of those casting ballots to win representation.

Union officials have unsuccessfully targeted Nissan in the past, including the company's facility in Tennessee that currently operates as the largest assembly plant in the U.S. in terms of output, according to WardsAuto.com. Nissan has long maintained union representation isn't the best route for its employees, arguing that its workers in Mississippi already receive some of the best wages and benefits in the state.

"It is ultimately up to the employees to decide," Rodney Francis, the plant's human-resources director, said in a written statement. "Given the UAW's history of strikes, layoffs and plant closures, it is clear that their presence could be harmful."

The UAW represents hundreds of thousands of auto workers, including the bulk of assembly workers at U.S. plants run by **Ford Motor** Co., **General Motors** Co. and **Fiat Chrysler Automobile** NV. Once far surpassing a million members, the union has shrunk as the American auto industry has restructured.

The UAW has spent years on the ground in Mississippi, staging demonstrations outside the factory and enlisting the help of local civic leaders, in an attempt to drum up support among workers. Union officials have charged Nissan is violating workers' rights by blocking organizing efforts and has criticized the auto maker for what the UAW says is a liberal use of temporary workers who don't get the same benefits and job security of permanent employment.

"The company is running one of the most aggressive anti-worker campaigns that we've seen in modern U.S. history," UAW Secretary-Treasurer Gary Casteel said in a written statement.

Netflix Beats Subscriber Target

Revenue rises 32% amid popularity of streaming giant's slate of original programs

By Austen Hufford

NETFLIX/EVERETT COLLECTION

Major content investments in programs like 'The Crown' have fueled subscription growth. Netflix added 5.2 million users in the quarter.

Netflix Inc. blew through its subscriber-growth estimate in the second quarter, showing that its big bets on original programming and international expansion are paying off, even as the streaming market gets more crowded.

The Los Gatos, Calif., company ended the quarter with nearly 104 million subscribers globally. It added 5.2 million users in total, far more than the 3.2 million it had projected, as well as Wall Street's estimate of 3.5 million net additions.

Revenue jumped 32% to $2.79 billion, while the company's operating profit margin globally was 4.6%, down from 9.7% in the first quarter.

Netflix has indicated to Wall Street it would like to be judged primarily based on its revenue and global operating-profit margins, as opposed to metrics such as its subscriber additions. But many investors have remained focused on subscriber growth as a proxy for long-term financial health.

Netflix shares have risen 30% this year and were up 10% in aftermarket trading on Monday.

The latest results underscored just how unpredictable Netflix's quarterly reports are becoming. The company is still trying to understand the precise mix of factors that propel fantastic results and those that bring about disappointing ones. One question for Wall Street will be whether the surge in the second quarter was related to specific show releases, or was a sign of underlying momentum.

In a letter to shareholders, Netflix said it underestimated the popularity of its growing slate of programming, which led to higher-than-expected subscription growth across its major markets. This year, Netflix programs got 91 Emmy Award nominations, up from 54 in 2016, according to Cantor Fitzgerald, including best -drama nods for "Stranger Things," "The Crown" and "House of Cards."

On a video chat with an analyst, Netflix Chief Executive Reed Hastings said the company is reaping the dividends of its big content investments.

"When we produce an amazing show like 'Stranger Things,' that's a lot of capital upfront, and then you get a payout over many years," he said. "And seeing the positive returns on that for the business as a whole is what makes us comfortable that we should continue to invest."

The company said it now has $15.7 billion in streaming-content obligations, a measure of current and future costs for content acquisition, licensing and production, up from $13.2 billion in the same quarter last year.

Netflix added 4.14 million international subscribers in the quarter, well above its guidance of 2.6 million. It added 1.07 million U.S. subscribers, compared with its target of 600,000.

The company said the sequential increase in new subscribers to 5.2 million in the second quarter from 5 million in the first quarter went against historic seasonal trends.

Netflix expects to keep up strong momentum in the third quarter, projecting 4.4 million subscriber additions, but warned that it has over-forecast in the past, and that some subscriber growth could have been pulled forward into the second quarter.

The strong growth comes as competition is intensifying in the streaming market. In the U.S., Netflix is battling for wallet-share against rivals **Amazon.com** Inc. and **Hulu**, as well as "skinny" bundles like Sling TV and YouTube TV that hope to be substitutes for cable. Internationally, Netflix has to contend with dozens of local rivals. Netflix also competes against the biggest TV channels and studios for original programming.

Netflix posted a second-quarter profit of $66 million, or 15 cents a share, compared with a profit of $41 million, or 9 cents a share, in the same quarter last year.

Analysts surveyed by Thomson Reuters had projected earnings of 16 cents a share on $2.76 billion in revenue.

As with many tech giants in recent years, investors are more concerned with Netflix's growth potential than its current earnings. Shares are priced at more than 200 times earnings.

The streaming-video company said that a majority of its subscribers are now international, and that it expects the international unit to post its first-ever annual profit this year. International customers accounted for under one-quarter of the total in 2013.

Netflix has been pursuing global expansion as its core U.S. market matures and as it works to offset growing content costs and original programming investments.

Following a battery of launches last year, Netflix said it serves customers in more than 190 countries. The one big market where the service isn't available is China. Netflix has acknowledged that gaining a foothold there has been difficult. In April, Netflix said it reached a licensing deal with **Baidu** Inc.'s Chinese video-streaming platform iQiyi to show its original content in China.

Ruling Narrows Scope of Google Pay Disclosure

By Douglas MacMillan And Jack Nicas

Google won't need to turn over an entire set of employee compensation data to federal auditors, dealing a setback to the Labor Department's effort to prove the internet company is underpaying women.

An administrative law judge on Friday denied the federal government's request for 19 years of pay data on 21,000 Google employees, ruling the inquiry is overly broad and intrusive of employee privacy.

The decision, which isn't final, could be a partial victory for the **Alphabet** Inc. unit, which has resisted the agency's effort to investigate a possible gender pay gap in its workforce.

The Labor Department sued Google for salary data earlier this year as part of a routine audit into whether Google complies with laws barring federal contractors from discriminating against employees. Labor Department official Janette Wipper testified in April that an initial review of 2015 Google data "found systemic compensation disparities against women pretty much across the entire workforce."

In his recommended decision and ruling, Steven B. Berlin, an administrative judge in San Francisco, said the federal agency failed to offer credible evidence of any pay disparity in its request for data. He did, however, ask Google to give the Labor Department a smaller set of pay data for as many as 8,000 employees dating to 2014. The government could appeal the decision.

In a blog post on Sunday, Google welcomed the judge's decision, saying that its own analysis of its compensation practices doesn't reveal a gender pay gap.

"While we're pleased with Friday's recommended decision, we remain committed to treating, and paying, people fairly and without bias with regard to factors like gender or race," Eileen Naughton, the company's vice president of people operations, said in the blog post.

The department can investigate Google because the company provides advertising and cloud services for the federal government.

The Labor Department's regional solicitor for San Francisco, Janet Herold, said in an emailed statement the decision vindicates her office's "vigorous enforcement of the disclosure and antidiscrimination obligations federal contractors voluntarily accept in exchange for taxpayer funds."

The agency will continue to investigate Google's pay practices and decide whether to bring charges against the company based on the data it has.

Google also has denied requests from activist investors to disclose the percentage of female pay to male pay.

Freight-Services Startup Adds Warehouse

By Erica E. Phillips

TIM RUE/BLOOMBERG NEWS

The Port of Los Angeles. Flexport's warehouse will be near the ports of Los Angeles and Long Beach.

Freight-services startup **Flexport** Inc. is stepping off the cloud and into the real world.

The San Francisco-based company, which helps customers arrange freight shipments online, will open its first warehouse on Aug. 1 near the ports of Los Angeles and Long Beach. Flexport is adding a physical footprint in an attempt to crack the roughly $400 billion freight-forwarding market. Analysts say the warehouses will allow the company to offer a wider range of services like a traditional forwarder, a key hurdle for the firm to gain market share.

Flexport's software allows shippers to arrange transportation, clear customs and arrange other services via a website, which the company says it can do faster and cheaper than established forwarders performing the same tasks by phone or email.

The 100,000-square-foot facility in Buena Park, Calif., along with others planned in Hong Kong and mainland China, will allow Flexport to handle customers' cargo directly.

Flexport is among the biggest of a group of startups attempting to digitize various aspects of logistics, including booking transportation and finding warehouse space. The biggest forwarders, including **Deutsche Post** AG's DHL and **Keuhne + Nagel**, are working on technology of their own, however. They also own warehouses and other physical assets around the world that provide storage and speed the movement of cargo through ports and onto the next legs of their journeys. Startups like Flexport account for less than 5% of the market.

"It's a logical step for [Flexport] as well as for any other startups looking to disrupt this market,'" said Cathy Roberson, a shipping industry analyst. "Right now a lot of those startups are nothing more but marketplaces where all you can do is compare rates, book freight, manage documents and so on. It's time for them to start differentiating themselves."

A third-party logistics firm, Biagi Bros., will operate Flexport's new Southern California warehouse with a handful of Flexport staff. The firm has plans to open two other similar warehouses soon in Hong Kong and Shenzhen—locations selected to expand Flexport's freight services on the lucrative trans-Pacific route.

Flexport founder and Chief Executive Ryan Petersen said the California facility will be a testing ground for a platform the firm is developing that would allow customers to track and sell products that are already in transit, relabeling and reshipping individual pallets from the warehouse—a capability most freight forwarders can't currently offer their customers.

Ad-Tech Firm Sizmek to Acquire Rocket Fuel for $125.5 Million

By Lara O'Reilly

Sizmek, an advertising-technology company owned by private-equity firm **Vector Capital**, agreed to acquire public ad-tech company **Rocket Fuel** Inc. for $125.5 million, or $2.60 a share, the companies said Tuesday.

Including assumption of debt, the deal values Rocket Fuel at approximately $145 million.

Rocket Fuel shares closed at $2.69 Monday. The deal includes a 30-day "go-shop" period, in which Rocket Fuel will solicit and potentially enter into alternative proposals from third parties.

"The board unanimously approved this transaction and we encourage our stockholders to follow that recommendation and tender their shares," Rocket Fuel CEO Randy Wootton said in an email.

The deal price shows how Rocket Fuel, one of ad tech's high-profile players, has fallen from its lofty position a few years ago. The company's stock traded as high as $66 in its first month as a public company in 2013 and its market valuation peaked at around $2 billion.

Sizmek provides advertising buyers with tools to purchase digital ad space, optimize what their ads look like and manage their data for ad-targeting purposes. Rocket Fuel also has data-management capabilities and offers a demand-side "predictive marketing" platform that it says uses artificial intelligence to help marketers place their ads efficiently.

The two companies plan to combine their technology and scale in the hope of providing ad buyers with an alternative to Alphabet Inc.'s Google and Facebook Inc., as well as other ad-tech vendors. Together, they will serve more than 20,000 advertisers and 3,600 ad agencies, the companies said.

The acquisition will mark the latest in a wave of consolidation for the ad-tech sector, which has seen private-equity firms and companies in the media, cloud-computing and telecommunications industries swoop in as buyers.

The majority of pure-play ad-tech firms have had a rough ride on the public markets, struggling to convince investors of their potential, largely thanks to the dominance of Google and Facebook in the digital-advertising market. Combined, the two firms collect 77 cents of each new dollar spent on digital advertising in the U.S., according to research firm eMarketer.

Excluding the sector's star performers, Criteo and The Trade Desk, ad-tech stocks were down an average of 7% in the three-month period ended June 6, according to data from investment bank Luma Partners.

But Rocket Fuel's share price began a precipitous decline in 2014. In May of that year, the Financial Times published a report alleging ads Rocket Fuel bought on behalf of its client Mercedes-Benz had been viewed by more bots than humans.

Rocket Fuel denied the allegation, saying only 6% of the ads served were questionable.

The following year, the company announced layoffs and changes in management.

Rocket Fuel's net loss, adjusted for depreciation and amortization, is expected to be between $4 million and $3 million in the second quarter of this year and full-year results "will be below current analysts' estimates," according to Mr. Wootton, who became CEO in November 2015.

JOHN LAMPARSKI/GETTY IMAGES FOR ADVERTISING WEEK NEW YORK

Sizmek provides ad buyers with tools to purchase digital space. The firm's pizza truck for Advertising Week last year in New York.

Interns Get Paid Less Than You Think

By Kelsey Gee

It pays to take an internship—but not a lot.

Average pay for college interns climbed to $18.06 per hour this year, but that is less than their predecessors earned in 2010, when wages are adjusted for inflation, according to a survey of paid positions released earlier this month from the **National Association of Colleges and Employers**.

With competition for entry-level labor increasing, economists offer multiple explanations for the sluggish rebound.

One theory is tied to the growing share of internships that are paid, in a market where more than half of all positions were unpaid just a few years ago, according to a separate survey by the Collegiate Employment Research Institute at Michigan State University.

After a string of lawsuits by unpaid interns, more employers are paying their interns for reasons of "liability protection and competing for good talent—and therefore they are pulling together the funds to pay their interns, even if it is minimum wage," said Andrew Crain, a talent acquisition specialist at the University of Georgia in Athens.

Those new, lower wages may be driving down the average, he said. Less than 30% of the university's students took unpaid internships in the fall of 2016, compared with more than 50% in 2010.

Employers holding intern wages stagnant in the face of inflation may also drag average pay lower, said Phil Gardner, director of the Collegiate Employment Research Institute.

Interns in some fields aren't hurting for cash, though. From 2011 to 2016, pay for software engineering interns in the San Francisco area climbed 15% to $6,250 a month, or roughly $39 per hour, according to an analysis by career website Glassdoor. That is more than double the 6% climb in average paid-intern wages nationally over that period, not adjusted for inflation, according to pay levels tracked by the National Association of Colleges and Employers.

Over the same period, wages remained flat at around $13 per hour for students studying communications and humanities, who are also more likely to take unpaid positions, according to the survey published by the research institute at Michigan State.

Things may improve once those interns take full-time jobs. College graduates who accept regular full-time jobs this year are earning an average starting salary of $49,785—the highest in at least a decade, according to an analysis released in May of about 145,000 entry-level positions by executive search firm Korn/Ferry International.

Balancing Religion and the Office

Broader array of faiths emerges in U.S. workforce, creating challenges for managers and employees

By Francesca Fontana

JUSTIN L. STEWART FOR THE WALL STREET JOURNAL (2)

Accenture's Nazneen Nathani visits a designated prayer room, above, at the firm's Los Angeles office each workday. Below, at her desk.

French oil company **Total** SA recently sent its 96,000 employees an unusual corporate missive: a comprehensive guide to religion at work.

Intended as a practical tool for managers and employees, its 80-plus pages cover everything from the basic tenets of major religions to whether bosses must provide halal food during company meals.

Few if any U.S. companies have gone as far as Total, but religious issues are cropping up more often in the workplace, resulting in lawsuits and complicated questions of faith on the job. At a time when many managers encourage employees to "bring their whole selves to work" and celebrate their individual identities, religious identity has proved tougher to navigate, managers and experts say.

When it comes to faith, most companies "stay as far away as they can," for fear of making a wrong—or unlawful—move, said Deb Dagit, former chief diversity officer at drugmaker **Merck** & Co. Ms. Dagit now runs her own consulting group.

Religious discrimination complaints filed with the U.S. Equal Employment Opportunity Commission increased 50% from 2006 to 2016. While religious discrimination comprises a relatively small portion of EEOC complaints, the rise reflects an ever more multicultural workforce with a wider array of religious faiths, said Mark Fowler, deputy chief executive of Tanenbaum, a nonprofit that works to eliminate religious prejudice.

At 92 pages, the English-language version of Total's guide offers few firm rules but states that employees' religious practices, such as prayer, should generally be respected and accommodated. Employees aren't required to read the document, which is available to those who are "curious," said a company spokeswoman.

Total created the guide to aid managers and employees who "may have questions or doubts on this topic, working with people who might not eat, dress or pray the same," said the spokeswoman.

U.S. companies often fail to address employee faith until problems arise, said Philadelphia-based employment attorney Jonathan Segal of Duane Morris LLP. Companies cannot ban religious expression outright, and U.S. Title VII requires employers to accommodate religious expression so long as it doesn't cause undue hardship on the company or workforce.

"Employees don't shed their religious rights when they walk in the door," Mr. Segal said. "It's a balance." For instance, he said, a receptionist's request to keep a Bible at the front desk may be treated differently than an employee's request to keep one in an office, away from public view.

Failing to strike that balance can put companies into hot water. After turning down a Muslim job applicant because her head scarf violated dress codes for retail employees, Abercrombie & Fitch Co. lost a discrimination case that went to the U.S. Supreme Court in 2015.

In a statement, Abercrombie said that it had "granted numerous religious accommodations when requested, including hijabs" and "remains focused on ensuring the company has an open-minded and tolerant workplace environment for all current and future store associates."

In December 2015, Cargill Inc. fired more than 100 Muslim workers from a meatpacking plant in Fort Morgan, Colo., in the midst of a dispute over whether they could take prayer breaks at work. The workers, mostly from Somalia, filed complaints with the EEOC and were deemed eligible for unemployment benefits by Colorado's labor department in 2016.

At the time, the Council of American-Islamic Relations said the company told workers prayer breaks were no longer allowed, while a Cargill spokesman said that no changes had been made to the company's religious-accommodation policies.

Tensions are being felt across the spectrum of faiths. A 2013 Tanenbaum survey of 2,024 workers showed that white evangelicals were equally as likely as non-Christians to say they felt their faiths weren't respected at work, and 28% of workers said discrimination against Christians is as serious an issue as discrimination against religious minorities.

Religion is often missing from conversations about corporate diversity policies, said Ms. Dagit.

Tanenbaum's survey found that workers at companies with religious nondiscrimination policies were less likely to say they were seeking a new job. And, those with access to flexible hours for religious observance were more than twice as likely to say they look forward to coming to work.

Each afternoon at work, Nazneen Nathani, an associate manager at consulting firm Accenture PLC, stops in a designated prayer room in her Los Angeles office. A Shiite Muslim, she prays as many as five times daily, but just once at the office.

"It's not an easy time to be a Muslim in America," said Ms. Nathani, a 14-year company veteran who works in risk management and quality. The accommodations "show me that I'm valued, and not just for my contributions as an employee, but also for who I am underneath all of that."

—Neanda Salvaterra contributed to this article.

BUSINESS WATCH

JOHNSON & JOHNSON

Drug Giant Raises Guidance for 2017

Johnson & Johnson raised its sales and profit outlook for the year even as the health-care giant's second-quarter pharmaceutical revenue declined amid steeper competition for some of its key drugs.

Chief Executive Alex Gorsky said the company expects sales and earnings to accelerate in the second half of the year, as J&J incorporates two key acquisitions and launches new products. The New Brunswick, N.J., company now expects adjusted earnings for the year of $7.12 to $7.22 a share, up from $7 to $7.15. And it expects sales of $75.8 billion to $76.1 billion, up from $75.4 billion to $76.1 billion.

Overall revenue in J&J's pharmaceutical business, the company's largest, edged 0.2% lower to $8.64 billion.

In all for the quarter, J&J earned $3.83 billion, or $1.40 a share, down from $4 billion, or $1.43 a share, a year earlier. Revenue rose 1.9% to $18.84 billion. Excluding certain items, adjusted earnings were $1.83 a share.

—Jonathan D. Rockoff and Anne Steele

TESLA

Murdoch, Rice Are Named to Board

Tesla Inc., which has faced criticism from its investors about a lack of independent directors, named 21st Century Fox Inc. Chief Executive James Murdoch and Ebony Media CEO Linda Johnson Rice to its board.

The appointments announced Monday expand Tesla's board to nine people, including the Silicon Valley auto maker's chief executive, Elon Musk.

In April, Mr. Musk suggested Tesla would appoint two additional directors when he responded on Twitter to a group of investors, including the California State Teachers' Retirement System, that were calling for improved corporate governance.

Mr. Murdoch is the son of Rupert Murdoch, executive chairman of Fox and **News Corp**, publisher of The Wall Street Journal. James Murdoch, who also serves on the board of News Corp and is the chairman of Sky PLC, succeeded his father as CEO of Fox in 2015.

Ms. Rice, who had been chairman emeritus of Ebony Media Holdings, returned to run the holding company that includes Ebony magazine earlier this year after selling the family-owned Johnson Publishing last year. She has been active on other boards, including as a director for Omnicom Group Inc. since 2000 and GrubHub Inc. She becomes Tesla's second female director.

Besides Mr. Musk, who is chairman, Tesla's board includes his brother; a former top executive for SolarCity Corp., where Mr. Musk has served as chairman; two longtime venture-capital investors in Tesla; a private-equity investor and a telecommunications executive.

—Tim Higgins

Bank of America Results Lifted by Rates

Fed's increases help quarterly earnings jump 10%, but trading revenue declines

BY RACHEL LOUISE ENSIGN

Bank of America Corp. said its second-quarter profit climbed 10% as the bank continued to pocket gains from Federal Reserve rate increases.

Quarterly profit at the Charlotte, N.C.-based bank was $5.27 billion, compared with $4.78 billion a year ago. Per share, earnings of 46 cents beat the 43 cents a share that analysts expected.

Revenue was $22.83 billion, up from $21.29 billion a year ago. On an adjusted basis, revenue was $23.07 billion, compared with analysts' expectations of $21.78 billion.

BofA's large base of U.S. deposits and rate-sensitive mortgage securities makes it particularly poised to benefit from an uptick in rates, which recently started rising after years of record lows. But declining long-term bond yields and other factors meant the second quarter was a mixed bag for net interest income, a key measure of lending profits.

On one hand, net interest income rose 8.6% from the year-ago period to $10.99 billion. The lender was able to keep most of the benefit from rising short-term rates because it hasn't faced competitive pressure to increase deposit rates for customers.

The rates the bank is paying depositors are "amazingly low,"

CHRISTOPHER DILTS/BLOOMBERG NEWS

The quarter was a mixed bag for the bank's net interest income.

said Glenn Schorr, a bank analyst at Evercore ISI. Analysts have attributed depositors' reluctance to chase higher yields at other banks to a variety of factors, including the convenience of BofA's large branch network and digital capabilities.

But when compared with the first quarter of 2017, the bank's net interest income was less impressive. The metric, which BofA initially said would rise about $150 million, fell $72 million. In May, the lender said the sale of a business and a reversal in long-term bond yields would eliminate most of that projected gain.

On Tuesday, bank executives said they expected net-interest income to rise in the third quarter from the second quarter. But they declined to specify by how much.

The banks shares were 1.3% lower in early afternoon trading. Still, BofA shares are up more than 40% since the November election. The initial share-price gains after Donald Trump's surprise victory have been sustained as the lighter regulatory touch investors hoped for has started to materialize. In late June, BofA got Fed approval for a large increase in its dividend and stock buybacks.

The lender, the second largest U.S. bank by assets, faced challenges in the second quarter. Trading revenue, excluding an accounting adjustment, fell 9% to $3.37 billion from $3.7 billion a year earlier. The drop was, however, less than some analysts predicted.

Loans were up 1.5% from a year earlier. Loan growth has slowed across the banking industry, though there is debate about whether that was caused by borrowers' reluctance or lenders hoarding capital to meet regulatory requirements.

Quarterly expenses rose 1.7% to $13.73 billion, from $13.49 billion a year ago. Chief Executive Brian Moynihan has made cost-cutting a key tenet of his business strategy.

STREETWISE | By James Mackintosh

Artificial Intelligence Will Not Take Over Wall Street

Ten years ago, computer-driven traders pulled the plug after their algorithms ran amok, leading to billions in losses and the eventual closure of **Goldman Sachs Group** Inc.'s flagship quantitative fund.

A decade on, artificial intelligence, or AI, and machine learning are the buzzwords in automated investment. But for all the hype, applying AI to investment has three serious problems: It works too well, it is often impossible to understand, and it only knows about recent history. Worse, it will be self-defeating if it proves popular, as algorithms face off against each other in the market.

Machine-learning systems are now really good at spotting patterns. Unfortunately, computers are just too good and frequently find patterns that aren't really there.

Michael Kollo, chief strategist at Axa IM Rosenberg Equities, points to the neural network—a type of AI loosely modeled on brains—developed by three University of Washington researchers to distinguish between pictures of wolves and dogs by associating wolves with snow.

"It can easily identify something of an intransigent nature and learn one rule from it," he says. Train an AI on the last 35 years of markets, and it might well develop a single simple rule: Buy bonds. With 10-year Treasury yields down from 13.7% in July 1982 to 2.27% midday Tuesday, it worked beautifully in hindsight, but yields can't possibly fall that much again in the next 35 years.

In the industry, spotting patterns that don't repeat is known as "overfitting"—picking up on the irrelevant snow in the picture of a wolf or chance patterns in past stock prices that bear no relation to the future.

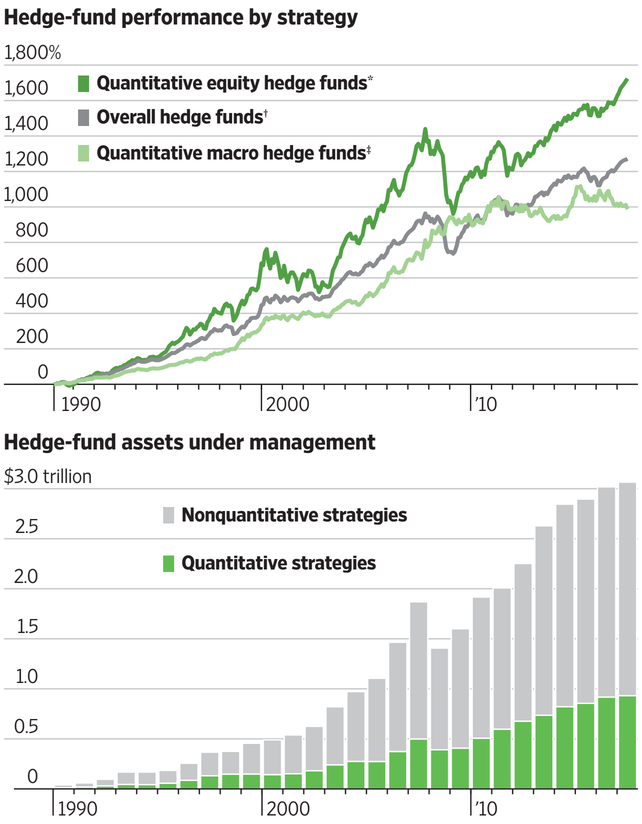
David Harding, founder of hedge fund **Winton Group**, says finding ways to avoid such fake patterns is at the core of computer-driven investment. "Avoiding overfitting is a state of mind," he says. "It's the same thing as avoiding wishful thinking."

Anthony Ledford, chief scientist at quant fund Man AHL, says more advanced machine learning systems sometimes prove less useful, too. "The more complicated your model the better it is at explaining the data you use for the training and the less good it is about explaining the data in the future," he says. A model needs to accept that much that goes on in markets is meaningless noise and to try to pick out broader signals, even if it leaves some moves in past data unexplained.

Many quantitative investors try to avoid overfitting by insisting that any rule they adopt should have an economic or behavioral rationale. If the computer finds that every third Wednesday when it rains in Kansas the stocks of oil companies listed in Paris go up, betting on it happening in the future would be no more than a leap of faith.

Quant Funds Add Up

Computer-driven hedge funds have done well after a difficult time during the financial crisis, and they have continued to attract new money from investors in the past year.



*HFRI Equity Hedge: Quantitative Directional Index
†HFRI Fund Weighted Composite Index ‡HFRI Macro: Systematic Diversified Index

Source: HFR Inc.

THE WALL STREET JOURNAL.

Unfortunately, explaining why a system with thousands of inputs made a decision can be all but impossible and is such a serious problem that America's defense research agency is financing a program to try to produce AI that explains itself.

The lack of transparency means the most advanced systems tend to be run on a tentative basis, with only a small amount of money or with human oversight of the recommendations.

Charles Ellis is typical. He joined **Mediolanum Asset Management** in Dublin in November to develop machine-learning systems, with the first up and running providing recommendations for sectors. Given 20 years of data on 1,500 variables related to U.S. stocks, it uses a machine-learning system known as random forest regression to try to avoid overfitting, and early results are good, he says. It is being used only for a small part of the $20 billion portfolio, with final decisions still made by fund managers. A second system designed to try to predict the economic cycle is currently bullish.

The drawback of the random forest method is that it is hard to understand why the computer reached any particular decision.

"It's a little bit of a black box in that you don't know why [the input]'s having that effect," he says.

Mr. Kollo says it will be hard to avoid shutting down a system when it loses money if it isn't properly understood.

"All things go wrong eventually, every algorithm has a bad day," he says. "The difference between those that survive and don't is those that can explain what they do."

Some investors don't care about the lack of transparency. Jeffrey Tarrant, whose **Protégé Partners** invests in hedge funds, says it "doesn't bother me at all." He's invested in six funds that use AI methods—typically combined with unusual data sources—and whose managers come from nonstandard backgrounds. He estimates there are 75 funds that say they use AI, but thinks only 25 really do.

Investors who have long managed money using computers are scornful of the latest fashion for AI.

"Thirty years of being treated like an idiot for saying you can manage money with computers, and now they come along and say you can manage money with computers," scoffs Mr. Harding at Winton.

His application of a form of machine learning to moving averages of futures prices helped him become a billionaire. His team treats machine learning as just another statistical technique to spot market anomalies.

Sushil Wadhwani used machine learning when head of systems trading at hedge fund Tudor two decades ago, and now runs his own automated fund using machine learning but overrides the systems occasionally. In 2008, he turned off the European bond analysis because it had learned that spreads between the best and worst eurozone bonds didn't depend on economic fundamentals, after years of evidence. As the banking system imploded, he knew this no longer applied.

"It would be very difficult for a machine to learn that unless it knew it should be looking at the 1930s," he says.

High-frequency systems may get enough examples of changes in trading to run on their own, but can't deploy much capital. Applying machine learning to longer-term investment is tricky when many of the new data sets being deployed only go back a decade or two. Computers with no knowledge of history are doomed to repeat its mistakes.

Oil Rises Amid Dollar's Fall

BY TIMOTHY PUKO

Oil prices rallied back toward six-week highs Tuesday on a slate of factors, including a falling dollar and more momentum behind the idea that the worst of a longstanding glut might be past.

U.S. crude for August delivery was up 19 cents, or 0.4%, at $46.21 a barrel on the New York Mercantile Exchange at midday. Brent, the global benchmark, was up 24 cents, or 0.5%, at $48.66 a barrel on ICE Futures Europe.

It would be the 15th gain in 18 sessions for U.S. oil, a period that includes its longest winning streak in seven years. Gains on Tuesday were nearly canceling out a rare retreat from Monday, and intraday prices peaked within 40 cents of a high that dates to June 7.

Meanwhile, Ecuador has broken ranks with fellow members of the Organization of the Petroleum Exporting Countries. The South American country's energy minister, Carlos Perez, said the nation could no longer hold up its end of an agreement to cut oil output.

Ecuador is among OPEC's smallest producing countries, but the news is a symbolic setback for the 14-nation cartel, which has tried to juice the oil market by withholding oil supplies. OPEC's production cuts have so far failed to raise oil prices, which remain stuck at or below levels in November, when the group struck its original agreement.


GUILLERMO GRANJA/REUTERS

An oil-drilling rig in Ecuador, which has broken ranks with OPEC.

While oil is still nowhere near the $60 that many predicted for this time of year, analysts are saying that the reversal in recent weeks could be a turning point bouncing off a new floor for prices. The International Energy Agency said last week it is expecting global demand to rise faster than expected, and there are signs exports and oversupply from some of the world's biggest producers are easing.

"The market is undergoing a positive psychological shift, with sentiment turning bullish as diminishing supplies and peak U.S. production take hold," Peter Cardillo, chief market economist at First Standard Financial in New York, said in a note.

Brokers cited the dollar as another factor Tuesday after it fell sharply. That often raises the price of oil and other commodities traded in dollars by making them less expensive for traders who use other currencies. The Wall Street Journal Dollar Index, which tracks the dollar against a basket of other currencies, was off 0.5% at midday amid new doubts about President Donald Trump's ability to pass a constructive agenda.

S&P Global Platts estimates U.S. commercial crude stocks fell by three million barrels last week, and gasoline and distillates to have fallen by 500,000 and 700,000 barrels, respectively. A drop in crude stocks would be the 12th decline in the past 14 weeks.

—Benoit Faucon, Sarah McFarlane and Jenny W. Hsu contributed to this article.

MARK ELIAS/BLOOMBERG NEWS

The Dow Jones Transportation Average has lagged behind the Dow industrials, weighed down in part by weakness in UPS shares. But the recent push to fresh records in the Dow transports is a bullish sign for the broader market, according to Dow Theory.

Transports Wave Rally Flag

By Ben Eisen

A U.S. index of plane, train, and shipping stocks has been hitting fresh records this month, a bullish signal for those who track the century-old Dow Theory.

The Dow Jones Transportation Average didn't hit a new record between the beginning of March and the start of this month. The divergence between the index and the Dow Jones Industrial Average, which has repeatedly hit fresh records since the start of June, had raised concerns about the strength of the stock-market rally.

The Dow Theory holds that any lasting rally to new highs in the Dow industrials must be accompanied by a fresh record in the Dow transports, the 20-stock index of the largest U.S. airlines, railroads and trucking firms. When the transport average lags behind the blue-chip index, it can presage broader stock declines.

The transports were up 7.2% this year through Monday, while the Dow industrials had climbed 9.4%.

The price-weighted transport index had been dragged down in part by **United Parcel Service** Inc., the third most expensive stock in the index. The company's shares have fallen 2.2% this year through Monday as UPS contends with higher shipping costs associated with e-commerce.

A number of other technical indicators have recently flashed bullish signals.

The series of transport records this month offers confirmation of the rally in industrials, an encouraging sign for chart watchers that the broader stock-market rally is on track.

"Both the industrials and transports are in gear and confirming each other," said Stephen Suttmeier, a technical research analyst at Bank of America Merrill Lynch. "There's no divergence for the bears to growl about."

Critics of the Dow Theory say it has become less relevant as the U.S. has shifted to a more service-based economy and away from a manufacturing one. But the Dow Theory is just one of a number of technical indicators that have recently flashed bullish signals for the rally.

Measures of how broadly the rally has spread across stocks, known as market breadth, have also indicated to technicians a wide base of support for stocks.

"The technical indicators point to further gains in the stock market," said Bruce Bittles, chief investment strategist at Baird, in a note to clients on Monday.

A high in the transports has also often preceded moves higher in other indexes, such as the S&P 500. On Friday, the transports hit a 52-week high alongside the S&P 500 and the small-cap Russell 2000 index. The last time the trio began hitting 52-week highs after a three-month absence of such "triple plays" was in November, according to **Bespoke Investment Group**, and the S&P 500 gained 7.5% over the next three months.

On average since 1978, a triple play has been followed by an S&P 500 gain of 2.1% over the next three months, versus an average of 1.7% for all three-month periods.

U.S. Stocks Decline As Dollar Weakens

By Riva Gold and Akane Otani

U.S. stocks slid Tuesday, as the dollar and government-bond yields came under fresh pressure.

TUESDAY'S MARKETS

The Dow Jones Industrial Average fell 94 points, or 0.4%, to 21536 around midday, weighed down by steep declines in shares of Goldman Sachs. The S&P 500 edged down 0.2% and the Nasdaq Composite added 0.1%.

Tuesday's moves came after Senate Republicans gave up their efforts to dismantle and replace much of the Affordable Care Act. The struggle to pass a health-care bill amplified doubts about the Trump administration's ability to pass policies like tax cuts and fiscal stimulus, some investors and analysts said.

Hopes for such policies had initially pushed stocks, the dollar and government-bond yields higher after Election Day.

If Republicans can't pass a replacement health-care bill, "there is little else [they] could do" with passing other legislation, said Toshihiko Sakai, senior manager of forex and financial-products trading at **Mitsubishi** UFJ Trust and Banking.

The WSJ Dollar Index, which measures the dollar against a basket of 16 currencies, was off 0.6% in U.S. trading to fresh postelection lows.

Government-bond prices rose, with the yield on the 10-year U.S. Treasury note falling to 2.262% at midday, according to Tradeweb, from 2.309% on Monday. Yields fall as bond prices rise.

While stocks around the world mostly fell Tuesday, some investors say they believe the impact of policy changes on the broader market will ultimately be muted. Stocks have already priced in dimming hopes for tax cuts and fiscal stimulus, said Ernesto Ramos, head of equities at BMO Global Asset Management.

"What's driving the markets here is really the earnings story," Mr. Ramos said.

A flurry of corporate earnings results drove swings in individual stocks on Tuesday.

Dow component Goldman Sachs shed 2.5% after the firm reported a 17% decrease in trading revenue, the steepest of any big bank to report second-quarter earnings yet. Declines in the stock, the worst performer in the Dow industrials in morning trade, wiped off about 40 points from the index.

Banks had also fallen across the board Friday despite posting better-than-expected earnings as analysts pointed to concerns about future loan growth and the outlook for the second half of the year.

Shares of Netflix jumped on stronger-than-expected subscriber growth.

Shares of Netflix jumped 13% after the company reported adding more subscribers than analysts had expected in the second quarter.

Elsewhere, the Stoxx Europe 600 dropped 1.1%.

Consumer cyclicals, or companies whose output of consumer goods tend to be tied to economic growth, led losses in Asia-Pacific trading Tuesday, as weakness in the dollar weighed on stocks in Australia and Japan.

Australia's S&P/ASX 200 fell 1.2% and Japan's Nikkei Stock Average lost 0.6%. Chinese stocks recovered slightly after Monday's slump, with the Shanghai Composite adding 0.3%.

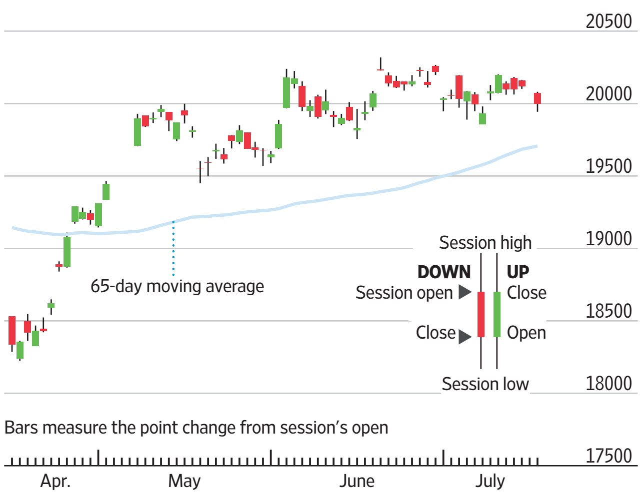
MARKETS DIGEST

Nikkei 225 Index

19999.91 ▼118.95, or 0.59%

High, low, open and close for each trading day of the past three months.

Year-to-date	▲ 4.63%	
52-wk high/low	20230.41	16083.11
All-time high	38915.87	12/29/89



STOXX 600 Index

382.58 ▼4.28, or 1.11%

High, low, open and close for each trading day of the past three months.

Year-to-date	▲ 5.85%	
52-wk high/low	396.45	328.80
All-time high	414.06	4/15/15

S&P 500 Index

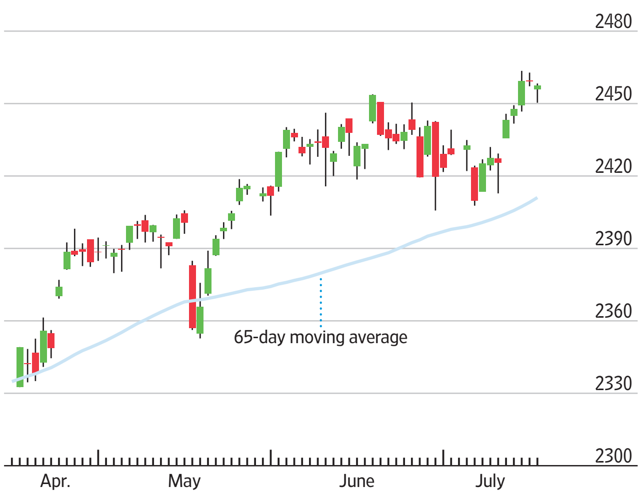
Data as of 12 p.m. New York time

2457.44 ▼1.70, or 0.07%

High, low, open and close for each trading day of the past three months.

	Last	Year ago
Trailing P/E ratio	24.29	24.85
P/E estimate *	18.80	18.37
Dividend yield	1.99	2.13
All-time high:	2459.27, 07/14/17	

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.



International Stock Indexes

Data as of 12 p.m. New York time

Region/Country	Index	Latest Close	Latest NetChg	Latest % chg	52-Week Range Low	52-Week Range High	YTD % chg
World	**The Global Dow**	2825.83	–5.81	–0.21	2383.44	2836.30	11.8
	MSCI EAFE	1921.25	1.00	0.05	1471.88	1956.39	11.9
	MSCI EM USD	1053.26	1.71	0.16	691.21	1053.31	32.6
Americas	**DJ Americas**	591.56	–0.56	–0.09	503.44	593.10	9.5
Brazil	**Sao Paulo Bovespa**	64989.47	–222.84	–0.34	55695.52	69487.58	7.9
Canada	**S&P/TSX Comp**	15101.50	–63.86	–0.42	14319.11	15943.09	–1.2
Mexico	**IPC All-Share**	51146.62	–185.67	–0.36	43998.98	51364.19	12.1
Chile	**Santiago IPSA**	3810.44	–24.00	–0.63	3120.87	3837.15	18.2
U.S.	**DJIA**	21544.07	–85.65	–0.40	17883.56	21681.53	9.0
	Nasdaq Composite	6327.41	12.98	0.21	5028.24	6341.70	17.5
	S&P 500	2457.44	–1.70	–0.07	2083.79	2463.54	9.8
	CBOE Volatility	10.05	0.23	2.34	9.37	23.01	–28.4
EMEA	**Stoxx Europe 600**	382.58	–4.28	–1.11	328.80	396.45	5.9
	Stoxx Europe 50	3128.83	–35.70	–1.13	2720.66	3279.71	3.9
France	**CAC 40**	5173.27	–56.90	–1.09	4293.34	5442.10	6.4
Germany	**DAX**	12430.39	–156.77	–1.25	9923.64	12951.54	8.3
Israel	**Tel Aviv**	1452.97	–3.89	–0.27	1372.23	1490.23	–1.2
Italy	**FTSE MIB**	21358.20	–126.64	–0.59	15923.11	21828.77	11.0
Netherlands	**AEX**	518.17	–3.33	–0.64	436.28	537.84	7.2
Russia	**RTS Index**	1038.45	–0.89	–0.09	898.05	1196.99	–9.9
Spain	**IBEX 35**	10524.50	–126.70	–1.19	8229.40	11184.40	12.5
Switzerland	**Swiss Market**	8977.98	–60.67	–0.67	7585.56	9148.61	9.2
South Africa	**Johannesburg All Share**	53261.64	–565.77	–1.05	48935.90	54716.53	5.1
Turkey	**BIST 100**	105718.31	–498.69	–0.47	70426.16	106402.15	35.3
U.K.	**FTSE 100**	7390.22	–13.91	–0.19	6615.83	7598.99	3.5
Asia-Pacific	**DJ Asia-Pacific TSM**	1658.46	6.02	0.36	1405.52	1659.54	16.6
Australia	**S&P/ASX 200**	5687.40	–68.10	–1.18	5156.60	5956.50	0.4
China	**Shanghai Composite**	3187.57	11.10	0.35	2953.39	3288.97	2.7
Hong Kong	**Hang Seng**	26524.94	54.36	0.21	21574.76	26524.94	20.6
India	**S&P BSE Sensex**	31710.99	–363.79	–1.13	25765.14	32074.78	19.1
Indonesia	**Jakarta Composite**	5822.35	–18.93	–0.32	5027.70	5910.24	9.9
Japan	**Nikkei Stock Avg**	19999.91	–118.95	–0.59	16083.11	20230.41	4.6
Malaysia	**Kuala Lumpur Composite**	1754.92	–0.27	–0.02	1616.64	1792.35	6.9
New Zealand	**S&P/NZX 50**	7707.33	7.76	0.10	6664.21	7707.33	12.0
Pakistan	**KSE 100**	45636.36	1113.15	2.50	39017.32	52876.46	–4.5
Philippines	**PSEi**	7952.92	18.42	0.23	6563.67	8102.30	16.3
Singapore	**Straits Times**	3306.08	7.84	0.24	2787.27	3306.08	14.8
South Korea	**Kospi**	2426.04	0.94	0.04	1958.38	2426.04	19.7
Taiwan	**Weighted**	10481.26	23.72	0.23	8902.30	10513.96	13.3
Thailand	**SET**	1571.52	–2.57	–0.16	1406.18	1591.00	1.9

Source: SIX Financial Information; WSJ Market Data Group

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 12 p.m. ET

Coupon	Country/ Maturity, in years	Yield	Spread Over Treasurys, in basis points: Latest	Previous	Month Ago	Year ago	Yield: Previous	Month ago	Year ago
2.750	**Australia** 2	1.906	55.0	49.5	36.6	93.0	1.855	1.681	1.624
2.750	10	2.754	48.8	42.3	26.3	41.3	2.739	2.417	1.999
3.000	**Belgium** 2	-0.496	-185.2	-186.0	-187.8	-127.3	-0.501	-0.563	-0.579
0.800	10	0.843	-142.2	-146.4	-154.5	-134.7	0.852	0.608	0.239
0.000	**France** 2	-0.394	-175.0	-175.6	-179.7	-122.1	-0.396	-0.482	-0.527
1.000	10	0.830	-143.6	-147.0	-151.4	-137.1	0.846	0.639	0.215
0.000	**Germany** 2	-0.640	-199.6	-197.3	-198.0	-133.4	-0.613	-0.665	-0.641
0.500	10	0.557	-170.8	-173.2	-187.8	-159.9	0.584	0.276	-0.014
0.050	**Italy** 2	0.054	-130.2	-128.6	-161.3	-74.9	0.074	-0.298	-0.055
2.200	10	2.198	-6.8	-8.1	-17.7	-33.2	2.236	1.976	1.253
0.100	**Japan** 2	-0.106	-146.2	-146.6	-143.0	-102.5	-0.107	-0.115	-0.332
0.100	10	0.069	-219.6	-223.6	-209.8	-181.6	0.080	0.055	-0.230
4.000	**Netherlands** 2	-0.608	-196.4	-195.8	-196.7	-129.1	-0.598	-0.652	-0.597
0.750	10	0.682	-158.4	-161.6	-167.1	-149.1	0.700	0.482	0.095
4.750	**Portugal** 2	0.069	-128.7	-130.5	-126.8	-0.7	0.054	0.047	0.687
4.125	10	3.043	77.8	78.0	75.0	153.8	3.097	2.904	3.124
2.750	**Spain** 2	-0.292	-164.8	-163.5	-161.1	-84.6	-0.275	-0.296	-0.153
1.500	10	1.547	-71.9	-72.0	-69.8	-34.2	1.596	1.456	1.243
4.250	**Sweden** 2	-0.683	-203.9	-201.7	-202.2	-132.9	-0.657	-0.707	-0.635
1.000	10	0.658	-160.8	-161.6	-169.0	-141.1	0.700	0.463	0.175
1.750	**U.K.** 2	0.266	-109.0	-105.0	-115.6	-51.8	0.310	0.159	0.175
4.250	10	1.210	-105.5	-104.1	-113.5	-75.9	1.275	1.018	0.827
1.250	**U.S.** 2	1.356	...	...	...	...	1.360	1.315	0.694
2.375	10	2.266	...	...	...	...	2.316	2.153	1.585

Commodities

Prices of futures contracts with the most open interest — 12 p.m. New York time

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **ICE-US:** ICE Futures U.S.; **MDEX:** Bursa Malaysia Derivatives Berhad; **TCE:** Tokyo Commodity Exchange; **COMEX:** Commodity Exchange; **LME:** London Metal Exchange; **NYMEX:** New York Mercantile Exchange; **ICE-EU:** ICE Futures Europe. *Data as of 7/17/2017

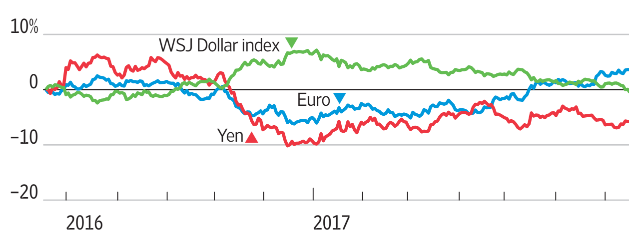
Commodity	Exchange	Last price	One-Day Change Net	One-Day Change Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	382.00	7.00	1.87%	404.75	364.50
Soybeans (cents/bu.)	CBOT	1011.75	14.25	1.43	1,047.00	907.00
Wheat (cents/bu.)	CBOT	509.75	3.75	0.74	574.50	430.75
Live cattle (cents/lb.)	CME	116.725	-1.900	-1.60%	122.850	99.125
Cocoa ($/ton)	ICE-US	1,910	unch.	unch.	2,281	1,767
Coffee (cents/lb.)	ICE-US	134.25	0.70	0.52	163.75	115.50
Sugar (cents/lb.)	ICE-US	13.93	-0.16	-1.14	20.50	12.74
Cotton (cents/lb.)	ICE-US	67.29	-0.47	-0.69	75.72	66.15
Robusta coffee ($/ton)	ICE-EU	2127.00	1.00	0.05	2,286.00	1,885.00
Copper ($/lb.)	COMEX	2.7290	0.0050	0.18	2.8495	2.4850
Gold ($/troy oz.)	COMEX	1242.00	8.30	0.67	1,300.30	1,155.00
Silver ($/troy oz.)	COMEX	16.270	0.171	1.06	18.780	14.340
Aluminum ($/mt)*	LME	1,925.00	4.00	0.21	1,972.00	1,688.50
Tin ($/mt)*	LME	19,980.00	130.00	0.65	21,225.00	18,760.00
Copper ($/mt)*	LME	5,985.00	104.50	1.78	6,156.00	5,491.00
Lead ($/mt)*	LME	2,326.00	43.00	1.88	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,823.00	51.00	1.84	2,958.50	2,450.50
Nickel ($/mt)*	LME	9,645.00	225.00	2.39	11,095.00	8,780.00
Rubber (Y.01/ton)	TCE	201.50	-0.10	-0.05	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2527.00	-30.00	-1.17	2966.00	2390.00
Crude oil ($/bbl.)	NYMEX	46.44	0.21	0.45	58.36	42.29
NY Harbor ULSD ($/gal.)	NYMEX	1.5121	0.0081	0.54	1.8065	1.3703
RBOB gasoline ($/gal.)	NYMEX	1.5412	0.0153	1.00	1.8366	1.3805
Natural gas ($/mmBtu)	NYMEX	3.070	0.063	2.10	3.5490	2.8300
Brent crude ($/bbl.)	ICE-EU	48.69	0.27	0.56	60.18	44.60
Gas oil ($/ton)	ICE-EU	447.00	-2.25	-0.50	532.25	405.50

Sources: SIX Financial Information; WSJ Market Data Group

Currencies

London close on July 18

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Tue in US$	Tue per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0587	17.0475	7.4
Brazil real	0.3168	3.1565	–3.0
Canada dollar	0.7903	1.2654	–5.9
Chile peso	0.001527	655.00	–2.2
Colombia peso	0.0003321	3011.11	0.3
Ecuador US dollar-f	1	1	unch
Mexico peso-a	0.0572	17.4978	–15.6
Peru sol	0.3080	3.2470	–3.2
Uruguay peso-e	0.0349	28.620	–2.5
Venezuela bolivar	0.100060	9.99	–0.01
Asia-Pacific			
Australia dollar	0.7924	1.2620	–9.1
China yuan	0.1482	6.7464	–2.9
Hong Kong dollar	0.1281	7.8049	0.6
India rupee	0.0155	64.3400	–5.3
Indonesia rupiah	0.0000751	13309	–1.6
Japan yen	0.008939	111.86	–4.4
Kazakhstan tenge	0.003069	325.84	–2.4
Macau pataca	0.1246	8.0284	1.4
Malaysia ringgit-c	0.2333	4.2870	–4.4
New Zealand dollar	0.7364	1.3580	–6.0
Pakistan rupee	0.0095	105.250	0.8
Philippines peso	0.0197	50.716	2.2
Singapore dollar	0.7321	1.3659	–5.6
South Korea won	0.0008891	1124.79	–6.9
Sri Lanka rupee	0.0065024	153.79	3.6
Taiwan dollar	0.03294	30.358	–6.5
Thailand baht	0.02977	33.590	–6.2
Europe			
Bulgaria lev	0.5919	1.6896	–9.1
Croatia kuna	0.1561	6.405	–10.7
Euro zone euro	1.1579	0.8637	–9.1
Czech Rep. koruna-b	0.0443	22.559	–12.2
Denmark krone	0.1557	6.4231	–9.1
Hungary forint	0.003784	264.24	–10.2
Iceland krona	0.009482	105.46	–6.6
Norway krone	0.1240	8.0662	–6.7
Poland zloty	0.2758	3.6260	–13.4
Russia ruble-d	0.01693	59.084	–3.6
Sweden krona	0.1208	8.2763	–9.1
Switzerland franc	1.0495	0.9528	–6.5
Turkey lira	0.2839	3.5219	–0.0
Ukraine hryvnia	0.0386	25.9200	–4.3
U.K. pound	1.3051	0.7662	–5.4
Middle East/Africa			
Bahrain dinar	2.6515	0.3772	–0.01
Egypt pound-a	0.0557	17.9510	–1.0
Israel shekel	0.2805	3.5649	–7.4
Kuwait dinar	3.3044	0.3026	–1.0
Oman sul rial	2.5970	0.3851	0.02
Qatar rial	0.2714	3.685	1.2
Saudi Arabia riyal	0.2666	3.7503	–0.01
South Africa rand	0.0775	12.8999	–5.8

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	86.83	–0.54	–0.62	–6.57

Sources: Tullett Prebon, WSJ Market Data Group

Cross rates

London close on Jul 18

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.2620	1.6472	1.3249	0.0113	0.1617	1.4614	0.9978	...
Canada	1.2654	1.6512	1.3278	0.0113	0.1621	1.4649	...	1.0023
Euro	0.8637	1.1272	0.9065	0.0077	0.1107	...	0.6826	0.6843
Hong Kong	7.8049	10.1847	8.1907	0.0698	...	9.0370	6.1686	6.1839
Japan	111.8640	146.0000	117.4000	...	14.3330	129.5200	88.4200	88.6200
Switzerland	0.9528	1.2435	...	0.0085	0.1221	1.1032	0.7531	0.7549
U.K.	0.7662	...	0.8042	0.0068	0.0982	0.8872	0.6057	0.6071
U.S.	...	1.3051	1.0495	0.0089	0.1281	1.1579	0.7903	0.7924

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	**1.22778%**	0.48530%
Three month	**1.30694**	0.69710
Six month	**1.45600**	1.00730
One year	**1.73344**	1.32890
Euro Libor		
One month	**-0.39929%**	-0.36857%
Three month	**-0.37614**	-0.30357
Six month	**-0.30329**	-0.19271
One year	**-0.18271**	-0.06729
Euribor		
One month	**-0.37400%**	-0.37100%
Three month	**-0.33100**	-0.29500
Six month	**-0.27400**	-0.18900
One year	**-0.15100**	-0.05900
Yen Libor		
One month	**-0.03871%**	-0.06464%
Three month	**-0.01486**	-0.03171
Six month	**0.00200**	-0.02950
One year	**0.11329**	0.06286
	Offer	Bid
Eurodollars		
One month	**1.3100%**	1.2100%
Three month	**1.3500**	1.2500
Six month	**1.5000**	1.4000
One year	**1.7700**	1.6700
	Latest	52 wks ago
Prime rates		
U.S.	**4.25%**	3.50%
Canada	**2.70**	2.70
Japan	**1.475**	1.475
Hong Kong	**5.00**	5.00
Policy rates		
ECB	**0.00%**	0.00%
Britain	**0.25**	0.50
Switzerland	**0.50**	0.50
Australia	**1.50**	1.75
U.S. discount	**1.75**	1.00
Fed-funds target	**1.00-1.25**	0.25-0.50
Call money	**3.00**	2.25
Overnight repurchase rates		
U.S.	**1.06%**	0.39%
Euro zone	**n.a.**	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

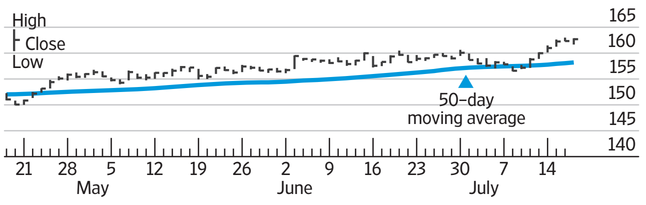
Top Stock Listings

12 p.m. New York time

Cur	Stock	Sym	Last	% Chg	YTD% Chg
Asia Titans					
HK$	AIAGroup	1299	58.75	0.86	34.29
¥	AstellasPharma	4503	1337.50	-1.69	-17.62
AU$	AustNZBk	ANZ	28.30	-1.57	-6.97
AU$	BHP	BHP	25.10	-0.28	0.16
HK$	BankofChina	3988	3.76	-0.79	9.30
HK$	CKHutchison	0001	100.50	0.20	14.33
HK$	CNOOC	0883	8.69	-0.11	-10.41
AU$	CSL	CSL	128.36	-1.22	27.84
¥	Canon	7751	3794.00	0.11	15.14
¥	CentralJapanRwy	9022	17825	-0.50	-7.31
HK$	ChinaConstructnBk	0939	6.39	-0.31	7.04
HK$	ChinaLifeInsurance	2628	25.60	-0.78	26.73
HK$	ChinaMobile	0941	82.55	0.30	0.43
HK$	ChinaPetro&Chem	0386	6.00	0.33	9.09
AU$	CmwlthBkAust	CBA	81.40	-1.86	-1.23
¥	EastJapanRailway	9020	10630	-0.79	5.25
¥	Fanuc	6954	22275	-0.71	12.41
¥	Hitachi	6501	729.90	0.80	15.49
TW$	Hon Hai Precisn	2317	117.00	1.30	38.95
¥	HondaMotor	7267	3096.00	-1.21	-9.34
KRW	HyundaiMtr	005380	148000	-1.66	1.37
HK$	Ind&Comml	1398	5.30	0.19	13.98
¥	JapanTobacco	2914	3812.00	-0.65	-0.83
¥	KDDI	9433	2912.00	-0.27	-1.61
¥	Mitsubishi	8058	2400.50	-0.83	-3.59
¥	MitsubishiElectric	6503	1643.00	-0.79	0.83
¥	MitsubishiUFJFin	8306	721.60	-1.39	0.19
¥	Mitsui	8031	1606.50	-0.56	-0.03
¥	Mizuho Fin	8411	199.30	-0.85	-5.00
¥	NTTDoCoMo	9437	2619.50	-0.80	-1.63
AU$	NatAustBnk	NAB	29.40	-1.80	-4.14
¥	NipponTeleg	9432	5369.00	0.36	9.30
¥	NissanMotor	7201	1142.00	-0.74	-2.85
¥	Panasonic	6752	1518.00	-0.59	27.62
HK$	PingAnInsofChina	2318	58.75	0.43	51.42
$	RelianceIndsGDR	RIGD	47.00	-1.88	48.97
KRW	SamsungElectronics	005930	2542000	0.39	41.07
¥	Seven&I Hldgs	3382	4468.00	-1.15	0.34
¥	SoftBankGroup	9984	9145.00	0.43	17.77
¥	Sony	6758	4505.00	0.13	37.56
¥	Sumitomo Mitsui	8316	4268.00	-0.58	-4.30
HK$	SunHngKaiPrp	0016	119.20	0.17	21.63
TW$	TaiwanSemiMfg	2330	214.00	0.47	17.91
¥	TakedaPharm	4502	5763.00	1.44	19.19
HK$	TencentHoldings	0700	286.80	0.63	51.19
¥	TokioMarineHldg	8766	4752.00	0.04	-0.92
¥	ToyotaMtr	7203	6180.00	-1.25	-10.15
AU$	Wesfarmers	WES	40.70	-1.83	-3.42
AU$	WestpacBanking	WBC	30.77	-1.66	-5.61
AU$	Woolworths	WOW	26.25	-0.79	8.92
Stoxx 50					
CHF	ABB	ABBN	23.78	-1.45	10.71
€	ASMLHolding	ASML	122.70	0.86	15.05
€	AXA	CS	24.79	-1.43	3.36
€	AirLiquide	AI	108.50	-1.00	2.70
€	Allianz	ALV	179.70	-1.24	14.46
€	AB InBev	ABI	99.00	-0.77	-1.54
£	AstraZeneca	AZN	5069.00	0.58	14.23
€	BASF	BAS	81.78	-2.19	-7.39
€	BNP Paribas	BNP	64.76	-1.67	6.95
£	BT Group	BT.A	304.25	0.75	-17.08
€	BancoBilVizAr	BBVA	7.49	-1.89	17.93
€	BancoSantander	SAN	5.68	-0.89	14.62
£	Barclays	BARC	205.05	-1.91	-8.23
€	Bayer	BAYN	109.95	-1.70	10.91
£	BP	BP.	445.45	-0.54	-12.59
£	BritishAmTob	BATS	5237.00	-1.28	13.32
€	Daimler	DAI	64.17	-0.79	-9.26
€	DeutscheTelekom	DTE	15.56	-1.11	-3.91
£	Diageo	DGE	2286.50	-0.28	8.36
€	ENI	ENI	13.14	-0.53	-15.06
£	GlaxoSmithKline	GSK	1600.00	-0.06	2.43
£	Glencore	GLEN	321.25	0.14	15.83
£	HSBC Hldgs	HSBA	733.90	-0.42	11.72
€	INGGroep	INGA	15.43	-1.41	15.37
£	ImperialBrands	IMB	3426.00	-0.48	-3.29
€	IntesaSanpaolo	ISP	2.87	...	18.30
€	LVMHMoetHennessy	MC	219.00	-1.51	20.73
£	LloydsBankingGroup	LLOY	66.90	-0.34	7.02
€	LOreal	OR	183.50	-0.41	5.82
£	NationalGrid	NG.	941.30	0.97	-9.33
CHF	Nestle	NESN	83.00	-0.72	13.62
CHF	Novartis	NOVN	80.50	0.44	8.64
DKK	NovoNordiskB	NOVO-B	275.80	-1.39	8.28
£	Prudential	PRU	1752.00	-0.54	7.65
£	ReckittBenckiser	RB.	7812.00	0.61	13.45
£	RioTinto	RIO	3448.00	-0.71	9.17
CHF	RocheHldgctf	ROG	243.20	-1.14	4.56
£	RoyDtchShell A	RDSA	2060.00	0.12	-8.14
€	SAP	SAP	89.83	-1.27	8.48
€	Sanofi	SAN	82.59	-1.44	7.40
€	SchneiderElectric	SU	68.03	-0.28	2.90
€	Siemens	SIE	117.95	-0.88	0.98
€	Telefonica	TEF	9.29	-0.60	5.34
€	Total	FP	42.91	-0.82	-10.14
CHF	UBSGroup	UBSG	16.78	-0.65	5.20
€	Unilever	UNA	49.26	-0.70	25.92
£	Unilever	ULVR	4290.50	0.36	30.31
€	Vinci	DG	77.15	-0.78	19.24
£	VodafoneGroup	VOD	219.55	-0.61	9.86
CHF	ZurichInsurance	ZURN	286.60	-1.10	2.21
DJIA					
$	AmericanExpress	AXP	85.08	-0.16	14.86
$	Apple	AAPL	149.34	-0.15	28.94
$	Boeing	BA	208.44	-0.27	33.89
$	Caterpillar	CAT	106.99	-0.99	15.37
$	Chevron	CVX	103.92	-0.28	-11.71
$	CiscoSystems	CSCO	31.33	-0.54	3.67
$	Coca-Cola	KO	44.72	-0.02	7.86
$	Disney	DIS	105.08	0.28	0.83
$	DuPont	DD	84.16	-0.60	14.65
$	ExxonMobil	XOM	80.69	-0.21	-10.60
$	GeneralElec	GE	26.79	-0.12	-15.23
$	GoldmanSachs	GS	224.04	-2.28	-6.44
$	HomeDepot	HD	152.82	-0.70	13.98
$	Intel	INTC	34.48	0.04	-4.92
$	IBM	IBM	153.04	0.02	-7.80
$	JPMorganChase	JPM	90.90	-0.54	5.34
$	J&J	JNJ	133.70	1.17	16.05
$	McDonalds	MCD	154.13	-0.73	26.63
$	Merck	MRK	62.56	-0.07	6.28
$	Microsoft	MSFT	72.99	-0.50	17.45
$	Nike	NKE	57.67	-0.21	13.46
$	Pfizer	PFE	33.24	-0.02	2.36
$	Procter&Gamble	PG	88.45	1.03	5.20
$	3M	MMM	210.72	-0.45	18.00
$	Travelers	TRV	125.51	-0.57	2.52
$	UnitedTech	UTX	122.36	-0.61	11.62
$	UnitedHealth	UNH	185.24	-0.60	15.75
$	Visa	V	97.60	0.80	25.10
$	Verizon	VZ	43.60	-0.14	-18.32
$	Wal-Mart	WMT	76.35	-0.03	10.46

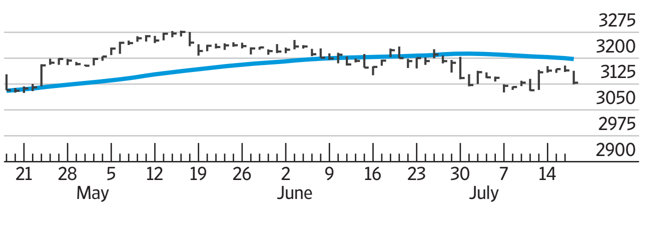
Asia Titans 50

Last: 162.69 ▲ 0.36, or 0.22% YTD ▲ 15.4%



Stoxx 50

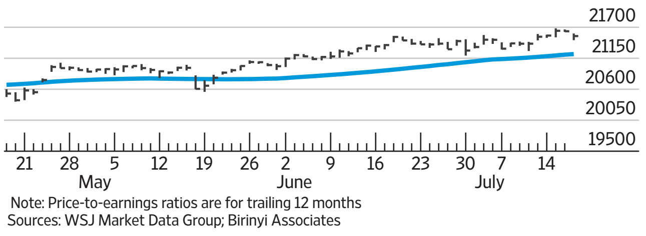
Last: 3128.83 ▼ 35.70, or 1.13% YTD ▲ 3.9%



Dow Jones Industrial Average

P/E: 21

Last: 21544.07 ▼ 85.65, or 0.40% YTD ▲ 9.0%



Note: Price-to-earnings ratios are for trailing 12 months
Sources: WSJ Market Data Group; Birinyi Associates

Developers Push for Freer Liquor Laws

BY ESTHER FUNG

ZAK NEUMANN/LITTLE VILLAGE MAGAZINE/IOWA CITY DOWNTOWN DISTRICT (2)

Landlords say looser open-container rules increase retail traffic. Under a relaxed ordinance, Iowa City, Iowa, in June held a block party, where Rachel Torres, right, played a game of giant Jenga.

Property developers trying to create buzz for open-air shopping districts are lobbying regulators to relax rules to allow patrons to walk around streets and parks with alcoholic beverages.

As landlords hustle to get customers into their properties, they are looking to tap into demand for food-and-drink experiences. The hope: that lively atmospheres will encourage patrons to linger and shop.

Three years ago, Atlanta-based developer **Vantage Realty Partners** LLC proposed an open-container ordinance in Duluth, Ga., where it developed a retail and entertainment complex called Parsons Alley in a historic district downtown. The ordinance passed this year.

"Every restaurant and retailer loved it. It increases their sales. Their customers don't have to stay confined in their premises and can walk to the town green or fountain with a drink," said Chris Carter, co-founder of Vantage Realty.

Of the 45,000 square feet of space at Parsons Alley, roughly 70% is leased or sold and the firm is picking tenants for the remaining space.

The retail sector is slumping as internet shopping eats into revenue. Retail landlords are trying a variety of tactics to boost foot traffic at their properties, from adding restaurants and entertainment venues to creating open-air districts downtown.

City councils and zoning boards from Georgia to Alabama to Texas to Iowa in recent months have proved amenable to changing land-use and public-drinking ordinances to boost activity in once-bustling shopping districts.

"I don't know why alcohol is so important, but if you have a brew in hand and walk around, you'd enjoy it more, especially when there's good weather and live music," said Marc Moen, partner and owner of property developer **Moen Group**, a builder and operator of condominiums, retail, office and hotel buildings in the downtown area of Iowa City, which passed an open-container measure in May.

Last October, the board of commissioners of Forsyth County, Ga., permitted businesses in certain development districts to serve alcoholic beverages in to-go cups, with certain limits.

County officials understood the challenges in the retail environment, said Patrick Leonard, principal at **RocaPoint Partners**, which is building a $370 million, 135-acre mixed-use project in Forsyth County called Halcyon that would include plenty of lawn space.

"It seems to be a trend for retail property to help get people outside," said Mr. Leonard, adding that the looser open-container regulations "absolutely helped us lease retail space."

Iowa City's ordinance permits patrons to carry open containers on sidewalks and streets between licensed premises. That allowed the Iowa City Downtown District business association to apply for a temporary license for a downtown block party, which took place in June.

"It's an area that attracts all ages, little kids, grandparents, working adults and college students. Residents love being around activity and young people," said Mr. Moen, who supported the open-container ordinance.

In the downtown block party last month, cups were sold to partygoers who had to patronize bars and restaurants in the district to be served. The organizers also arranged for Uber pickup and drop-off points and parking garages nearby that offered free overnight parking.

"We wanted to make sure the event is safe and people are getting home," said Nancy Bird, executive director of Iowa City Downtown District, adding that there were no incidents. The party targeted 15,000 revelers, and 30,000 showed up.

Ohio in 2015 passed a bill allowing open-container zones, which opened the door for municipalities to do so. In the New York state Senate, lawmakers in February proposed a bill to allow patrons of a licensed business located within a leisure or recreation district to leave with alcohol in an open container if they stay within certain boundaries. The bill passed the Senate by a vote of 61-1, and the state Assembly has yet to weigh in on the measure.

Pushing for change on public drinking often takes time. College towns, in particular, are resistant to measures that could lead to disorderly behavior.

Mr. Carter of Vantage Realty in Atlanta said that having people visit Avalon, another retail and mixed-use development 10 miles away where an open-container ordinance had already passed, helped his campaign in Duluth.

"They see how robust Avalon is. They had to touch it and experience it. And they realized it wasn't so scary," said Mr. Carter.

Feds Concluding Online Auction for Colorado Parcel

BY PETER GRANT

The federal government is weeks away from selecting a buyer for a much-coveted development site in the Denver region in what will likely be one of the government's highest-yielding online property auctions this year.

The General Services Administration in May launched the auction for a 59-acre unused parcel that is part of the Denver Federal Center in Lakewood, Colo., one of the federal government's largest employment centers outside of Washington.

The parcel is particularly attractive because it is next to one of the rail stations on Denver's expanding commuter rail system, making it ripe for retail, residential and office development.

The parcel also is expected to fetch a high price because the Denver market is hot these days with tourism, employment and the overall population all increasing. Employment in the Denver metropolitan area grew by 3.2% in 2016, with more than 50,000 jobs being added, the seventh-highest among all major U.S. metro areas, according to **CBRE Group** Inc.

Government officials declined to estimate what the winning price will be. Based on comparable sales in the area, the parcel could go for more than $30 million, real-estate market watchers say.

The General Services Administration, which owns and leases office space, land, labs and other facilities for the federal government, began switching to online auctions for disposing of surplus property in the early days of the internet. Over the years the process has been refined.

In the past 10 years, the agency has conducted 1,097 online sales yielding $452.2 million. These auctions are considered to be a more fair, efficient and lucrative process than the old, sealed-bidding process. Auctions ensure wide participation and are structured to achieve top price by doing such things as allowing bidders to see rival bids in real time as they are submitted, GSA officials say.

In the past 10 years, the government has run 1,097 property sales on the internet.

The GSA's portfolio currently consists of 370 million square feet in 8,600 assets. Other properties that were sold in recent online auctions include an 80-year-old Washington, D.C., office building that had been used by the Agriculture Department and Sugar Grove Station, a former naval base in West Virginia that is being converted into a health-care facility.

"GSA's goal in disposing of surplus property is to bring value to taxpayers and return property to the communities we serve so it can be used in a beneficial manner," a GSA spokesman said in an email.

Still, the sales process of the Denver Federal Center site has run into controversy and criticism. For years, the city of Lakewood worked with the General Services Administration to take over the site. Lakewood officials believed that they were better positioned to develop a master plan that would ensure certain uses—like affordable housing—than the GSA, which typically sells to the highest bidder.

About 18 months ago, Lakewood and the GSA were on the verge of a complicated deal in which GSA would have given the city the site in exchange for the city developing a lab for the federal government. But the two sides weren't able to get the deal over the goal line, and GSA ultimately opted to put the parcel on the block.

Lakewood will still try to shape what happens on the site, but it isn't going to be as easy as it would have been if the city owned it, according to Jay Hutchison, Lakewood's director of public works.

"It was difficult after a long, very focused challenging negotiation to have it crumble right at the end," he said.

Critics say the sale of the Lakewood site to the highest bidder represents a squandered opportunity for the region.

"It's a tremendous opportunity to create a mixed-use, mixed-income community," said developer Jonathan Rose, who is known in the region for such projects as the redevelopment of the century-old Denver Dry Goods Building into office, retail and both market-rate and affordable housing.

Mr. Rose said he probably won't bid on the Lakewood site because he would likely be outbid by a developer who wouldn't include as much affordable housing.

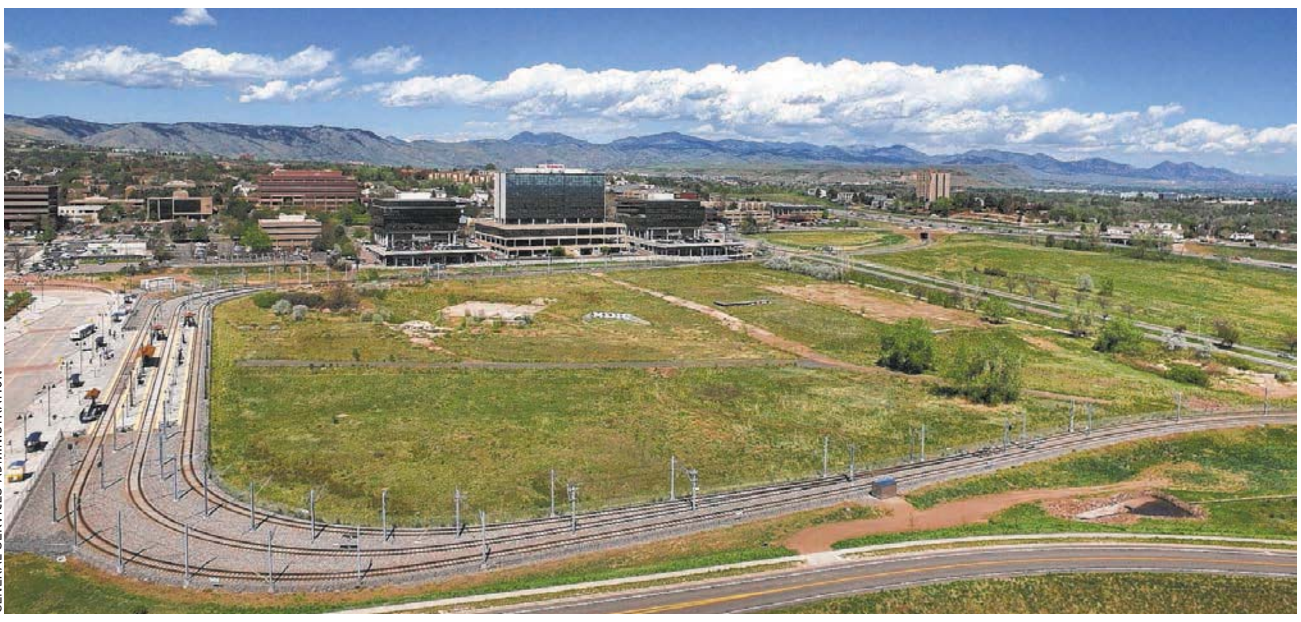
"Somebody will pay more," he said.

The Federal Center site has roots going back to the World War II era when the federal War Department acquired 2,100 acres to make and test .30 caliber rifle cartridges and other munitions. Over time the GSA, which came into existence in 1949, used it to house 28 different agencies.

About a decade ago, the GSA determined the Lakewood parcel wasn't needed and began studying plans to sell. Those plans accelerated in 2013, when the Regional Transportation District opened the Federal Center rail station.

Interest in the site appears to be keen. More than 75 interested parties showed up for a tour last month and several participated through a streaming video.

The first round of bidding officially ends one week from Tuesday. The GSA retains the right to extend the bidding period to give people the right to resubmit bids after they see the top price in the first round, the GSA spokesman said.


GENERAL SERVICES ADMINISTRATION

The government is close to choosing a buyer for a 59-acre undeveloped section of the Denver Federal Center in Lakewood, Colo.

MARKETS

Investors Dig for Value as Market Rises

By Ira Iosebashvili

Some investors are searching globally for out-of-favor assets, concerned that a looming wind down of central banks' easy-money policies will hit the markets' top performers.

That goes beyond moving money into less-loved areas of the stock market, such as shares of auto makers or retailers. Some are swapping U.S. Treasurys for currencies such as the Japanese yen or Swiss franc, or betting on investments that will benefit if inflation picks up again after a yearslong hiatus.

For money managers, such trades are a way to stay invested while cutting exposure to assets they believe may have become too expensive during nearly a decade of ultraloose monetary policy from the world's central banks. Signals that policy makers around the world are preparing to dial back stimulus efforts amid evidence of broad improvement in the global economy sparked selling in government bonds, utilities shares and the U.S. dollar in recent weeks.

The yield on the benchmark U.S. 10-year Treasury note is a yardstick money managers use to value other assets, so a rapid climb in yields could rattle other markets. At the same time, the cyclically adjusted price/earnings ratio for the S&P 500, a popular metric pioneered by Nobel Prize-winning economist Robert Shiller, shows valuations are at their highest levels since 2002.

"In 2009, you didn't have to dig too deep for value, once you concluded the world wasn't coming to an end," said Adam Farstrup, head of multiasset product, Americas at Schroders. "Now...there are no obvious places to hide."

To protect against sharp declines in the stock market, the firm prefers a basket of haven currencies such as the Swiss franc and yen to U.S. government bonds, where yields remain near historic lows despite the recent global bond selloff. Yields fall as bond prices rise.

Schroders has also cut positions in economically sensitive stock sectors such as financials and increased allocations to shares of health-care companies, which it believes have been depressed by months of political wrangling over a repeal of the Affordable Care Act.

Other investors are mining the stock market for companies with shares trading at relatively low multiples of earnings or book value, the total value of their assets outside what they owe. The average S&P 500 stock now trades at 3.1 times book value, according to FactSet, the highest multiple in a decade.

Tim Rudderow, chief investment officer at **Mount Lucas Management** LP, owns **General Motors**, which traded last week at 5.6 times its past 12 months of earnings, and retailer **Kohl's**, whose stock price is down roughly 50% from its 2015 high and trades at 11.7 times earnings, according to FactSet. By comparison, **Amazon.com** trades at 190.1 times earnings, while **Netflix** trades at 211.1 times earnings.

While GM has benefited from a rise in U.S. auto sales since the financial crisis, some analysts said threats from rivals such as Tesla have hurt its shares. Kohl's shares have been stung as retail companies struggle to contend with competition from e-commerce firms like Amazon, where consumers are increasingly spending.

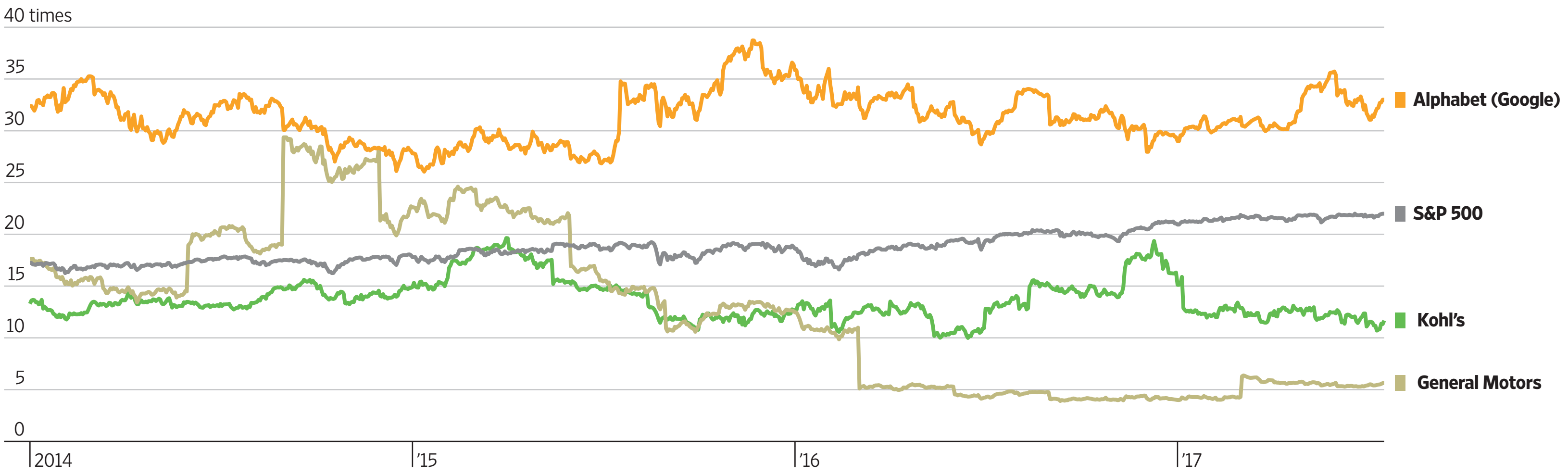
Mr. Rudderow believes momentum will shift from tech stocks that have led markets higher to equities that have performed more modestly.

Vadim Zlotnikov, chief market strategist and co-head of multiasset solutions at **AllianceBernstein**, is buying derivatives that are linked to the consumer-price index and would rise in value if U.S. inflation broke out of its monthslong slump.

Bargain Hunting

Investors are seeking out-of-favor assets at a time when many say the run-up in stocks and bonds has stretched valuations. Some are selling companies that have outperformed the market and buying shares of beaten-up retailers or auto makers.

12-month trailing price/earnings ratio

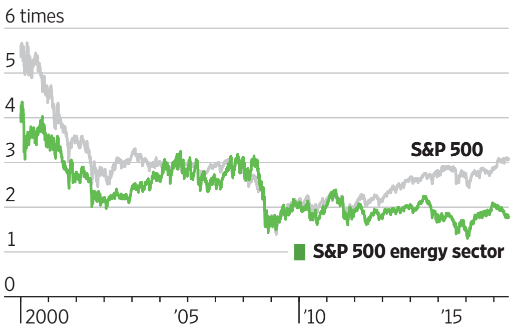


One popular valuation measure that seeks to filter out economic cycles is at its highest level since 2002.

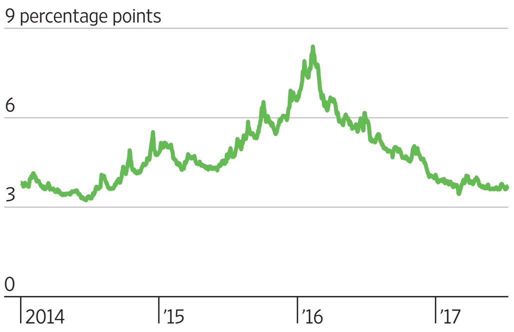
Cyclically Adjusted Price/Earnings (CAPE) ratio

S&P 500 firms appear richly valued by their book value multiples, though some investors see bargains in energy.

Price-to-book-value ratio*



Some say a junk-bond rally that has narrowed the yield premium over Treasurys makes stocks look less pricey.



*Book value is a measure of reported net worth.
Sources: FactSet (P/E ratio, book value); Robert Shiller (CAPE); Bloomberg Barclays (yield premium)
THE WALL STREET JOURNAL.

HEARD ON THE STREET

Email: heard@wsj.com FINANCIAL ANALYSIS & COMMENTARY WSJ.com/Heard

Gameday for Disney to Lift ESPN Growth

Worries about sports network **ESPN** have weighed on **Walt Disney**'s stock price over the past two years. Soon, Disney will have a chance to do something about it.

Disney is set to begin talks over its contract with cable operator **Altice USA**, which expires this fall. The deal will be the first of a series of new contracts Disney will negotiate with pay-TV providers that will allow it to offset subscriber declines at ESPN.

ESPN has struggled as expensive long-term contracts to broadcast sports kicked in just as subscribers were starting to flee. Now its challenge is to recoup those costs by raising prices and tightening rules over how many subscribers can migrate to TV packages that exclude ESPN.

The sports network's presence in U.S. pay-TV households has fallen by around 6 percentage points to 89% since fiscal 2013, according to MoffettNathanson. The research firm estimates ESPN has lost more than 5 million subscribers from people downgrading to less expensive "skinny" bundles.

Disney can't stop U.S. consumers from dropping pay TV. But it can offset the decline by boosting its annual price increases and by using "minimum penetration guarantees"—provisions in its contracts that stipulate which TV packages ESPN must appear on and what portion of pay-TV subscribers must receive it. The ideal outcome might include a combination of both.

Assuming Disney already increases the prices it charges cable and satellite companies for ESPN by 5% a year, bumping that up to 6% as it signs new deals would boost fee revenue by 4% a year to $12.56 billion from 2016 to 2022, MoffettNathanson estimates. This assumes its subscriber base declines at a compound annual rate of 2%. If Disney can use minimum penetration guarantees to add back 2.5 million of the subscribers it lost to skinny bundles, it could get an additional $400 million in fee revenue over the period, the firm says.

There may be other levers at Disney's disposal, including the August 2019 launch of the ACC Network for which ESPN will split the profits with the collegiate Atlantic Coast Conference. Another is Disney's planned streaming service with BAMTech, which will feature sports that don't appear on ESPN's TV channels. If all of this goes in Disney's favor, its compound annual growth rate for domestic cable revenue from affiliate fees would be 6%, MoffettNathanson estimates.

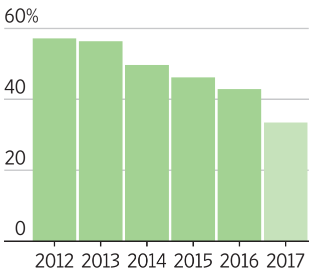
Bears may argue Disney lacks the leverage to negotiate such terms. But pay-TV providers themselves are projecting programming costs will rise, and it is highly unlikely that any would risk dropping ESPN. Moreover, Disney negotiates for all of its networks at once, so if ESPN looks expensive, distributors may still be getting ABC relatively cheaply.

For Disney, which got about 33% of its operating income from its cable networks segment in the first six months of fiscal 2017, a solid boost in revenue could juice profits and change investor perceptions about the company. Disney got 57% of operating income from cable in 2012.

At 15.9 times forward earnings estimates, Disney's shares trade below their five-year average of 17.4 times. A better outlook for ESPN could give the mouse house a makeover.—*Miriam Gottfried*

On the Sidelines

Disney's cable networks' operating profit as a share of total



Note: Fiscal year ends in September. Fiscal 2017 figure is for the first six months only.
Sources: the company; Zuma Press (photo)
THE WALL STREET JOURNAL.

The ESPN Wide World of Sport Complex in Florida

OVERHEARD

The U.S. National Football League has a problem.

Upfront advertising sales have been the softest since the financial crisis, according to Ad Age.

The main culprit has been autos, the leading category overall, thanks to a recent slump in car sales. Movie studios also have cut back as box-office sales have stagnated.

Now, another mainstay of gridiron bathroom breaks is leaving the league feeling deflated: drugs for erectile dysfunction.

The category's pioneer, Viagra, has patent protection and has little need to advertise.

Meanwhile, **Eli Lilly**, the maker of its leading competitor, Cialis, has said that it is dropping the drug's NFL sponsorship.

So much for an awkward Sunday tradition: kids asking embarrassed parents what "ED" stands for.

High-Yield Bonds Aren't Worth the Risk

Interest rates are low, so what's not to like about high-yield corporate bonds? One measure suggests investors should think twice.

The yield on the Bloomberg Barclays global high-yield corporate-bond index stands at just over 5%, not far from its record 2014 low of 4.7%. But what really matters is the extra yield—or spread—that investors pick up versus other, safer asset classes such as government bonds. At first glance, that looks relatively chunky: a five-year U.S. Treasury yields 1.8%, for instance.

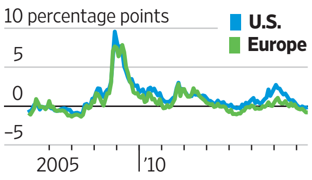
But it is worth looking again. Strategists at Prudential Portfolio Management Group, part of the U.K.'s **Prudential PLC**, break it down like this: First, there are always going to be some high-yield companies that default, even if the economy is OK. So PPMG shaves off some of the extra yield to account for long-run average losses due to defaults. Then, the strategists deduct the spread available on safer investment-grade corporate bonds. After all, if an investor can achieve the same yield pickup by buying a less risky security, it would make sense to do so.

On that basis, the risk premiums on high-yield bonds in the U.S. and Europe were negative in June, PPMG calculates. The extra yield wasn't enough to compensate investors for the risk.

This has happened before, most recently in 2014. That was followed by a selloff that gathered pace in 2015 as the falling oil price hit energy-firm balance sheets, most notably in the U.S. There may not be an immediate catalyst for the market to fall now. But for investors buying high-yield bonds, the risk-reward balance doesn't look encouraging. —*Richard Barley*

Squeezed

High-yield corporate-bond risk premium*



*Adjusted for defaults and spread over investment-grade bonds. Source: Prudential Portfolio Management Group
THE WALL STREET JOURNAL.

China's Visible Hand Begins to Squeeze

The problem with a command economy is policies tend to create unintended consequences, which inevitably lead to heavy-handed crackdowns. China apparently is in the crackdown phase now.

After years of encouraging companies to "go global," Beijing is getting uncomfortable with the capital outflows and leverage that have resulted from some companies' headlong expansion. In an expression of that discomfort, regulators have blocked China's big banks from lending to **Dalian Wanda Group** for several of its overseas deals, according to The Wall Street Journal.

Wanda has built a global media empire by splashing billions on companies like **AMC Entertainment** and Legendary Entertainment, the studio behind "The Dark Knight." Beijing had been supporting such efforts to create rivals to Hollywood.

Another example: China's support for the housing markets in smaller cities has created many nouveau riche who are betting their newfound wealth in Macau's casinos.

According to **Deutsche Bank**, VIP gambling revenue in Macau and third-tier city property prices have a correlation of 0.74, in which a correlation of one indicates they move in lockstep. And high rollers have been a big driver in Macau's recovery this year: VIP revenue was up 35% last quarter, versus 8% for mass-market revenue.

That undercuts Beijing's goal of developing Macau into a tourist spot for casual gamblers, rather than a place for China's rich to contribute to capital outflows. Tightening policies have already appeared. Banks have to report cross-border transfers above 200,000 yuan ($30,000) and ATMs with facial recognition are popping up in the city. The city's biggest junket operator, Suncity, which brings big-stakes gamblers to Macau and lends them money, sent messages to its customers last week warning about the risks of moving money across the border.

The more the high rollers keep coming, the more likely Macau is to become the next part of the economy to be squeezed. —*Jacky Wong*