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What's News

Business & Finance

KKR promoted two executives and added them to its board, putting them in line to one day run the private-equity firm. **A1**

◆ **Activist investor Peltz** said he would seek a seat on P&G's board, making the company the largest ever to face a proxy fight. **A1, A2**

◆ **Disney was sued** by Rearden over the rights to a visual-effects technology used by movies studios. **A1**

◆ **Google won't need** to turn over an entire set of salary data to U.S. auditors, a setback to efforts to prove the firm underpays women. **B1**

◆ **Netflix blew through** its estimate for subscriber growth last quarter. **B1**

◆ **Beijing is putting** the brakes on Wanda's overseas deals, saying they are at odds with capital restrictions. **B1**

◆ **Copper prices hit** a four-month high after upbeat Chinese economic data damped fears of a slowdown. **B1**

◆ **Chinese stocks** tumbled after top officials signaled that the campaign to rein in debt remains a priority. **B1**

◆ **IBM unveiled** its next generation of mainframes, which offer more power for encrypting data. **B4**

◆ **BlackRock pulled in** a record $103.6 billion last quarter, underscoring the shift by investors to ETFs. **B5**

◆ **Tesla named** 21st Century Fox CEO James Murdoch and Ebony Media CEO Linda Johnson Rice to its board. **WSJ.com**

World-Wide

◆ **Chinese military drones** have been deployed in the Mideast and Africa by several countries, including U.S. allies blocked from buying American models. **A1**

◆ **The U.K. and EU** began Brexit talks in earnest, opening a four-day session with a focus on citizens' rights and payments by London. **A5**

◆ **Seoul's administration** made a formal offer to start talks with North Korea, following through on President Moon's policy plank. **A4**

◆ **South Korea said** it would boost its minimum wage by 16.4%, a sharp rise compared with other developed economies. **A4**

◆ **Millions of Venezuelans** voted in an unauthorized referendum to defy President Maduro and his plans to rewrite the constitution. **A5**

◆ **Civilian casualties** in Kabul have surpassed those in Helmand, long considered Afghanistan's most dangerous province. **A5**

◆ **Gang violence** has surged in Mexico following the extradition of drug lord "El Chapo." **A3**

◆ **Republican efforts** to pass a health-care bill have revealed a party fissure on health-related taxes. **A6**

◆ **The U.S. said** it would make 15,000 more visas available for seasonal workers, a nearly 50% rise. **A6**

◆ **The EU is set** to sanction 16 Syrian scientists and military officers over the use of chemical weapons. **A5**

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

Brexit Negotiators Get Down to Business

GEERT VANDEN WIJNGAERT/ASSOCIATED PRESS

DISCUSSIONS: U.K. Brexit Secretary David Davis, left, and Michel Barnier, the EU's top negotiator, returned to the bargaining table for the first time since talks officially opened June 19. The focus was on citizens' rights and Britain's financial commitments to the bloc. **A5**

KKR Puts Managers In Line to Take Over

By Matt Jarzemsky

KKR & Co. put two executives in line Monday to take over one day for Henry Kravis and George Roberts, the private-equity pioneers atop one of the biggest brands in finance.

The New York asset manager elevated Joe Bae and Scott Nuttall to the roles of co-president and co-chief operating officer and added them to its board, according to a statement Monday. In their new roles, they will run KKR's day-to-day operations.

The appointments solidify the men's candidacies to one day run KKR. There's no guarantee that either or both the men will end up atop the firm, a person familiar with the matter cautioned.

KKR, founded in 1976, helped popularize debt-fueled corporate takeovers known as leveraged buyouts. It earned a place in Wall Street lore with deals such as the 1988 purchase of RJR Nabisco, chronicled in the book "Barbarians at the Gate: The Fall of RJR Nabisco."

But like its rivals, KKR has faced nagging questions over its ability to endure a generational change. The top private-equity firms rely on the track records, influence and mystique of their founders to raise money and land deals, and many of the industry's leaders have been reluctant to hand over the reins.

KKR has expanded dramatically in recent decades, though it has lagged behind some rivals such as Blackstone Group LP and Apollo Global Management LLC since the financial crisis in a race to accumulate

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Activist Seeks P&G Seat

Peltz says plan to cut costs hasn't delivered results; company says it is lean and agile

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 Management Fund 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, 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 that 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

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U.S. ALLIES USE BEIJING'S DRONES

Nations unable to buy American use China's military models in Mideast conflicts

In October, satellite images captured the distinctive outlines of some powerful new weaponry at a Saudi runway used for military strikes in Yemen. Three Wing Loong drones had appeared, Chinese-made replicas of the U.S. Predator with a similar ability to stay aloft for hours carrying missiles and bombs.

By Jeremy Page in Beijing and Paul Sonne in Washington

The same month, another Chinese military drone, the CH-4 Rainbow, appeared in a photo of an airstrip in Jordan near the Syrian border. Other commercial satellite images have since revealed Chinese strike and surveillance drones at bases used by Egypt and the United Arab Emirates.

These images and others now being scrutinized in international defense circles add to growing evidence that military drones exported by China have recently been deployed in conflicts in the Mideast and Africa by several countries, including U.S. allies that the U.S. blocked from buying American models.

For the U.S., that is a strategic and commercial blow.

The U.S. has long refused to sell the most powerful U.S.-made drones to most countries, fearing they might fall into hostile hands, be used to suppress civil unrest or, in the Mideast, erode Israel's military dominance. The U.K. is the only foreign country that has operated armed Predators and Reapers, the most potent U.S. systems for offensive drone strikes, according to people familiar with U.S. sales.

The Obama administration, while seeking to facilitate exports under close regulation, led efforts to forge a

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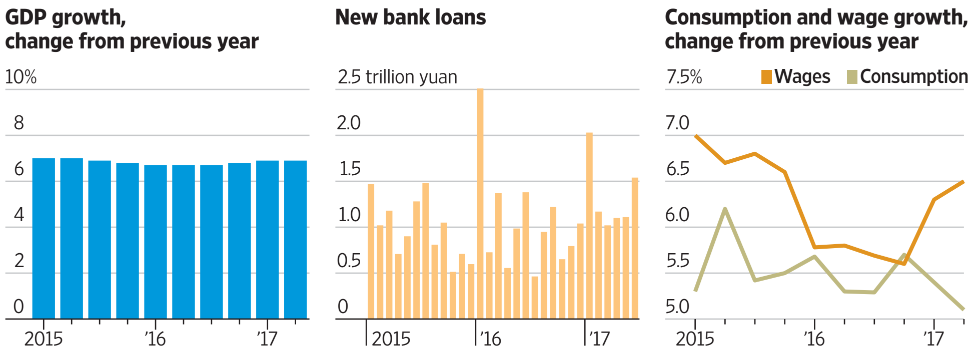
The Problem With China's Economic Growth

On a mission to wean itself off debt-fueled growth, China credited domestic demand for a stronger-than-expected second quarter. Yet, lending stayed high and consumption rose slower than wages. **A4, B8**



Note: 1 trillion yuan=$147.4 billion
Source: National Bureau of Statistics (GDP); Wind Info (loans, wages, consumption)

THE WALL STREET JOURNAL.

Disney Sued Over Visual Effects

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.

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.

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◆ Heard: Game day for Disney to lift ESPN growth **B8**

These Guys Don't Mind if You Think They're Women

* * *

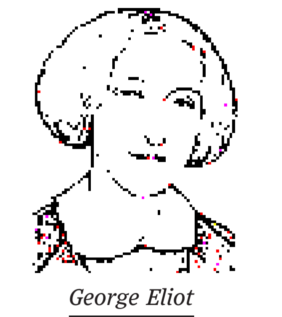
To woo female readers, novelists delete photos, use pseudonyms

By Ellen Gamerman

Is Riley Sager, author of the new thriller "Final Girls," a woman?

The writer's gender-neutral name won't answer the question. Neither will the author biography on the book's back flap, which avoids male or female pronouns, or the book-jacket photo, which is nonexistent. The website for the novelist features trees against a hot pink sky and the author's Instagram account includes shots of books, desserts, animals and fruity cocktails.

While it isn't exactly a secret that Riley Sager is the au-



George Eliot

thor Todd Ritter, it is fine with him if some people assume he's female. In fact, it is good for business.

Riley heads to bookshelves as male writers adopt ambiguous pseudonyms for suspense novels rooted in the inner worlds of women. Female authors including Gillian Flynn ("Gone Girl") and Paula Hawkins ("The Girl on the Train") have been leading this booming genre in a realm dominated by women readers. The problem for men: Some fans doubt the authenticity of the female narrator's voice when it is delivered by a male author.

"Final Girls," out last week, is told in the voice of a woman in her 20s who is the only survivor of a slasher-movie-style massacre. (The author's Twitter avatar is a picture of Jamie Lee Curtis from the 1978 hor-

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INSIDE

BLOOMBERG NEWS

GOP HOPES TAX CUTS WILL UNITE PARTY

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MIKE BLAKE/REUTERS

NETFLIX JUMPS ON STRONG GROWTH

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Republicans Hope Tax Cuts Will Unite Party

CAPITAL JOURNAL
By Gerald F. Seib

There are lots of reasons the Trump White House will be glad when it can finally get past the tortured debate over health care and move on to tax reform, but a principal one is this: Health care is pulling apart the various strands of the Republican coalition. Tax cuts could unite them.

Today's Republican coalition weaves together three distinct philosophical strands: the populists/nationalists, the movement conservatives and the Wall Street/establishment conservatives. All three are well represented within the Trump administration—indeed, within the White House itself—which is one reason it has had a hard time projecting ideological coherence.

The health-care debate has been a seven-month migraine that pulls apart those strands of the Republican coalition.

The populists/nationalists are troubled by the idea of rolling back the Affordable Care Act's taxes on the wealthy while cutting Medicaid funding and insurance subsidies that benefit some core elements of President Donald Trump's 2016 constituency.

Movement conservatives want a complete uprooting of Obamacare and far more reliance on market forces in the health sector. The party's establishment wing, meantime, could live with some kind of compromise, if there were one that could satisfy the others.

That problem has been made worse by the fact that the Trump White House has been left either defending or trying to sell somebody else's idea of a repeal-and-replace plan, because it doesn't have one of its own. That has produced the spectacle of the president occasionally championing and then criticizing the very same proposal; supporting competing ideas; and backing plans that would hurt many Trump voters.

Mr. Trump has never offered a sustained public defense of any of the various approaches Republicans have tried. He owns none of them, and has left the impression than any will do.

The Trump White House will be glad to get past the tortured debate over health care.

Unfortunately for the GOP, the magic compromise that skirts past these differences has proven elusive. And now it appears the agonizing search for one is going to drag on. Republicans' margin for error in the Senate is so small that they are putting off debate and a vote on a health bill while Sen. John McCain of Arizona recovers from unexpected surgery.

Tax reform holds out the prospect of something different. For starters, the administration will be selling a plan of its own, and, with luck, one precooked with congressional leaders, rather than hoping somebody else presents one that is acceptable. That alone would change the dynamic.

More broadly, the belief that it is essential to revamp the tax system to lower tax rates, especially corporate rates, is as close to gospel as you can reach in today's Republican Party. Nothing unifies Republicans like cutting taxes.

Even the populist/nationalist wing agrees with the Wall Street/establishment wing on that notion. And that's especially true if, as the administration has promised, lower corporate rates can be married to a broad-based tax cut that will help the middle class, financed by closing tax breaks for businesses and at the top end of the income ladder.

That isn't to say changing the tax code is simple—not by a long shot. There certainly are intra-Republican differences.

Most notably, House Speaker Paul Ryan and Ways and Means Chairman Kevin Brady have long been pushing the idea of building a new tax system around a border-adjustable tax—a tax that essentially imposes a levy on imports while letting exports leave the country tax-free. The idea is to both build domestic industries and supply chains while also raising a big chunk of revenue to finance tax cuts elsewhere.

That idea does, in fact, split the GOP coalition. Parts of the establishment wing hate it because it would hurt industries that rely on imported goods; the populist/nationalist wing likes the way it could promote American manufacturing, but is leery of how it would drive up costs for products that working-class America buys at Wal-Mart; and the Trump White House thinks it's too complicated.

But the reality is that, because of such misgivings, the border tax probably has been a dead letter for months now, though its proponents haven't given up. The Trump team will try to steer the conversation in a different direction.

There are other complications. If tax reform were simple, three decades wouldn't have passed since the last significant one. And the prospect of finding Democratic support is nearly as bleak as it has been on health care.

Still, the basic idea of lowering rates and simplifying the tax code is one Republicans are almost desperate to rally around. If that holds true, we'll be left to ponder how different the story of Mr. Trump's first year might have been if Republicans had been able to start with an idea that united them rather than one that divided them.

P&G

Continued from Page One

adding Mr. Peltz to the board, they 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 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.

P&G shares were little changed Monday, rising less than 1% to $87.56 in late trading. The stock has gained 2% in the past 12 months, compared with a 14% return in the S&P 500.

Gary Bradshaw, a fund manager at Hodges Fund, said the board should support Mr. Peltz for the board. "I don't know he can change things overnight but, now, earnings aren't growing and that's what will eventually push the stock higher," said Mr. Bradshaw, whose fund has about 150,000 P&G shares.

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.

NIKKI RITCHER FOR THE WALL STREET JOURNAL

P&G rejected a Trian demand to name Nelson Peltz a director. Above, Mr. Peltz in October.

Stagnation remains a challenge even as P&G is a dramatically different company today than five years ago. It has sold hundreds of brands and the bulk of its beauty business, including brands such as Clairol and Cover Girl, to beauty-product maker Coty Inc.

In June 2016, the company revealed plans for the second round of cost-cutting. 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.

Trian often focuses on cost structures at sprawling companies and is a proponent, for instance, of the zero-based-budgeting program that has won supporters and detractors among food companies.

In negotiations with P&G, Trian argued that if it was given insider information and a role in the boardroom it could help guide Mr. Taylor and the board better, according to people familiar with the matter.

In a similar situation Trian pushed General Electric Co. this year on its cost-cutting plans, leading to a disclosure from GE that it would target a spending number instead of a cost-cutting number. Trian had argued that would ensure the costs were eliminated for the bottom line, people familiar with the matter had said.

Trian didn't seek a board seat at GE and its longtime chief executive, Jeff Immelt, recently announced plans to retire.

—David Benoit contributed to this article.

'Highly Engaged' Investor Rarely Wages Proxy Fights

By David Benoit

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

The activist investor launched a campaign Monday to get co-founder Nelson Peltz elected to the board of Procter & Gamble Co. Worth $222 billion, P&G is the largest firm 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 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.

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% through the first week in July, according to an investor document, dragged down by a 15% slump in General Electric Co. this year, and a 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. An index of activist funds tracked by HFR Inc. rose 4.2% in the same time frame.

Trian's willingness to work with companies in private has often led it to negotiate its way into 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.

In 2006, it took a stake in Heinz and sought a seat on the ketchup giant's board. That led to a heated fight, an early example of a shareholder taking on an American icon that helped open the floodgates of activism. Trian won two seats on that board, including one for Mr. Peltz. Afterward, the sides grew close and Heinz CEO William Johnson was put on the board of PepsiCo Inc. by Trian.

The victory worked as a stamp of legitimacy: Trian would go on to take big stakes, and companies, including Bank of New York Mellon Corp. and Ingersoll-Rand PLC, would often quickly assent to giving the firm a board seat.

At Bank of New York Mellon, Trian co-founder Ed Garden joined the board in 2014, one of the few activists to join a heavily regulated bank. The sides have publicly lauded each other and worked together to cut costs, and the stock has returned 38% since Mr. Garden joined the board, in line with the KBW Bank Index. Monday, the bank named a new CEO, Charles Scharf.

In 2015, Trian ran a fight against DuPont. At the time, a win by Trian would have made DuPont the largest firm to lose a shareholder vote, but it waged a successful countercampaign. DuPont argued Trian would be "shadow management" in the boardroom and said it didn't need Trian because its board had proven it was willing to make changes on its own.

Though Trian lost that fight, the vote was close enough that if any single large investor had flipped it would have won a seat. And within months, DuPont missed on its quarterly results, changed its CEO and opened back up to Trian helping it structure its pending merger with Dow Chemical Co.

DISNEY/ASSOCIATED PRESS

Rearden is suing over Disney's use of facial-capture technology in films such as 'Beauty and the Beast.'

DISNEY

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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 didn't respond to a request 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.

"Disney never bothered to contact its longtime MOVA Contour service provider Rearden LLC to ask any questions or to verify Disney's authorization to use the MOVA Contour system, methods, trade secrets or trademarks that Disney knew Rearden owned," the lawsuit states.

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.

"Beauty and the Beast" has grossed $1.26 billion globally. "Age of Ultron" raked in $1.4 billion world-wide; "Guardians" grossed $773 million.

CORRECTIONS & AMPLIFICATIONS

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ENRIC MARTI/ASSOCIATED PRESS

A police investigator walking past one of three bodies found on a road late last month in Navolato in the state of Sinaloa, where violence has increased as drug cartels splinter and battle for dominance.

Deadly Gang Rivalry Heats Up in Mexico

Surge in killings follows extradition to U.S. of drug lord 'El Chapo' months ago

BY JOSÉ DE CÓRDOBA

CULIACÁN, Mexico—The extradition of Joaquín "El Chapo" Guzmán, Mexico's long-dominant drug lord, has led to an explosion of violence in his home state of Sinaloa, the birthplace of the country's narcotics industry.

Rival factions are fighting over Mr. Guzmán's billion-dollar empire as he awaits trial in solitary confinement inside a high-security prison in New York. He was extradited to the U.S. in January on drug-trafficking and murder charges, to which he has pleaded not guilty.

Close to 900 people have been murdered in Sinaloa over the first six months of 2017, almost twice the number of homicides over the same period last year, according to the Sinaloa Attorney General's Office. Most of the increase was due to drug-related killings.

In one outburst of violence late last month, 19 people were killed in an incident that ended with gunmen battling police a short distance from the Pacific beach resort of Mazatlán, Sinaloa officials said. Five police officers were also wounded.

"It's a war between two groups fighting for drug markets and routes," said Genaro Robles, a retired Mexican army general who was named Sinaloa's secretary of public safety in December.

The war of succession has also sowed violence elsewhere in Mexico, as rival groups take advantage of a weaker Sinaloa cartel to try to poach turf from the gang, which has been the top dog in the Mexican underworld for the past two decades.

This month, 14 people were killed in a gunbattle in neighboring Chihuahua state between alleged gunmen from a faction of the Sinaloa cartel and members of La Línea, a dominant faction of the Juarez cartel, Chihuahua state officials said.

Mexico's Jalisco New Generation cartel, a powerful organized crime gang in the nearby Pacific coast state of Jalisco, also has been emboldened and is expanding in Sinaloa and elsewhere, officials and analysts say.

The violence underscores the drawbacks of a longstanding U.S. and Mexican government strategy to capture and kill narcotics kingpins.

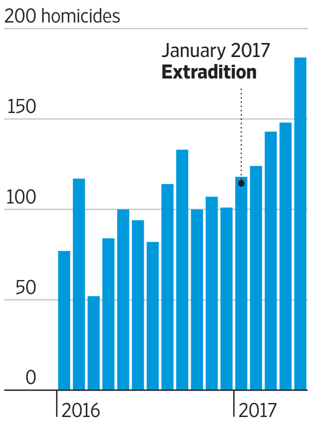
"The kingpin strategy doesn't work," said Guadalupe Correa-Cabrera, a professor at the University of Texas Rio Grande Valley, who has written a book on the Zetas cartel. "When a kingpin is removed, he is replaced by somebody else, violence increases, and there is more diversification of criminal activities."

When a kingpin is captured or killed, he is often replaced by a member of a younger, bloodthirstier generation, analysts say. In Sinaloa, for the most part, old-time drug traffickers like Mr. Guzmán maintained a rough sort of law and order in places like Culiacán, the state capital. Some types of crimes, such as burglaries and street holdups, were rare. The old capos concentrated on exporting drugs to the U.S.

For that reason, many Sinaloa residents pray for the good health of 69-year-old Ismael "El Mayo" Zambada, the last of the old-time bosses still at large, who has a reputation as a conciliator among the warring groups. "El Mayo is the best of the bad ones," a longtime Culiacán businessman said. "When he goes, there will be a bigger bloodbath."

Violent Aftermath

Killings have soared in Sinaloa since 'El Chapo' was sent to U.S.



Source: Mexico Interior Ministry
THE WALL STREET JOURNAL.

Much of today's violence is driven by competition for local drug sales—especially methamphetamines, officials and analysts say.

"The domestic market produces a lot of money, especially for meth," said Ismael Bojórquez, the publisher of Riodoce, a weekly newspaper whose co-founder, Javier Valdez, was gunned down in May in Culiacán.

Tensions within the Sinaloa cartel had been simmering since Mr. Guzmán's recapture in 2016, but they burst into open warfare in February following his extradition. Hostilities were set off when Dámaso López, described by the U.S. Treasury in 2013 as Mr. Guzman's right-hand man responsible for multiton shipments of cocaine, made a play for control of the cartel. Mr. López's gunmen took on the Chapos, those loyal to Mr. Guzmán's two sons, Iván Archibaldo Guzmán and Jesús Alfredo Guzmán, officials and local residents say.

The arrest of Mr. López and half a dozen bodyguards in Mexico City in May has only increased the pace of killings: his son, also named Dámaso López, has now taken over that faction, officials say. Attempts to reach either Mr. López were unsuccessful. The father was indicted on a charge of drug smuggling in 2011 by federal prosecutors in Virginia. The U.S. has requested his extradition, Mexican officials say.

Many of the recent killings in Sinaloa have taken place in the dusty farm town of Villa Juárez, where the two sides have been fighting for control of the local methamphetamine market, officials say. The battle began in early February as rival gunmen riding SUVs—including one with a mounted machine gun—engaged in a running firefight at a traffic circle at the entrance of town. Two uninvolved pedestrians were killed in front of a nearby restaurant, and a woman was gunned down a block away.

"I thought they were shooting at me, but they are fighting for control of the town," the restaurant's cook said, adding that she dived to the floor with her young son when the shooting started.

The town feels like a war zone, with Mexican army armored personnel carrier parked at its entrance. On a recent day, middle-school art teacher Idilia Ceniceros supervised a dozen students as they painted cheery murals of doves and children shaking hands on the school's cinder-block walls. Ms. Ceniceros said it was her way of countering the violence her students are living through.

"We are trying to teach values, because we get along like dogs and cats," she said.

One student recounted how one of his neighbors was snatched from his house and killed. Another, holding a paint can, said her cousin was recently killed. "He was with the wrong person, and they killed him," she said.

FERNANDO BRITO/AGENCE FRANCE-PRESSE/GETTY IMAGES

Army and federal police at a crime scene in Villa Juárez.

China's Growth Masks Troubling Signs

Data show heavy reliance on real estate, little progress toward cutting country's debt

BY LINGLING WEI

BEIJING—China touted its buoyant economic expansion this year as evidence it can reduce debt without harming growth. But the outlook appears hazier when considering the property market's outsize role in the economy, jittery consumers and signs that significant deleveraging hasn't fully set in.

Beijing said domestic demand fueled 6.9% growth in the second quarter, a result that matched last quarter's growth rate and beat economists' forecasts. However, economists and analysts say the result has to be measured against a continued reliance on problematic sectors such as real estate and a lack of meaningful progress toward cutting the country's debt.

Meanwhile, Chinese consumers aren't spending as fast as their wages rise, suggesting many have become more financially strapped because of high property prices.

The latest data is "a blip amid a growth deceleration," said China economist Larry Hu at Macquarie Securities in Hong Kong.

Armed with a more stable yuan and reduced capital outflows, Beijing has been able to tighten credit without causing market panic or affecting headline growth. That effort has forced banks and other financial institutions to cut back on borrowing from each other. But it hasn't led to significant debt reduction in the economy.

"There hasn't been too much deleveraging going on," said Zhu Chaoping, a Shanghai-based economist at UOB Kay Hian.

In June, Chinese banks issued a higher-than-expected 1.54 trillion yuan in new loans, or roughly $227 billion, compared with 1.1 trillion yuan in May. More than a third of that amount went to home lending. Indeed, a resilient property market is the most important driver of China's growth so far, according to economists including Messrs. Zhu and Hu.

The results mean that in a year that will see a twice-a-decade leadership transition, Beijing will have little problem reaching its full-year growth target of about 6.5%.

But Beijing has to continue to clamp down on credit to shift to a more sustainable growth model, leaders say. If growth slows in the coming months, that clampdown could become more difficult.

"We shouldn't be too optimistic about the economic picture in the second half of the year," said Sheng Songcheng, a senior adviser at the People's Bank of China.

Should growth weaken, Mr. Sheng said, the PBOC likely will gradually guide down the short-term interest rates used to price bonds and bank-to-bank loans and ease the liquidity constraints on the country's financial system to help the economy. That would mark a shift in strategy since late last year, when the PBOC embarked on an untraditional tightening path by pushing up the short-term rates while leaving unchanged the benchmark rates.

Beijing faces a policy dilemma in its battle to tame the property market, which, together with construction and home furnishings, now contributes to a third of the overall economy. It doesn't want home prices to soar for fear of destabilizing bubbles; on the other hand, it needs to prevent a property crash that could torpedo the economy.

Since late last year, a series of measures intended to curb home buying has helped slow the run-up in home prices in megacities such as Beijing, Shanghai and Shenzhen. Yet those measures have done little to deter potential buyers. Many of them have simply flocked to smaller cities.

Nationwide, property sales jumped 16% from a year earlier in the second quarter, primarily driven by the gains in medium-size and small cities. Property investment continued to accelerate in the first half. Still, there were signs that developers tempered investment toward the end of the period, expecting buyers to scale back amid purchasing restrictions.

In addition, the rising property prices are causing many consumers to tighten their purse strings. In the first six months, wages earned by urban residents increased 6.5%, on average, according to official data. By comparison, their consumption picked up at a slower pace of 5.1%. Property-related expenses represented the second-largest share of consumption after food and alcohol.

The gap indicates the toll that high home prices are taking on consumption as well as growing uncertainty among ordinary Chinese about the economy, economists and labor experts say.

One of them is Wang Jun, a 30-year-old car salesman in the southern metropolis of Guangzhou. Unwilling to be left out of the housing boom, Mr. Wang earlier this year bought a property with a mortgage payment that makes up about 75% of his monthly income. "I have to be frugal," Mr. Wang said.


CHINA STRINGER NETWORK/REUTERS

High-rise towers in Tianjin, China. Property, construction and home furnishings contribute to a third of the country's overall economy.

Seoul Reaches Out to Pyongyang With Hope of Talks

BY JONATHAN CHENG

SEOUL—The administration of South Korean President Moon Jae-in made its first formal offer to start talks with North Korea, following through on a policy plank of Seoul's first left-leaning president in nearly a decade.

South Korea's Ministry of National Defense on Monday proposed a meeting with its counterpart this Friday at Panmunjom, the truce village where the 1953 armistice that halted the Korean War was signed, to discuss ways to lower tensions between the two sides.

At the same time, the Ministry of Unification, which oversees Seoul's ties with Pyongyang, called for the two Koreas to restart reunions of families separated during the Korean War and reiterated a desire for an end to hostilities between the two sides.

"If South and North sit down face to face, we will be able to frankly discuss issues of mutual concern," said Cho Myoung-gyon, the new unification minister.

North Korea didn't immediately respond through its state media to the proposals, but it has dismissed Mr. Moon's previous suggestions for a restart to dialogue.

Beijing, an ally of Pyongyang's, voiced support for Seoul's proposal. A Chinese Foreign Ministry spokesman said the effort is a step toward improving relations between the Koreas and easing regional tensions.

"We hope the two sides will move in a positive direction to create the conditions to break the stalemate and relaunch dialogue and negotiations," the spokesman, Lu Kang, said in Beijing.

The dual proposals on Monday underscore Mr. Moon's commitment to seeking engagement with Pyongyang as a way to lower tensions on the Korean Peninsula. Mr. Moon, a liberal who favors dialogue with North Korea, was sworn into office in May following the impeachment and removal of his conservative predecessor, Park Geun-hye.

Mr. Moon's more dovish stance contrasts with the approach of U.S. President Donald Trump, who has ramped up tough language against North Korea since coming to office and threatened "some pretty severe things" in response to the regime's weapons tests.

A U.S. Embassy official on Monday said the U.S. continues to coordinate closely with Seoul on North Korea.

Since Mr. Moon's inauguration, North Korea has tested a series of missiles with new capabilities and this month test-launched its first intercontinental ballistic missile capable of reaching parts of the U.S.

Even while condemning the North's missile test and ordering a joint missile-launch drill with the U.S. on the Korean Peninsula the following day, Mr. Moon hasn't given up on dialogue.

Days after North Korea's July 4 ICBM test-launch, Mr. Moon delivered a speech in Berlin calling for greater rapprochement with North Korea, including the proposals that were formally made on Monday.

In the speech, Mr. Moon also called for a summit meeting with North Korean leader Kim Jong Un "at any time, at any place," providing certain conditions were met. He has also called for cooperation between the two Koreas at the Winter Olympics next year, which will be hosted by South Korea.

During the Berlin speech, Mr. Moon said he had secured Mr. Trump's support for Seoul to take the initiative in reopening inter-Korean dialogue following their White House summit meeting in late June.

Over the weekend, North Korea's Rodong Sinmun newspaper dismissed Mr. Moon's Berlin speech as "nonsensical sophism putting a brake on the efforts for achieving peace on the Korean Peninsula."

The speech's "overall contents are run through with an ill intention to escalate confrontation with the compatriots in the north and stifle them with the backing of outsiders," the Rodong Sinmun said in a commentary, the state-run Korean Central News Agency reported.

This month, North Korea chastised Mr. Moon for condemning, rather than celebrating, Pyongyang's ICBM test-launch.

North Korea also rejected an earlier offer by the Moon administration to restart family reunions, demanding that the South first agree to turn over a group of North Korean restaurant workers who defected to Seoul last year. Pyongyang says they were kidnapped by the South.

—Min Sun Lee and Charles Hutzler contributed to this article.


BENOIT DOPPAGNE/BELGA/ZUMA PRESS

North Korean and South Korean soldiers stood guard at the demilitarized zone near Kaesong in June.

EU, in Line With U.S., Steps Up Pressure

BRUSSELS—European Union foreign ministers swung largely behind Washington's stance on North Korea on Monday, threatening further sanctions and pressing China to push Kim Jong Un's regime to abandon its nuclear work.

Yet behind Monday's joint stance, European governments are staking out conflicting positions on one of the world's most volatile flashpoints.

Despite recent EU overtures urging dialogue on the North Korean crisis, the ministers called on Pyongyang to move toward reducing its nuclear program as a precondition for broader international talks, even as South Korea's new left-leaning president pushed military-to-military contacts with the north to ease tensions.

EU foreign-policy chief Federica Mogherini, with the backing of Sweden, Ireland and others, has been looking at how the EU could revive discussions to help avert conflict over North Korea. They argue that pressure alone is insufficient to stop Pyongyang's nuclear work.

EU officials say Brussels may be considered a relatively neutral party, as 26 of its member states have formal diplomatic relations with Pyongyang and seven maintain embassies there. The EU has no formal role in the United Nations-backed six-party talks, which are charged with ending the nuclear standoff. Others EU countries are wary of allowing North Korea to use talks to divide the international community.

—Laurence Norman

South to Steeply Raise Minimum Wage

BY MIN SUN LEE AND KWANWOO JUN

SEOUL—South Korea said it would boost its minimum wage by 16.4%, a sharp rise compared with recent increases in other developed economies, drawing criticism from small businesses as the country's new left-leaning administration implements its policy agenda.

President Moon Jae-in, who took office in May, is pushing for a greater role for the government in creating jobs and spurring domestic demand, and had called for a substantial increase in the minimum wage to address income inequality.

"It's not just an hourly wage but it symbolizes the right to live as a human," Mr. Moon said Monday.

The country's Minimum Wage Commission said it had decided it would raise the benchmark to the equivalent of $6.67 an hour effective Jan. 1. The increase is the largest annual rise since 2001, and follows a 7.3% rise this year and an 8.1% increase in 2016.

The size of the increase raised concerns among businesses. The Korea Federation of Micro Enterprise, which mostly comprises small-business owners, said its members were "worried about a sudden decline in employment, decline in service quality and possible closure due to worsened business environment."

The government is preparing a financial-aid package for small companies to offset any negative effects. The finance ministry said it decided to spend some $2.66 billion to help smaller businesses cover a likely heavier financial burden and maintain employment. It also plans to offer companies more financial aid in the form of tax breaks or reducing credit-card transaction fees in the coming year.

As many as 4.63 million employees, or about 24% of the salaried population—including part-timers and contract workers in lower-income brackets—will see their pay rise as a result of the decision, according to the commission.

Small businesses have criticized the rise to the equivalent of $6.67 an hour.

The 27-member independent commission, which is affiliated with the labor ministry, said it reached the decision after three months of discussions among union leaders, management representatives and academics.

"It's good news for part-timers. But I don't expect it will make too much difference since overall prices will also go up," said Jang Eun-min, a 23-year-old college graduate who works at a drugstore in the South Korean capital. "Even with the increased minimum wage, it's still difficult to buy a meal in downtown Seoul."

The wage increase could also add inflationary pressure, analysts say, which in turn could damp the effect of higher pay on consumption.

In the U.S., minimum-wage increases of varying degrees—mostly less than $1 an hour—took effect in 19 states this year. The country's federal minimum wage hasn't changed since 2009. Britain's minimum wage rose by £0.30, to £7.50 ($9.80) an hour, in April.

South Korea's president has pledged to increase the minimum wage to 10,000 won, or about $8.86, by 2020. Doing so would require annual increases of at least 15% in coming years.


SEONGJOON CHO/BLOOMBERG NEWS

A customer browses the shelves at a store in Hanam, South Korea. A wage commission deliberated for three months before acting.

.K., EU Open Substantive Brexit Talk

t on the agenda is
ling citizens' rights;
, negotiators turn
uture trade

e U.K. and the European n began Brexit talks in est Monday, with a four- negotiating session on a f thorny issues the EU s largely resolved before ssions turn to a future deal.

By Jason Douglas
in London
nd Laurence Norman
in Brussels

K. Brexit Secretary David and the EU's top negotia- ichel Barnier returned to or the first time since the al opening of talks on 19, with the focus on U.K. EU citizens' rights after t and how much London pay to cover the U.K.'s anding financial commit- s to the bloc.

e two sides also are due scuss how to manage the border with Ireland af- withdrawal, expected in h 2019.


GEERT VANDEN WIJNGAERT/ASSOCIATED PRESS

U.K. Brexit Secretary David Davis and the EU's top negotiator Michel Barnier in Brussels.

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., highlighting the challenge of agreeing a far-reaching settlement on Brexit within the 18 months remaining for talks.

"We made a good start last month, and as Michel says we are now getting into the substance of the matter," Mr. Davis said, adding that it is "time to get down to work and make this a successful negotiation."

Mr. Barnier said he and Mr. Davis would remain in touch throughout the week as their teams get to work and would reconvene "to take stock" on Thursday.

Mr. Barnier said last week there are major differences on key points. The EU proposed granting EU citizens in the U.K. and U.K. citizens in the EU rights to work and benefits similar to those that they already enjoy. The U.K. countered with proposals offering EU citizens "settled status" that confers many but not all existing rights as well as a pathway to British citizenship.

There are around three million EU nationals in Britain and more than one million U.K. nationals living in the union's 27 other member states.

Despite such differences, analysts say that the two sides should be able to reach a deal on citizens' rights, but a much bigger disagreement looms over money.

The EU estimates the U.K. is on the hook for upward of €60 billion ($69 billion) in spending pledges made but not yet fulfilled.

The prospect of payment on such a scale is political dynamite in the U.K., where advocates of Brexit won last year's referendum in part on a promise to stop sending Brussels any money at all.

Boris Johnson, U.K. foreign secretary, last week dismissed such demands as "extortionate" and agreed with a colleague in Parliament that the EU could "go whistle" for such a sum.

Yet the U.K. government subsequently conceded in a written statement to Parliament that Britain is prepared to make "a fair settlement" with the EU and that it may keep making payments even after withdrawal.

"Money is clearly going to be the stormiest dossi phase one of the neg tions," said Mujtaba Rah managing director at Eu Group.

The negotiations c amid renewed signs of sc bling between senior Br politicians over policy pr ties, adding to signs of i bility in Prime Minister resa May's government af poor showing in a June tion cost her ruling Cons tive Party its parliamen majority and sapped he thority.

Treasury chief Philip H mond on Sunday hit ou colleagues he accused of a ymously working against after Sunday newspapers ried critical stories. Mr. H mond has emerged as most vocal proponent Brexit deal that priori safeguarding the econ over priorities advance staunch pro-Brexit collea such as immigration con

"I think my collea should focus on the job we've been elected to do, Hammond told the Bri Broadcasting Corp.'s An Marr Show.

—Wiktor Szary in Lo contributed to this ar

pposition Vows eneral Strike n Venezuela

JAL VYAS
NATOLY KURMANAEV

RACAS—Venezuela's op- ion announced a general e and plans to name new eme Court judges, threat- to launch a parallel state esident Nicolás Maduro n't abandon his plans to te the constitution.

We're prepared to deepen olitical conflict to achieve eestablishment of consti- nal order," the vice presi- of congress, Freddy Gue- said at a news rence on Monday flanked her foes of Mr. Maduro. Guevara called for a 24- strike on Thursday, and riday lawmakers in the sition-controlled National mbly are slated to name cements for some of the strates allied to Mr. Ma- on the high court.

arly 7.2 million Venezue- at home and abroad cast s on Sunday in an unoffi- plebiscite organized by the opposition to serve as a mass repudiation of the unpopular Mr. Maduro's efforts to create a so-called constituent assembly on July 30 that would redraft the constitution. The opposition, along with international human-rights groups and governments from the U.S. to Colombia, has sharply criticized the plan as a bit by the increasingly authoritarian leader to seize more power and bypass elections.

On Monday, the Trump administration condemned plans for Mr. Maduro's assembly. "We once again call for the constituent assembly of July 30 to be canceled and for free and fair elections to be scheduled," said White House spokesman Sean Spicer. He also criticized "violence inflicted by government thugs against voters and efforts by the government to erode democracy in Venezuela."

Mr. Guevara and other opposition leaders said they were working to create a so-called "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 unconstitutionally. 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, chronic food shortages, rampant 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 reso and without the suppo state electoral authorities vote still provided a boos the opposition as pres mounts on Mr. Maduro t solve Venezuela's debilita economic and political cr

"Further political and s polarization seems likel the opposition and the go ment dig in," Goldman S analyst Alberto Ramos sa

Lawmakers and opposition leaders cheer the result of an unauthorized referendum on President Maduro's plan to rewrite the constitu

ter created by a massive explosion that killed more than 150 in Kabul in May.

abul Deadliest Afghan Area

SSICA DONATI

ABUL—More civilians l killed and wounded in in the first six months 017 than in war-ravaged and, according to a d Nations midyear report showed civilian deaths njuries in Afghanistan re- ed near record levels doc- ated last year.

rise in large-scale mili- attacks in Kabul have had foundly destabilizing ef- on the capital, where roads are still locked and some embassies scaled back to skeleton after a massive truck struck near the diplo- enclave in May.

U.N. Assistance Mission 5,243 civilian casualties across the country, including 1,662 dead and 3,581 wounded over the period, a decrease of less than 1% from last year, the report said. This included a 2% rise in civilian deaths and a 1% decline in injuries.

The trend reflects the growing influence of the Taliban insurgency in rural areas, which has provided a bigger foothold and more recruits for it to carry out large-scale attacks on workers at rush hour in central Kabul and other major cities.

The U.N. said civilian casualties in Kabul were almost twice as high as in Helmand, which is mostly under Taliban control and has long been considered the country's most vi- 1,048 civilian casualties in Kabul province over the period, including 219 deaths and 829 injured, a 26% increase from last year, the U.N. said.

The rising urban toll could fuel concerns over plans by the European Union to deport Afghan migrants back home on the basis that some parts of Afghanistan, including Kabul, were safe enough for them to return. Around 200,000 Afghans arrived on the continent in 2015 in an effort to escape the conflict, according to the EU, and tens of thousands followed last year.

The U.N. report showed a 23% rise in female casualties this year, including 174 women dead and 462 injured, and a rise in child deaths, which

WORLD WATCH

SYRIA

EU Sanctions Target Scientists, Officers

The European Union is set to target 16 Syrian scientists and military officers in a new round of sanctions against the regime of President Bashar al-Assad, seeking to punish those responsible for chemical-weapon attacks against civilians.

The decision was confirmed by U.K. Foreign Secretary Boris Johnson and two other European sources.

The move is a more-limited version of a similar set of U.S. decisions this year that targeted close to 300 people, including 271 employees of the Syria Scientific Studies and Research Centre.

The EU measures will also hit scientists at the center, a Syrian government agency that Washington says is responsible for producing chemical and ballistic weapons, according to U.K. officials.

The EU sanctions were set to be adopted Monday at a meeting of the bloc's foreign ministers. The exact list of targets will be known on Tuesday when the names are published in the bloc's official journal of record.

—Laurence Norman

INDIA

Modi Ally Looks Set To Become President

Lawmakers voted Monday to choose India's next president in an election widely expected to be won by a little-known member of a Hindu political group, Bharatiya Janata Party.

The likely winner, Ram Nath Kovind, 71 years old, is the former governor of the eastern state of Bihar and an associate of the Rashtriya Swayamsevak Sangh, or National Volunteer Corps, a Hindu group that has long been accused of stoking religious hatred against Muslims.

The group is also the ideological parent of Prime Minister Narendra Modi's BJP, which controls enough seats in federal and state legislatures to push its favored candidate. The votes from Monday's election will be counted Thursday.

—Associated Press

JORDAN

Killer of 3 Americans Gets Life in Prison

A soldier was sentenced Monday to life in prison after being convicted of killing three U.S. military trainers last year, but some said questions lin about his motive for the sh ing at a Jordanian air base.

Jordan has ruled out terr in the November shooting in which a convoy of U.S. Army cial Forces troops was fired o

The defendant has said h felt no animosity toward Am cans and opened fire becau believed the base was comi under attack.

However, relatives of the slain U.S. troops have descr security-camera footage tha they say shows him shootin six minutes, reloading and a ing at the Americans, even they identify themselves as friendly forces.

After a not-guilty plea, th Jordanian soldier, 1st Sgt. M al-Tuwayha, was tried by a tary court in Amman.

He didn't react Monday w the judge announced the ve and the maximum possible tence.

—Associated

TAPED: Richard Whitehead, right, won the World Para Athlet

Health-Law Taxes Divide the GOP

A decision to maintain taxes that affect high-income earners has angered conservatives

BY RICHARD RUBIN

ANDREW HARRER/BLOOMBERG NEWS

Sen. Bob Corker (R., Tenn.) was one of the lawmakers pleased by a decision to keep taxes that affect high-income earners.

WASHINGTON—Republican efforts to pass a health-care bill have revealed a party fissure on health-related taxes with potentially far-reaching repercussions.

In his latest attempt to rewrite President Barack Obama's signature health-care law, Senate Majority Leader Mitch McConnell (R., Ky.) retained a 3.8% investment-income tax and a 0.9% payroll tax that apply to individuals earning more than $200,000 and married couples earning more than $250,000.

The decision to keep the taxes instead of repealing them satisfied senators such as Mike Rounds of South Dakota and Bob Corker of Tennessee, both Republicans, who were worried about losing revenue sources and about the optics of reducing taxes on high-income households. But it infuriated conservatives who see the taxes as a drag on economic growth and view removing them as an important part of repealing the 2010 Affordable Care Act.

"They're all wusses," said Larry Kudlow, the CNBC economic commentator. "How is it possible after all these years of studying the capital-gains tax? How is it possible that they don't know that [cutting] it promotes growth?"

The party's longstanding focus on lowering marginal tax rates to spur investment and growth is colliding with some members' concerns about the merits and politics of cutting taxes for businesses and high-income households while proposing other policies, in this case on health care, that could place a greater financial burden on low-income households.

The challenge could reemerge when the party moves on later this year to an effort to rewrite U.S. tax law.

"I thought it important that we recognize that if we're offering the benefit, that we should also try to offer a revenue source, and that's part of the responsibility that we've got," Mr. Rounds said. "I know it's still a burden on them, but it's not near the burden on [high-income households] as would be to individuals in that $0-to-$36,000 pay range."

Independent estimates of the blueprints from House Republicans and President Donald Trump's administration show the bulk of benefits from their plans accrue to the top of the income ladder, though no plans are final and the GOP president has promised a middle-class tax cut.

At some level, health care may be a unique case, with policy boundaries set by the Affordable Care Act, widely known as Obamacare, and the potentially visceral reaction to tax cuts twinned with coverage losses.

But the retention of the 2010 law's taxes may indicate the emergence of a Republicanism that, while not favoring tax increases, is less comfortable with focusing tax cuts on high-income households. Mr. Trump has occasionally flirted with populist rhetoric on tax policy, and his campaign last year resonated in some areas of the country struggling with economic decline.

The past week shows "the waning power of the supply side, pro-growth antitax wing of the Republican Party," said James Pethokoukis, a columnist and blogger at the conservative American Enterprise Institute. It is "a moving away from the more extreme tax-cut positions."

The two ACA taxes in question each affect fewer than 3% of households. Republicans opposed the taxes along with the rest of the health law, but the law's core structure—tax increases at the top used to pay for broader health-insurance coverage—meant that undoing the taxes would lead to the reverse.

To most House Republicans, that wasn't a problem. The tax increases, they argued, were holding the economy back, so repeal would be an economic boon. Their bill repealed the investment tax retroactively for 2017 and ended the 0.9% payroll tax in 2023.

"I'm much more concerned about us keeping our word, and we said we were going to get rid of Obamacare," said Rep. Jim Jordan (R., Ohio).

That idea fell flat in the Senate for several reasons. One is the slim margin, where any three Republican senators can band together to kill an idea, assuming there is no Democratic support.

A second reason is the rule allowing unlimited amendments on reconciliation bills that avoid a filibuster. That means Democrats could force politically tough votes, such as retaining the investment tax and using the money to help near-retirees afford health care.

"It shows how incredibly unpopular cutting taxes for the wealthy is, and how powerfully that criticism has broken through and I think affected how some senators seem to be viewing this bill," said Harry Stein, director of fiscal policy at the Center for American Progress, a think tank aligned with Democrats.

Few, if any, House Republicans have ruled out voting for the Senate bill because it doesn't repeal the taxes.

Instead, the pressure would transfer to the tax bill. Republicans had assumed they would have already accomplished a big piece of their tax-cutting agenda in the health bill. Now, that task is harder. Removing the health-law taxes could require finding money elsewhere, or the taxes could just remain in place.

"We'd have to find the offsets in another place, be flexible and try to find another place," said Rep. Kenny Marchant (R., Texas). "And the people in the other place might not be happy about it."

House Republicans have said repeatedly that they aren't particularly concerned about how their plan changes the tax burden for different income groups, saying their main aim is to generate broad economic growth.

New Head Of CDC Lays Out Her Goals

BY BETSY MCKAY

The new director of the Centers for Disease Control and Prevention said she will prioritize a wide range of public-health issues, from fighting infectious diseases to strengthening early childhood development, as the federal agency faces potentially substantial budget cuts.

In an interview at the end of her first week on the job, Brenda Fitzgerald said she would make a strong case for public-health spending should the agency fall on tough times.

"When there are austere times, the most important factor is that you have to know what your mission is," Dr. Fitzgerald said. "You make sure what you're doing is indeed fulfilling that role, because there are certain things that I believe only public health can do," she said.

The Trump administration has proposed a $1.22 billion, or 17%, cut to the CDC's budget for fiscal 2018, including reductions in chronic-disease prevention and epidemic preparedness.

Many public-health experts welcomed Dr. Fitzgerald's July 7 appointment because she is a public-health advocate and leader. But she has been criticized for a Georgia childhood-obesity program that accepted funds from Coca-Cola Co.'s foundation.

New CDC head Brenda Fitzgerald was previously Georgia's public-health commissioner.

Dr. Fitzgerald, 71 years old, grew up in Middlesboro, Ky., a town in coal-mining country. She was Georgia's public health commissioner from 2011 until she was named to her CDC post. She calls herself a "strong advocate for vaccines" and says she supports making reliable contraception available, two issues that have been scrutinized by the new administration.

Rates of premature births can be brought down by spacing births, saving on health-care costs, she said, an approach that generally requires contraception.

Dr. Fitzgerald said that preventing the spread of infectious diseases will remain a priority for the agency.

Battling the U.S.'s biggest killers will also be a focus for the CDC under her leadership, she said, though she didn't cite specifics. Fighting opioid addiction is a priority for the administration, her spokeswoman said.

Dr. Fitzgerald has come under fire for the Georgia SHAPE childhood-obesity program, which took $1 million from 2013 to 2015 from the Coca-Cola Foundation to promote physical activity. She said that the state purposely sought partners from every sector, including large area employers such as Coca-Cola, to join its $57 million program. The program promotes eating fresh fruits and vegetables, in addition to physical activity, she said.

"I think if you're going to solve a big problem, you've got to have a public-private partnership," she said.

Visas Added for Temporary Seasonal Workers

BY LAURA MECKLER
AND MICHAEL C. BENDER

TIMOTHY D. EASLEY/ASSOCIATED PRESS

An immigrant worker at Churchill Downs in Louisville, Ky. The horse racing industry, dependent on immigrant workers, is facing a shortage of manpower due to a shortage of visas being issued.

WASHINGTON—The Department of Homeland Security said Monday it would make 15,000 more visas available for seasonal workers, increasing by nearly 50% the number of foreigners able to work in the U.S. this summer.

The decision responds to complaints from businesses and members of Congress about a significant shortfall in H-2B visas that left hotels, restaurants and other businesses that see a surge of demand in the summer scrambling.

On Monday, officials said that applications would be accepted beginning Wednesday, and that 15,000 would be available.

To qualify, employers must attest that their businesses are likely to suffer "irreparable harm," defined as permanent and severe financial loss, without the H-2B workers.

While some U.S. lawmakers sought even more visas, DHS officials said this amount would cover the number of companies that meet this criteria.

Businesses seeking additional visas can expect to wait 30 to 60 days for the petitions to be approved, senior DHS officials said. The officials encouraged companies to seek "premium processing" for their petitions, which costs about $1,200 but can shorten the wait time to about two weeks.

Legislation authorizing the additional visas wasn't approved until the spring. "We understand that is late in the season," said David Lapan, a spokesman for the Department of Homeland Security. "We're working as hard as we can."

By law, the number of H-2B visas, which are available for temporary, nonagricultural jobs, is capped at 66,000, divided between the summer and winter seasons. This year, the summer allotment was exhausted in March.

In past years, Congress has exempted returning workers from the cap, enabling many additional foreigners to participate in the program, but lawmakers didn't renew that exception for this year. Instead, on April 30, Congress gave DHS authority to add additional visas if Homeland Security Secretary John Kelly found businesses that were at risk without them. It took DHS until now to use the authority granted.

In a nod to concerns about unfair competition from foreign workers, DHS said it was establishing a tip line for members of the public who want to report employers they suspect are abusing the program.

Roy Beck, president of NumbersUSA, an advocacy group that wants to restrict legal and illegal immigration, said he was disappointed in the decision. "At least Kelly limited the damage to keeping just 15,000 more Americans out of the labor market," he said. "Nonetheless, this is yet another example of the administration and Congress failing to keep the Trump campaign promise of putting American workers first."

U.S. WATCH

HOUSE OF REPRESENTATIVES

Panel to Consider Budget Resolution

The House Budget Committee will consider a fiscal 2018 budget resolution Wednesday, marking a crucial but still early step in Republicans' path to a major tax overhaul.

A budget resolution approved by the House and Senate is necessary to trigger the so-called reconciliation rules that would let the GOP pass a subsequent tax bill through the Senate without Democratic votes. The budget will provide the parameters for the tax bill.

But Republicans have been divided over the budget itself, with defense hawks pushing for more spending and conservatives arguing for spending cuts in other programs. Republicans want the budget to balance by the end of a decade without raising taxes, a goal that requires a combination of spending cuts and aggressive economic growth assumptions.

The committee didn't release a draft resolution or details about the session when it announced it Monday. It was unclear whether Republicans have resolved any of the internal conflicts about the budget or when it would get a vote on the House floor.

Senate Republicans will be writing their own budget, and the chambers need to approve identical resolutions in order to begin the reconciliation process for tax policy. That could take weeks or months, and it is unlikely the House and Senate will reach a deal before Congress goes on its August recess.

—Richard Rubin

BANKING REGULATION

CFPB Urged to Delay Ruling on Arbitration

The Trump-appointed acting head of the national banking regulator urged the Consumer Financial Protection Bureau on Monday to delay a rule barring mandatory arbitration requirements between financial firms and customers, escalating a fight between the two regulators.

Acting Comptroller of the Currency Keith Noreika on Monday asked CFPB Director Richard Cordray to halt the rule, which could ease the way for class-action litigation against companies, until his office can assess the data behind the rule and verify it won't put banks in financial risk. The letter is the third between Mr. Noreika and Mr. Cordray since the CFPB announced its arbitration rule.

"The OCC should be granted the opportunity to conduct an independent review of the CFPB data to determine the safety and soundness implications of the Final Rule," Mr. Noreika wrote.

CFPB spokesman David Mayorga said the bureau received the letter and is reviewing it.

Mr. Noreika raised concerns about the rule the day it was announced by the CFPB, saying it presented potential risks for banks. He said the CFPB rule could allow lawsuits that could harm a bank's reputation and financial performance, and ultimately drive up bank costs on consumers.

Mr. Cordray responded to the acting comptroller on Wednesday, saying he was "surprised" by the OCC's letter. "At no time during the (two-year process of preparing the rule) did anyone from the OCC express any suggestion that the rule that was under development could threaten the safety and soundness of the banking system," Mr. Cordray said in the July 12 letter.

Mr. Noreika's Monday response said Mr. Cordray continues to ignore his request for data despite "prior telephonic and in-person assurances that we would have access."

The back-and-forth between the two regulators could increase the chance congressional Republicans attempt to step in and stop the arbitration rule.

—Rachel Witkowski

Electric-Car Push Mulled In California

MIKE NELSON/EUROPEAN PRESSPHOTO AGENCY

Interstate 405 in Los Angeles, which has pioneered clean-air controls for decades, wants 1.5 million zero-emissions vehicles on its roads by 2025.

By Alejandro Lazo And Tim Higgins

SAN FRANCISCO—California lawmakers are considering $3 billion in rebates for buyers of electric cars in an effort to power an industry that relies heavily on public subsidies.

The bill has passed the state Assembly and is advancing in the Senate, which is expected to take up the bill once it clears a final committee next month. Gov. Jerry Brown has set ambitious goals for zero-emissions vehicles, though he hasn't said whether he would sign the bill.

Critics say the program would be a giveaway to a struggling industry.

California has long been a leader on environmental, clean air and climate policies with its large size, geography and heavy reliance on cars. The state has more than 250,000 zero-emission vehicles on its roads, including electric cars, accounting for about half the U.S. market, says the California Air Resources Board.

California has had a tax rebate of $2,500 on fully electric vehicles since 2010, but the program was scaled back this summer based on a buyer's income as the program awaits new funding, according to Chuck Colgan, a spokesman at the Center for Sustainable Energy.

The per-vehicle value of the new rebate hasn't been set. It is expected to vary based on the customer's income and other factors such as how much a similar gasoline-powered model costs.

Similar incentives aided electric car sales elsewhere.

A $5,000 tax credit in Georgia helped the state become the second-largest electric vehicle market in the U.S. after California until the credit was eliminated in July 2015, according to Edmunds, a website that tracks car sales. After the change, sales in Georgia fell to 2% of all U.S. electric vehicles sold in 2016 from 17% in 2014, according to the site. Georgia sales of Tesla, luxury electric vehicles that typically sell for about $100,000, initially fell but bounced back, according to Edmunds.

Electric cars are priced far higher than those that run on gasoline, making sales challenging where gas prices are as low as they are now.

Auto executives talk about a "tipping point" when the costs of some electric models fall below the cost of the conventional version of the same vehicle type.

Industry analysts estimate that rising costs of developing combustion engines that meet ever-stricter emissions regulations could make some electrics reach that level as soon as 2025

In California, electric cars made up just 2.7% of the new-car market in this year's first quarter, according to a report by the California New Dealers Association. During the first three months of 2017, the Honda Civic was the most popular selling new model in the state.

But to meet aggressive mandates for statewide reductions in greenhouse gas emissions, California aims to have 1.5 million zero-emissions vehicles on its roads by 2025 and five million by 2030. The car industry needs an "aggressive boost" to get there, said Assemblyman Phil Ting, a San Francisco Democrat who wrote the new rebate bill.

"We have pushed and adopted very aggressive climate change policies," Mr. Ting said. "There is no way we are going to get there if we don't put more clean vehicles, or clean cars, on the road."

Funds for the proposed rebate will come from existing programs, Mr. Ting said, with one source being the state's cap-and-trade program, which requires California industry to pay for greenhouse gas emissions. That program faces a key test Monday, with state lawmakers set to vote on whether to extend the program from 2020 through 2030.

Some cap-and-trade revenue helps fund the existing, limited electric car rebates, in which a buyer has to apply for one after purchasing a car. Mr. Ting's bill would offer buyers rebates at dealerships, with bigger discounts for lower-income buyers.

Critics say the program would be a giveaway to an industry that has struggled to survive without government funding. "The legislature is once again picking winners and losers in what is supposed to be a free market," said state Senator Andy Vidak, a Republican from Hanford, Calif.

Jessica Caldwell, an auto industry analyst for Edmunds, said the new California program should boost sales, particularly given that new electric models such as the Chevrolet Bolt and Tesla Model 3 can go further on a charge.

"In major cities like San Francisco and Los Angeles, the infrastructure is growing, which has been a major barrier for widespread adoption," she said. "One can argue whether or not this proposal is an efficient use of state funds but if California politicians decide that, yes, increased EV ownership is a priority for the state, then providing more incentives is surely a way to achieve this goal."

Loan Program for Historically Black Colleges Struggles

By Melissa Korn

The federal government has lent out nearly $2 billion over the past two decades to help dozens of historically black colleges and universities upgrade their campuses or refinance existing debt.

But a small fraction of the money has been repaid, oversight is limited and the lifeline promised to the schools, which have played a key role in educating African-Americans since the Civil War, has become more of an albatross for some.

Officials at Stillman College in Tuscaloosa, Ala., are lobbying the Education Department to have their $40 million loan modified or forgiven, arguing that the funds it got through the Historically Black College and University Capital Financing Program in 2012 were secured with overly optimistic enrollment projections.

Barber-Scotia College in Concord, N.C., defaulted on its loan in 2005 after it lost its accreditation.

And four schools ravaged by Hurricanes Katrina and Rita, which in 2007 took out a combined $361 million in loans capped at 1% interest over 30 years, have paid back roughly $12.4 million of it in the past decade and were granted a five-year forbearance period in 2013 when enrollment didn't rebound quickly.

STEVE GATES FOR THE WALL STREET JOURNAL

Graduating students at Stillman College in Tuscaloosa, Ala., in May.

"We've got to have much stricter underwriting requirements" to ensure that schools can handle the new debt, said Johnny C. Taylor Jr., president and chief executive of the Thurgood Marshall College Fund, which represents publicly supported HBCUs, and a member of the loan program's federal advisory board.

Created by Congress in 1992, the capital-financing program encouraged schools to participate "as a coalition, as a collective, being willing to help other institutions," said Brian Johnson, who until last month was president of Tuskegee University. But as a pooled escrow system, schools were also on the hook when institutions with questionable credit couldn't pay back their debt.

The program got off to a slow start: By summer 2006, it had approved just $218 million in loans to 14 schools. A Government Accountability Office report that year encouraged more aggressive marketing to potential borrower institutions. Over the next 10 years, the program approved $1.75 billion in loans, including 11 for more than $50 million each.

Many of the schools have used funds to build or refurbish student housing and dining facilities, and they generated enough revenue to pay off the loan if enrollments remain stable or increase.

But enrollment hasn't been growing at many of the schools in recent years, partly because the Education Department tightened borrowing requirements for a parent loan program popular at HBCUs. Historically black colleges enrolled 294,316 students in fall 2014, down from a peak of 326,614 in 2010.

The program has long faced high delinquency rates.

The Education Department's fiscal 2017 budget request shows that the program had a target delinquency rate of 14%. Its actual delinquency rate—reflecting payments that were between 11 and 59 days late—was 19% in fiscal 2012, and 36% in fiscal 2013.

The Education Department said there are eight HBCU loan applications now under review.

A School Defaults, For-Sale Sign Goes Up, but No One Bites

The campus of Barber-Scotia College in Concord, N.C., has been available for five years.

As long as it is on the market, other schools that have borrowed through the HBCU Capital Financing Program are responsible for paying down Barber-Scotia's past-due loan.

Barber-Scotia took out a $7 million loan in 2000 to renovate a student housing facility. The school lost its accreditation in 2004 after awarding a number of unearned degrees, and with students cut off from federal financial aid programs, enrollment plummeted to fewer than 100 from more than 700 in two years, according to local media and Education Department data. It defaulted in 2005.

Through a pooled escrow fund, into which borrower institutions deposit 5% of their total loan amount, other schools have been picking up the tab. They have covered more than $5 million in payments, according to emailed responses from loan program director Donald Watson.

As of May 2015, the last time the program's advisory board met, members estimated that there was roughly $45 million remaining in the escrow account. "At some point, justice would demand other institutions not to pay to carry that burden, and I think that time may be coming to an end or may have ended some time ago," said Norman Francis, then-president of Xavier University of Louisiana, at a 2008 meeting of the program's advisory board.

Minutes from advisory board meetings show that while Barber-Scotia's campus had been put up for collateral against the loan, officials didn't foreclose on it. And a decade after the default, they were still in the process of marketing it for sale.

Barber-Scotia is still in default, and the campus hasn't been sold, the Education Department said.

Representatives from Barber-Scotia didn't respond to repeated requests for comment.

—Melissa Korn

KKR

Continued from Page One

fee-generating assets. While KKR's stock has roughly doubled since the company listed its shares in 2010, it has lagged behind Blackstone's and the S&P 500.

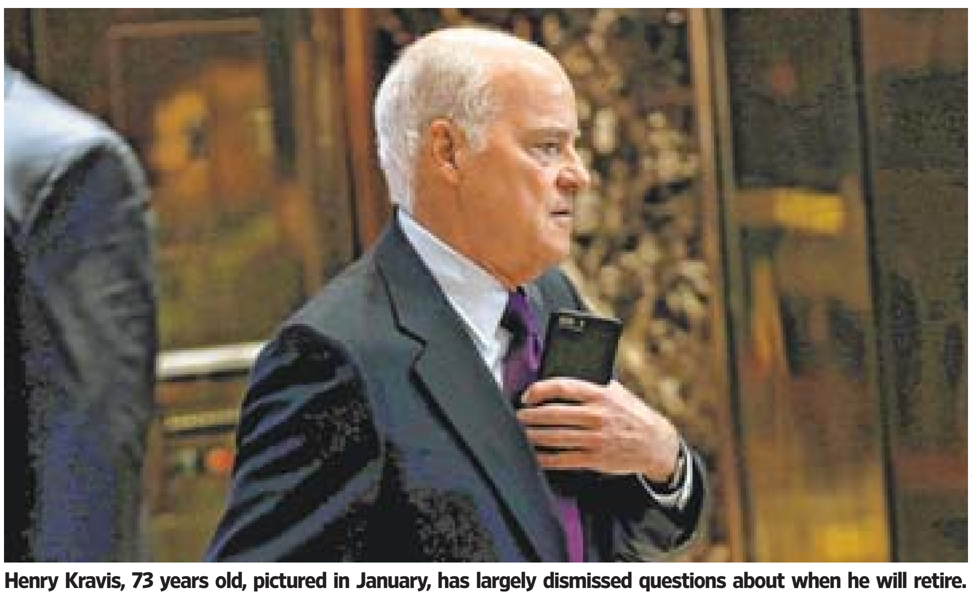
Mr. Bae, a 45-year-old Korean-American deal maker, is well-known in private-equity circles. A Harvard grad and Goldman Sachs alum, he built an Asian investing operation that proved a bright spot for KKR as the firm struggled with souring U.S. buyouts struck in the run-up to the financial crisis. Its wins included the $1.8 billion buyout and subsequent sale of Oriental Brewery to Anheuser-Busch InBev NV in 2014, earning the firm five times its investment, according to the person familiar with the matter. KKR last month closed a $9.3 billion fund dedicated to buyouts in the Asia-Pacific region, the largest such investment product focused on the area.

Mr. Nuttall, 44, helps manage some of the activity KKR sees as key to differentiating itself from an increasingly crowded field. More than its peers, the firm has expanded into the lucrative business of advising companies on raising debt and equity capital, and put its own money into deals, a twist on the private-equity model KKR's founders had a hand in creating.

A soft-spoken executive who previously worked at Blackstone after graduating from the University of Pennsylvania, Mr. Nuttall joined KKR as a private-equity investor. As time passed, his focus shifted to building the firm's own business, helping it create in-house debt-trading and hedge-fund units as KKR sought to diversify beyond its private-equity roots.

He rose through the ranks while taking part in challenging deals such as KKR's 2007 buyout of First Data. KKR has struggled to unload its investment in the payment processor, whose business had stumbled after it was saddled with debt that at one point totaled more than $20 billion. Mr. Nuttall routinely speaks for the firm on quarterly earnings conference calls and investor events.

In their new roles, Mr. Bae will lead KKR's efforts in private-equity, infrastructure, real estate and energy investments, while Mr. Nuttall will primarily oversee its businesses in corporate debt, hedge funds and capital markets, and manage the firm's own corporate development. Both men joined the firm in 1996, and in recent years have been perceived as among the potential front-runners to one day lead it.



MIKE SEGAR/REUTERS

Henry Kravis, 73 years old, pictured in January, has largely dismissed questions about when he will retire.

Meanwhile, Alexander Navab, head of KKR's private-equity business in the Americas, plans to depart the firm, according to the company's statement, which didn't provide further details.

Succession at KKR has been a subject of mounting interest inside and outside the firm as its founders age. In recent years, Messrs. Kravis and Roberts, 73-year-old cousins, had largely dismissed questions about when they'll retire. They and some of their peers have played active roles as their firms have grown from modest investment partnerships to major asset managers. Many of the largest such firms are still run by the men who started them.

Messrs. Kravis and Roberts will retain their roles as co-chief executives and co-chairmen at KKR.

The pair formed KKR with Jerome Kohlberg, their colleague in the corporate-finance division of Bear Stearns. In the following decades, the company's fortunes traced the rise of private equity and other so-called alternative investments, growing to manage $138 billion as of March 31.

Private-equity firms' growth has made the companies major players on Wall Street and in the mainstream economy. The portfolio companies of KKR's private-equity unit alone employed 995,000 people at year-end, according to the firm's website. Along the way, KKR and Blackstone morphed into public companies themselves, as did Apollo Global Management LLC and Carlyle Group LP.

The industry's success also has bred competition. Blackstone, the largest so-called alternative asset manager, has outpaced KKR in building large businesses in real estate, corporate debt and hedge funds. It had $368 billion in assets under management as of March 31.

KKR and its rivals also face competition from scores of newer entrants, some of which seek an edge by specializing in a particular industry or region.

Private-equity firms have amassed growing sums of capital to invest from pensions, sovereign-wealth funds and other major investors seeking better returns. The firms have sometimes struggled to put all the cash to work, a task made more difficult as valuations in the stock market and elsewhere rise.

The industry's assets under management increased to a record $2.49 trillion last year, and private-equity managers recently sat on a record $820 billion in unspent capital.

What also sets KKR apart from its rivals is the dozens of capital-markets executives the company has hired to arrange debt and equity financing for companies—both those that it owns as well as third parties.

DRONES

Continued from Page One
global “drone code” that would curb proliferation and keep the weapons from misuse.

But China is filling the void. State companies are selling aircraft resembling General Atomics’ Predator and Reaper drones at a fraction of the cost to U.S. allies and partners, and to other buyers.

China’s sales have enabled multiple countries—including some with weak legal systems and scant public oversight of the military—to use unmanned aerial vehicles to spy and kill remotely as the U.S. has done on a large scale since 9/11.

Among the Pentagon’s concerns is that advanced drones could be used against American forces. In Syria, U.S. pilots have shot down two Iranian-made armed drones threatening members of the U.S.-led coalition.

U.S. export policy that is driving partners to buy Chinese “hurts U.S. strategic interests in so many ways,” said Paul Scharre, a former Pentagon official at the nonpartisan Center for a New American Security. “It damages the U.S. relationship with a close partner. It increases that partner’s relationship with a competitor nation, China. It hurts U.S. companies trying to compete.”

China’s drone exports are now starting to influence U.S. policy, as American manufacturers and politicians lobby the Trump administration to relax export controls to stop China from expanding market share and undermining U.S. alliances.

The White House National Security Council is reviewing the drone-export process with the goal to “wherever possible” remove obstacles to American companies’ ability to compete, a senior Trump administration official said.

“We are attuned to what China is doing,” the official said.

Thomas Bossert, assistant to the president for homeland security and counterterrorism, emphasized the effort to balance economics and security. The administration seeks to help U.S. industry while advancing strategic objectives, he said, including “a deliberate approach to our technology sales policy and the protections we put in place to avoid imperiling innocent lives.”

A Saudi Deal

China, meanwhile, has its sights on another milestone: building military drones in the Mideast. In March, Chinese and Saudi officials agreed to jointly produce as many as 100 Rainbow drones in Saudi Arabia, including a larger, longer-range version called the CH-5, according to people involved.

Shi Wen, the chief designer of China Aerospace Science and Technology Corp.’s Rainbow, said earlier versions of the aircraft had been exported to the Mideast, Africa and Asia and were proved “on the battlefield,” hitting 300 targets in the previous year or so with Chinese laser-guided missiles.

“Our main competitors? The Americans, of course,” Li Yidong, chief designer of the Wing Loong, which is built by Chengdu Aircraft Industry Group, said in November at China’s biggest air and defense show, in Zhuhai.

Behind him, a video screen played animated clips depicting a drone strike on a terrorist base, set to a thumping soundtrack. Nearby, miniskirted models posed with laser-guided missiles.

China’s government and drone manufacturers declined to reveal who bought the aircraft. The foreign ministry said Beijing requires strict user agreements—offering no details—and ensures that its arms sales do no harm to regional peace and stability.

“China is paying high attention to the question of the use and export of armed drones,” it said. Authorities from Saudi Arabia, Egypt, the U.A.E. and Jordan declined to comment.

China began exporting strike-enabled drones around 2014-15, heralding a new phase in its arms industry as a global competitor that can influence conflicts and alliances world-wide.

Beijing used to sell mainly low-tech arms to poorer countries; now it is marketing sophisticated items including stealth fighters, and targeting markets once dominated by Russia and the U.S.

Sales help Beijing gain leverage in regions where its economic interests are expanding, adding muscle to President Xi Jinping’s drive to establish his country as a global power.

China is now the world’s third-biggest arms seller by value, behind the U.S. at No. 1 and Russia, according to the Stockholm International Peace Research Institute, or SIPRI.

Maintaining such a ranking depends in large part on demand for China’s armed drones, which China has sold to countries including Iraq, Saudi Arabia, Egypt and the U.A.E., the Pentagon said in a report in June.

“China faces little competition for sale of such systems, as most countries that produce them are restricted in selling the technology” by international agreements, it said.

Key among those agreements limiting American sales is the 1987 Missile Technology Control Regime, signed by 35 nations including the U.S., but not China. The MTCR limits exports based on an unmanned system’s range and how much it can carry—putting tight restrictions on the most powerful American drones.

In 2015, the Obama administration issued new export rules that tried to enable drone exports if buyers agreed to use them in line with international human-rights law.

The rules grew in part from the administration’s expansion of drone operations in places such as Afghanistan. The growth spurred concerns about the lawfulness of killings outside combat areas and the ethics of remote-control warfare—including the targeting of Americans, such as al Qaeda’s Anwar al-Awlaki in Yemen in 2011.

In an effort to address legal uncertainty and the global precedent it was setting, the Obama administration sought to develop a framework for how governments use such weapons.

In October, after months of U.S. lobbying, 45 countries signed the world’s first joint declaration on the export and use of armed or strike-enabled aerial drones. The declaration said misuse of such drones could “fuel conflict and instability” and urged exporters to be transparent about sales and ensure buyers observed laws of war.

In the Mideast, only Jordan and Iraq endorsed the statement.

China’s arms sales have evolved from mainly low-tech arms to more sophisticated items.

China didn’t sign. Its foreign ministry said the issue was “complicated” and related to “cross-border strikes” as well as exports. It noted that other drone producers didn’t sign last year’s declaration and deeper talks were needed.

Some of the declaration’s proponents worry that several states could relax export rules to compete with China. “This would be a drone-against-drone world driven by profits, not protection of civilians,” said Wim Zwijnenburg, a disarmament campaigner for the Dutch group PAX who participated in negotiations on enhancing the declaration. He said China’s sales could fuel regional tensions as states act across borders—which can be done with drones at lower cost and less risk to personnel.

The Pentagon estimates China could produce almost 42,000 aerial drones—sale value more than $110 billion—in the decade up to 2023.

Beijing’s drone program began with old Soviet designs; more recently, U.S. officials say, China used espionage and open-source material to reverse-engineer U.S. drones. Beijing denies that.

U.S. armed drones are still overwhelmingly considered the most capable, in part because the U.S. satellite infrastructure that controls them is superior. Israel has been the top military-drone exporter for years, according to SIPRI. But Israel has largely avoided selling them in its own Mideast neighborhood.

A Wing Loong, meanwhile, costs about $1 million compared with about $5 million for its U.S.-made counterpart, the Predator, and about $15 million for a Reaper, whose Chinese competition is the CH-5.

Buyers welcome the chance to buy relatively cheap weapons that they say come with fewer restrictions than Western equivalents. Promotional materials from China suggest it has sold Rainbows or Wing Loongs to at least 10 countries.

Satellite imagery viewed by The Wall Street Journal shows Chinese strike and surveillance drones have been used by Saudi Arabia and the U.A.E. in the Saudi-led military intervention in Yemen.

After the Obama administration rebuffed a request from the U.A.E. for shoot-to-kill drones, the Emiratis bought Chinese surveillance drones and equipped them with South African laser targeting systems, according to Danny Sebright, a former Pentagon official and president of the U.S.-U.A.E. Business Council. The U.A.E. has used them to guide missiles from planes for strikes in Yemen, he said.

In Libya, the U.A.E. is using Chinese drones to help support a general who opposes the United Nations-backed government in Tripoli, satellite images indicate. They also show that Egypt’s military is deploying Chinese drones in the Sinai Peninsula in its campaign against Islamist militants.

Iraq last year published video of its missile attacks on Islamic State from a Chinese drone, and Nigeria issued footage of a strike by a Chinese drone on the Boko Haram insurgency. An official with Iraq’s Joint Operations Command said Iraq has used the Chinese-made CH-4 Rainbow. A Nigerian Air Force spokesman said Nigeria was using CH-3 Rainbows procured from China.

Sales Pitch

U.S. manufacturers, and their political backers, argue that Washington can no longer prevent drone proliferation.

Weapons makers have been buoyed by President Donald Trump’s statements of support for U.S. manufacturing and for a $110 billion arms sale to Saudi Arabia that includes some items that were blocked by the Obama administration. The administration in June approved the sale to India of 22 Guardian drones, an unarmed maritime version of the Reaper.

Bart Roper, executive vice president of General Atomics Aeronautical Systems Inc., said the U.S. is ceding the drone market to Chinese and others “due to obsolete and arbitrary restrictions.”

He expressed hope the Trump administration would revise policy to better promote U.S. industry.

In recent months, China has unveiled larger, longer-range drones and tested radar-evading stealth models, according to state media. It has also expanded its marketing, displaying its drones for the first time in Mexico in April and in France in June.

At the Chinese air show in November, two uniformed Saudi officers inspected a CH-5 Rainbow—the model most similar to the Reaper—displayed publicly for the first time. “It’s amazing,” said one. “This thing can stay up for more than 24 hours.”

The CH-5 can in fact operate for up to 40 hours, its manufacturer says—about 50% longer than its American competition.

—Asa Fitch in Dubai and Yang Jie in Beijing contributed to this article.

Who’s Buying

China’s military drones have recently appeared in Mideast war zones, but it’s also been selling them in Asia and Africa, from surveillance models like the ASN-209 to the strike-enabled Wing Loong.

Egypt
18 units of **ASN-209** between 2012 and 2014

Iraq
4 units of **Rainbow CH-4** in 2015

Jordan
2 units of **Rainbow CH-4** in 2016

Kazakhstan
2 units of **Wing Loong 1** in 2016

Myanmar
12 units of **Rainbow CH-3** between 2014 and 2015

Nigeria
5 units of **Rainbow CH-3** delivered in 2014

Pakistan
20 units of **Rainbow CH-3** between 2013 and 2016

Saudi Arabia
2 units of **Rainbow CH-4** and 2 units of **Wing Loong 1** in 2015

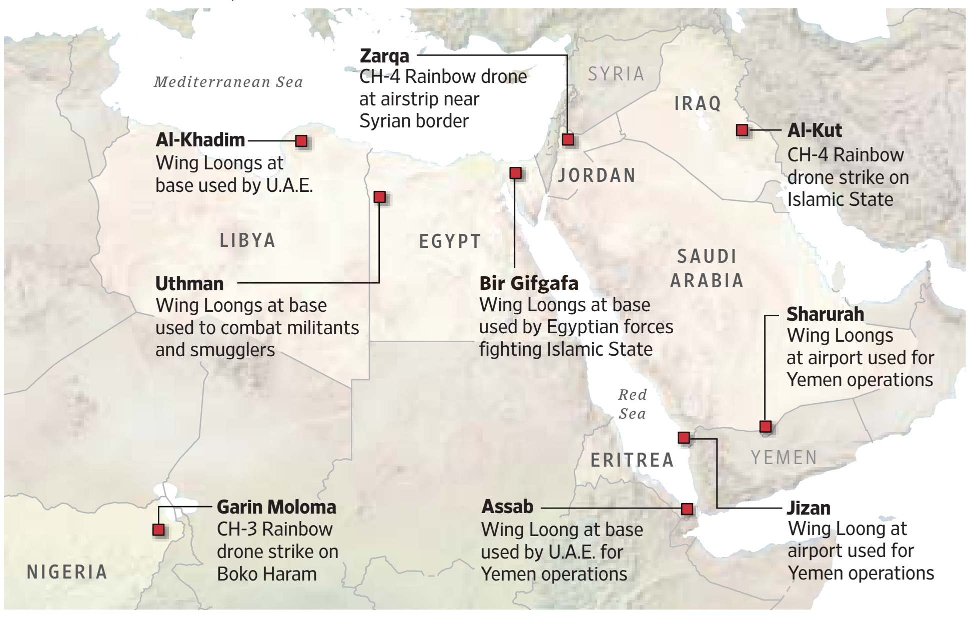
Turkmenistan
2 units of **Rainbow CH-3** and 2 units of **WJ-600** in 2016

United Arab Emirates
2 units of **Wing Loong 1** in 2013

Source: SIPRI Arms Trade Registers
THE WALL STREET JOURNAL.

Remote Access

Sightings and official reports of Chinese-made Wing Loong and Rainbow drones in the Mideast and Africa, 2016-17



Sources: IHS Jane’s Defence Weekly; Bard College Center for the Study of the Drone; Iraq’s defense ministry; Nigerian government
THE WALL STREET JOURNAL.

AUTHOR

Continued from Page One
ror movie “Halloween.”) The first Riley Sager novel is one of five Book of the Month Club picks for July.

Despite the excitement, Mr. Ritter isn’t doing a book tour. Some online posts have referred to him as a woman, a mistake he sometimes ignores. He won’t lie about his identity, created with help from a list of gender-neutral baby names, but he isn’t trumpeting the truth, either.

“I didn’t want there to be people thinking I was trying to deceive them in any way, but at the same time I think it’s cool to have a little mystery,” said Mr. Ritter, a 43-year-old author from Princeton, N.J.

He said he chose the pseudonym partly because this book was unlike any other he had written and thrillers published under his real name hadn’t sold.

The world has changed since the Brontë sisters and the woman born Mary Ann Evans, writing as George Eliot, had to disguise themselves with masculine-sounding pen names to be taken seriously.

Women hold a large share of the power in the reading public. Last year, women bought 59% of all fiction, according to NPD Books.

A 2014 Goodreads survey of 20,000 male and 20,000 female participants on the site found that of the 50 books published that year that were most read by women, 46 were written by women. (One of those was by J.K. Rowling under the pen name Robert Galbraith.)

The stakes are high for male writers not to make mistakes that female readers would catch. S.J. Watson—Steve Watson—tried on a bra in his office while writing his 2011 best seller “Before I Go to Sleep.” The book refers to the undergarment at least seven times. If he had messed up a reference to bra mechanics, he said, his mother, one of his first readers, would have told him.

Pen names offer benefits, including the freedom of a clean slate. Retailers may rule out another work by an underperforming veteran in favor of a debut from a splashy newcomer. Authors who switch literary genres say readers don’t like expecting one type of book while getting another.

In recent years, many female readers have been drawn away from international espionage thrillers, a genre predominantly written by men, in favor of suspense novels told through the point of view of female characters, often compared with the 2012 juggernaut “Gone Girl.” Since then, certainly, men have written psychological thrillers under their own names and women have used pen names. But once a formula is successful, publishers try to replicate it.

“I’d be totally disingenuous if I said I haven’t noticed women are the ones powering these books,” said Daniel Mallory, 37, whose thriller “The Woman in the Window” comes out in January under the name A.J. Finn.

Mr. Mallory, vice president and executive editor at William Morrow, constructed the pseudonym using initials, like other male authors do, with help from his cousin’s French bulldog, Finn. He used the name for his debut novel to steer clear of his ties in publishing and appeal to as broad an audience as possible.

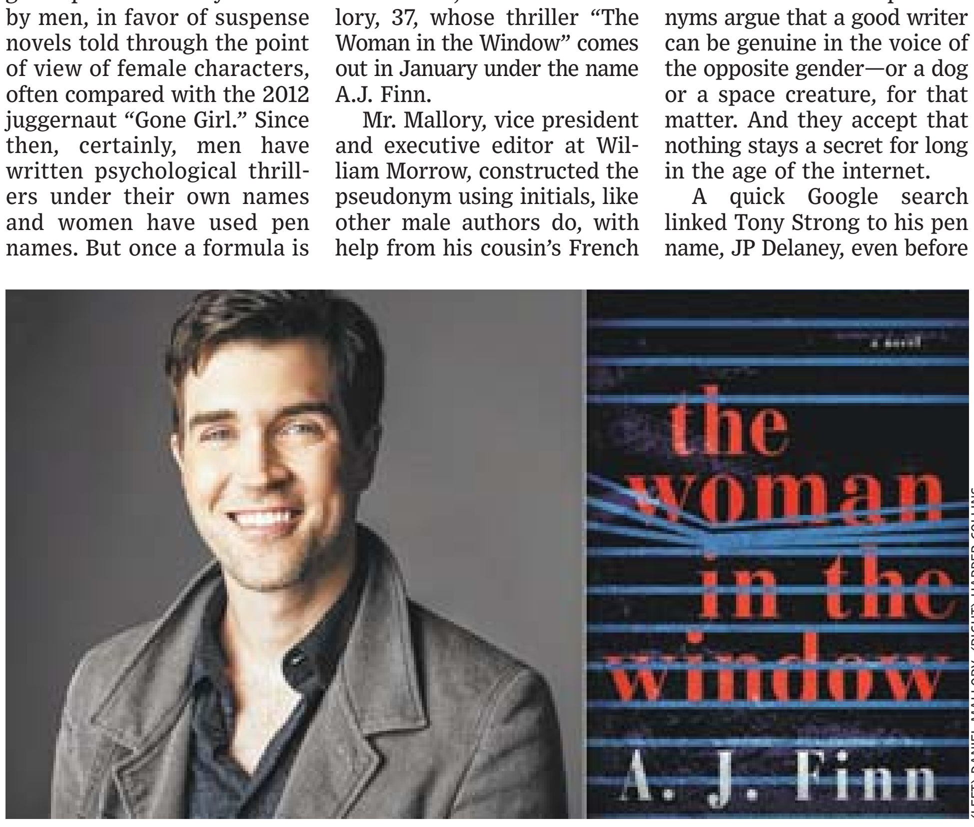
Authors who use pseudonyms argue that a good writer can be genuine in the voice of the opposite gender—or a dog or a space creature, for that matter. And they accept that nothing stays a secret for long in the age of the internet.

A quick Google search linked Tony Strong to his pen name, JP Delaney, even before his 2017 best seller “The Girl Before” hit shelves. Publisher Ballantine Books identified JP Delaney as a pseudonym in the book-jacket bio but didn’t use telltale pronouns like “he” or “she.”

If readers assume he’s a woman, Mr. Strong said, it signals to him that he wrote a believable female narrator. “At almost every event, someone will say, ‘Oh, I didn’t realize you weren’t a woman,’ and I’m always pleased.”

Sean Thomas, 53, the Londoner who is S.K. Tremayne, had been toiling for years as Tom Knox, a pen name that distanced his fiction from his work as a journalist but never delivered literary stardom. When he took on S.K. Tremayne, with what he called its “slight feminine feel,” his luck changed. “The Ice Twins” was a 2015 international best seller printed in 30 languages and optioned for a movie.

Mr. Thomas adopted the pen name on the advice of his all-female publishing team but he didn’t set up social media accounts for it because he didn’t want to flesh out the fake identity. “We didn’t overtly lie,” he said. “It’s a cutthroat industry.”



(LEFT) DANIEL MALLORY; (RIGHT) HARPER COLLINS

Daniel Mallory, whose pen name is A.J. Finn, wrote ‘The Woman in the Window.’

LIFE & ARTS

ANATOMY OF A SONG | By Marc Myers

Writing Alice Cooper's 'Eighteen'

THREE MONTHS AFTER the release of Alice Cooper's "Eighteen" in 1970, the shock-rock single about teenage self-doubt became the band's first hit, reaching #21 on Billboard's pop chart. Recently, lead singer Alice Cooper, guitarist Michael Bruce, bassist Dennis Dunaway, manager Shep Gordon and producer Bob Ezrin talked about the song's evolution. Currently touring, Alice Cooper will release "Paranormal" (earMusic) July 28. Edited from interviews.

Alice Cooper: After our first two albums came out in 1969 and early '70, they bombed. We lived in Los Angeles then and were running out of cash. We never considered quitting, but we started to worry. Shep Gordon, our manager, suggested we relocate to the Midwest, where we had a larger fan base.

MICHAEL BRUCE: Touring in the Midwest in early '70, we stayed at motels. During our down time, I came up with songs on my guitar. One of them was called "I Wish I Was 18 Again." I hadn't been home in a couple of years and I missed Phoenix.

I had the song's three-chord riff—E minor, C major and D major—but my lyric was a little silly (he sings): "Be my high school girl / be the only one / I wish I was 18 again." I knew that wasn't going to last (laughs).

I used the song to warm up in dressing rooms before shows. Eventually the band began using my riff as an eight-minute sound-check jam.

RIC SIEGEL/© PAUL BRENTON

A poster, left, for the Joffrey Ballet's 1970 season inspired Alice Cooper's spider-eye makeup. Above, from left, Michael Bruce, Bob Ezrin, Alice Cooper, Neal Smith, Glen Buxton and Dennis Dunaway at work near Pontiac, Mich., in 1970.

DENNIS DUNAWAY: In the early spring of '70, we were in New York. At the Gorham Hotel, I looked across West 55th St. at the City Center theater. All the posters outside were for the Joffrey Ballet's spring season.

On the poster was a scary white-faced clown with thick makeup around his eyes and squiggly lines coming out like spokes.

I told Alice he should do his eyes that way. At first he wasn't into it but he was open. We bought eyeliner at a nearby cosmetics store and applied it at the hotel. That was the start of Alice's spider eyes.

MR. BRUCE: Back in the Midwest, the band wanted to start performing our sound-check jam for audiences. But my original lyric was too cumbersome. Alice rewrote it.

MR. COOPER: My lyric was about coming of age, confusion and frustration. It became an angst song, like The Who's "My Generation." In some ways it's bleak: "I got a baby's brain and an old man's heart / Took eighteen years to get this far."

When I wrote the lyric, I was 22, so I had to think back to what it was like to turn 18: "Don't always know what I'm talkin' about / Feels like I'm livin' in the middle of doubt."

By then, we needed a place to live and to rehearse 24/7. Our road manager, Leo Fenn, found us a ranch just outside Pontiac, Mich., about 45 minutes north of Detroit.

MR. BRUCE: The place had a four-bedroom farmhouse with a kitchen and an empty barn out back. Behind that was an indoor horse paddock, with a large enclosed room that was perfect for rehearsing.

SHEP GORDON: The band just needed a smart record producer. The Guess Who was a Canadian hard-rock band with hits like "No Time" and "American Woman" on the pop charts. The guy who produced their records was Jack Richardson. I went up to Toronto to see him.

BOB EZRIN: Jack didn't want to have anything to do with Alice Cooper. He didn't like their albums. To keep Shep happy, though, Jack told me to go to New York to hear the band and let them down easy.

In early September of '70, I sat down at a table right in front of the stage at Max's Kansas City. At times, the music was powerful, what people called hard rock then. At other times it was whimsical and focused on theatrics. I loved it.

After, I went upstairs and bounded into their dressing room. I said, "We're going to produce your next album." I also said their song, "I'm Edgy," could be a hit. Drummer Neal Smith said Alice was actually singing, "I'm eighteen."

When I finally left at 3 a.m., I realized Jack was going to fire me for committing to produce a band he wanted me to blow off.

In the morning, when I called him, Jack wasn't happy. But he said, "If you like the band that much, you produce them."

Jack wanted me to start by recording just four songs. I went up to the band's Pontiac ranch to get the music in shape. The first one we tackled was "Eighteen."

MR. COOPER: Bob was brilliant. He kept telling us to dumb it down so we could shorten it. He wanted the listener to get it immediately. We had been intent on being the Yardbirds and showing off our guitars. Bob said absolutely not. Glen Buxton's lead guitar needed to come at the right time and then drop out.

The guitar couldn't interfere with the melody line or bass and drums. Bob stripped us down to what the Beatles had done. Bob was our George Martin.

MR. EZRIN: After we had "Eighteen" set, the band played it live at a Detroit gig. The audience went nuts.

MR. COOPER: In the fall, we recorded "Eighteen" and three other songs at RCA's Mid-American Recording Center in Chicago. Elvis had recorded there.

MR. DUNAWAY: Jack Richardson was there by then. At some point he turned over a metal ashtray and taped it to the console. Then he tapped the beat on the tray with a drumstick like a metronome so we'd hear it in our headphones. It kept us from speeding up.

MR. BRUCE: When the single came out in November, Shep had everyone constantly call radio station CKLW in Windsor, Canada, to request it. CKLW's signal reached into the Midwest. As the single gained traction, we recorded our third album, "Love It to Death," which was a hit after it came out in March '71.

MR. COOPER: The last line of my lyric to "Eighteen" was supposed to be "I'm 18 and I hate it." But as I neared the end of my vocal in the studio, I decided to flip it to "I'm 18 and I like it." I wanted to turn the teenage angst around.

That was a surprise to everyone in the control booth. With my earlier lyric, the song was a good hard rocker. But by flipping the line, the song became a statement.

BONDS: ON RELATIONSHIPS | By Elizabeth Bernstein

TACKLE TOUGH CONVERSATIONS

ROBERT NEUBECKER

SAY WHAT YOU need to say.

Easier said than done, right?

Difficult conversations come in many forms: "Shall we commit?" "I am worried about your health." "You hurt me." "This isn't working." Communication researchers call them consequential unscripted Interactions because there are no rules or guidelines for them. Health, work, finances, relationships, sex, religion, politics are common topics.

Many tough conversations contain bad news, but not all. (Consider: "I think I love you.") And they can be difficult for many reasons: We may not have had this type of talk before, so have no experience to learn from. We are worried about how we come across. We don't want to hurt the other person, or get hurt ourselves. The receiver may not want to hear what we have to say.

A study by researchers at **Hope College**, in Holland, Mich., and the **University of Hawaii** at Manoa, published in March in the journal Communication Quarterly, found that people are more reluctant to share bad news in a conversation when they are the cause of it—and they worried more about how they came across in the conversation than sparing the other person's feelings.

The researchers asked 330 people to answer questions about a time when they had to tell someone bad news, and then coded them for the reasons and concerns the person had for sharing, the source of the news and how reluctant they were to talk about it. People reported they worried more about themselves if they caused the bad news and more about the other person when they didn't.

"This idea of 'don't shoot the messenger' was very active in their minds, especially when they were the locus of the event," says Jayson Dibble, an associate professor in the department of communication at Hope College and lead researcher on the study.

Two more studies by Dr. Dibble and researchers at the University of Hawaii, published together in the journal Communication Research in March, 2015, found that people will pause in a tough conversation right before they have to deliver bad news.

The researchers brought 275 people into the lab, told them they would be paired with another participant who had taken an IQ test, and that they would need to score this test and share the results with the test-taker. In reality, the test taker was an actor and a computer program produced false results—some were high, some average, some very low. Some of the participants were given a script to use when delivering the news and some had to improvise. Script or not, the participants who had to tell the test taker that he or she had failed, hesitated for a few seconds right before doing so. Participants who had to deliver good news, of a high score, didn't hesitate.

"It might be a communication signal that you are meant to pick up on as a receiver, a way of firing a warning shot," says Dr. Dibble. "I am giving you a chance to prepare yourself mentally for what is to come."

My dad had a sort of warning shot he used when I was a child and he wanted to have a serious talk: He'd suggest we take a walk around our block, which was large and lined with oak trees and Victorian homes. On these walks, Dad told me I had to study more in Spanish class and bicker less with my sisters. But we also discussed how to get over the pain of an unrequited crush or handle our grief after Grandma died. I asked my father recently why he chose the walk-and-talk method and he said he felt that strolling side-by-side was less intimidating, as well as bonding, and that getting outside in a pretty setting made the conversation seem lighter.

OPINION

REVIEW & OUTLOOK

U.S. Prosecutors and Political Corruption

Another major case by an overzealous district attorney is overturned.

Has the Supreme Court handed corrupt politicians a free pass? That's the taunting question following an appellate court's decision last week to toss the conviction of former New York Assembly Speaker Sheldon Silver in the wake of the High Court's landmark 2016 *McDonnell* ruling. We think the answer is no, but prosecutors will have to follow the law better than former U.S. Attorney Preet Bharara did.

Readers may recall that a unanimous Supreme Court overturned the conviction of former Virginia Governor Bob McDonnell because prosecutors had too broadly interpreted the meaning of a corrupt "official act." The act couldn't merely be setting up a meeting or hosting an event, even if the politician had received personal gifts from the person who benefitted from the meeting, as Mr. McDonnell had. It must involve a formal exercise of government power and the public official must make the corrupt decision or take the action.

The ruling is an important check on prosecutors who have pursued corruption cases with too little evidence and for routine constituent service. But some prosecutors warned that politicians could get away with anything short of extorting a direct bribe. They're now pointing to Silver's appellate victory as proof.

Not so fast. The Second Circuit Court of Appeals didn't vacate Silver's conviction on grounds that the evidence was insufficient. Judge José Cabranes, one of the country's most distinguished appellate judges, explicitly wrote for the court that "the evidence presented by the Government was sufficient to prove" the extortion, honest-services fraud and money-laundering counts against Silver.

The evidence at trial showed that Silver had used his political influence to set up schemes to enrich himself. The most egregious involved steering mesothelioma cases to the Weitz & Luxenberg law firm for which he did little work, in return for some $3 million in referral fees. He also cadged nearly $1 million in a real-estate referral scheme. The evidence was clear and convincing, as the jury concluded.

Judge Cabranes and two colleagues overturned the verdict because the instructions to the jury in the case did not "comport with *McDonnell* and are therefore in error." Specifically, wrote the judge, "the instructions did not convey to the jury that an official action must be a decision or action on a matter involving the formal exercise of government power akin to a lawsuit, hearing, or agency determination."

This may sound like a technicality, but accurate jury instructions are fundamental to a fair trial. And here is where Mr. Bharara's dereliction comes in. He denied responsibility for the Silver reversal because the trial occurred before *McDonnell*. But he knew the highly publicized *McDonnell* appeal was in progress, and that the Supreme Court had already targeted overbroad honest-services indictments in its 2010 *Skilling* decision.

As Judge Cabranes writes, "The Government expressly urged the jury to convict because an official act '*is not limited* to voting on a bill, making a speech, passing legislation, *it is not limited to that*,' but rather, includes '*any action* taken or to be taken under color of official authority.' The Government thus directly argued that the District Court's instruction defining an official act was broader than the formal exercise of government power described in *McDonnell*." (The italics are Judge Cabranes's.)

Our guess is that Mr. Bharara was only too happy to overlook a faulty jury instruction if he could get a high-profile conviction. He took a similar risk when he exceeded the limits of insider-trading law before he was slapped down by the Second Circuit in the *Newman* case. This is often the habit of prosecutors who want to make a political name for themselves and are celebrated in the press. See James Comey and Rudy Giuliani.

Mr. Bharara's successor is vowing to retry Silver, but other corruption convictions may also be in jeopardy on appeal after the Second Circuit ruling. The lesson is that prosecutors have to follow the law even when their targets are unsavory politicians. As for reducing corruption, voters can help by refusing to tolerate the kind of political self-dealing that George Washington Plunkitt of Tammany Hall famously called "honest graft." They can do that at the ballot box.

The U.N. Bans Nuclear Weapons

So at least that problem is solved.

The United Nations banned nuclear weapons this month, in case you hadn't heard, and all the children of the world joined hands and sang together in the spirit of harmony and peace, as Steve Martin once put it.

Ok, not that last part. But 122 nonnuclear U.N. member states—two-thirds of the total—did adopt the 10-page Treaty on the Prohibition of Nuclear Weapons this month. Nations that sign the treaty at the U.N. General Assembly in September will be committing not to "develop, test, produce, manufacture, otherwise acquire, possess or stockpile nuclear weapons or other nuclear explosive devices." The treaty takes effect when 50 countries sign it.

Kim Jong Un's North Korea hasn't declared where it stands on the treaty, perhaps because it's too busy building more nuclear weapons and missiles to deploy them. But you'll be pleased to know Iran is on board. This may have something to do with the treaty's provision that allows "research, production and use of nuclear energy for peaceful purposes," without defining what "peaceful" means.

The world's nine nuclear powers boycotted the treaty vote, the Netherlands voted no and Singapore abstained. In a joint statement the U.S., Britain and France denounced the ban, saying it "clearly disregards the realities of the international security environment" that "continue to make nuclear deterrence necessary" and recommitted to the Nuclear Nonproliferation Treaty that hasn't stopped nuclear proliferation.

If the U.N.'s record holds, this new treaty will take effect right about the time Kim Jong Un launches a nuclear attack.

The D.C. Circuit vs. Deregulation

Two judges say the EPA can't stay its own rule pending review.

Harry Reid may have left Washington, but the former Senate Majority Leader's legacy abides in a D.C. Circuit Court of Appeals stacked with progressives ready to defend the Obama Administration's agenda. One of those judges joined a Bill Clinton appointee this month to salvage President Obama's methane rule with an extraordinary display of raw judicial power.

Barack Obama's Environmental Protection Agency imposed the controversial rule forcing oil and gas drillers to slash methane emissions—never mind that such emissions are already falling. Scott Pruitt, the new EPA Administrator, announced in April that the agency would reconsider the rule.

One reason is that the Obama EPA included provisions in the final rule that weren't in the proposed version and thus weren't open to public comment. Mr. Pruitt also issued a 90-day stay of the rule's June 3 compliance date, and such a stay is clearly within his powers under the Clean Air Act.

Six environmental groups quickly filed an emergency lawsuit with the D.C. Circuit, which Mr. Reid packed with liberal jurists after killing the Senate filibuster for appellate-court nominees. One of those judges, Robert Wilkins, joined Judge David Tatel in a 2-1 ruling that blocked the Pruitt stay with the effect of imposing the Obama policy (*Clean Air Council v. Pruitt*).

The opinion is extraordinary for taking such action despite its acknowledgment that the court can only review "final agency actions" and that the EPA's decision to reconsider the rule isn't final. The two judges nonetheless contort themselves to explain why a stay is really the same as "revoking a rule"—and thus is final and so the court has jurisdiction.

In her dissent, Judge Janice Rogers Brown skewered this legal creativity: "In contrast to our precedent, the Court's opinion concludes a particular administrative proceeding has innumerable final agency actions, including intermediate decisions. No authority supports this proposition."

The judges are claiming the courts are the final arbiters of when a federal agency can stay its own rules pending reconsideration. This has implications for other Obama regulations that the Trump Administration is now reviewing—such as net neutrality at the Federal Communications Communication or the Education Department's gainful-employment rule for colleges.

This is a sweeping new claim of judicial powers of administrative review, and it follows the pattern set by the Fourth and Ninth Circuits in their rulings blocking President Trump's immigration order. The Supreme Court unanimously rebuked those courts before it left town by allowing the order to proceed in nearly all cases until it can hear the merits in October.

Mr. Pruitt can appeal to the Supreme Court, but that means waiting into next year for a ruling. He can continue his review with an eye toward reissuing a new, less-onerous methane rule, but in the interim the EPA may be obliged to enforce the Obama version. This means imposing new costs and uncertainty on businesses that would have to comply even if the rule is ultimately withdrawn.

Look for a deluge of such lawsuits as progressives resort to the courts to compensate for their defeat in 2016. The D.C. Circuit's afflatus also underscores the stakes in judicial nominations and why even appellate courts have become political battlegrounds. We're in dangerous political territory when judges appear to join the anti-Trump resistance on such flimsy legal grounds.

What Macron Sees in Trump

EYE ON EUROPE
By John Vinocur

American presidents don't traditionally require a fixer or chaperone when they travel to Europe. But Emmanual Macron, gauging most of the allies' perception of Donald Trump as an unwise and untruthful president, concluded he could use a hand. Hence, Mr. Macron's leap into calling Mr. Trump a friend.

The French president's main mission in inviting Mr. Trump to Paris for two days—emphasizing France military preeminence in Europe and the breadth of its forces' cooperation with the U.S.—was clear. Mr. Trump brought along the chief of the CIA, the head of the Joint Chiefs of Staff and his own national security advisor to the only country besides the U.S. leading a NATO battle group at Russia's borders and dispatching special forces to Syria.

Mr. Trump won an honest admission from the French president when Mr. Macron said the day before the Bastille Day military show, "We need the United States"—and then, more adventurously, "Nothing will ever separate us." Mr. Trump spoke in turn of a bond of "unbreakable friendship with France," adding, with Mr. Macron at his side, "and ourselves."

Here was the payoff to an exercise conceived by Mr. Macron for France to become the go-to guy for America in Europe. Contrast this to Mr. Trump's strained relations with Germany. Although the sight of the presidents' comfortable body language or Mr. Macron's guiding hand placed on his guest's back may have sickened Mr. Trump's American and European opponents, it escaped the stench of diplomatic dissembling.

Mr. Macron avoided any reference to Mr. Trump's deepening problem with accusations of collusion with Russia. On the administration's rejection of the Paris accord on climate control, Mr. Macron said he both "respected" and understood Mr. Trump's decision.

Indeed, he made the respect factor a point of differentiation between his approach and that of Chancellor Angela Merkel to Mr. Trump. As described by the Frankfurter Allgemeine Zeitung, the chancellor's rhetoric in the wake of the G-20 summit in Hamburg "proclaimed Europe's emancipation from America." Over the weekend, the German newspaper defended Mr. Macron as a realist.

A key motivation for that realism: Mr. Macron's need to fend off characterizations that Germany is France's parole officer inside the EU. Berlin's perceived role is pronouncing whether the French achieve the economic reforms needed to regain the status of a stable leader in Europe.

In preparing for Mr. Trump's visit, Mr. Macron reiterated that Germany currently doesn't have France's military "capacity for intervention"—nor, he might have added, its will to fight. And he pointed a finger at Barack Obama's indecisiveness for having emboldened Vladimir Putin's military adventures.

Even before the first Trump-Macron meeting at the NATO summit in May, where Mrs. Merkel made no specific pledges, Mr. Macron had put out assurances, certain to please Mr. Trump, that France would fulfill the basic alliance goal of spending at least 2% of GDP on defense by the end of 2024.

Beyond his agile opportunism in dealing with the American president's emotions, Mr. Macron also showed he thinks that he can play strategic matters both ways.

The French president thinks better ties to the U.S. may boost his sway in Europe.

The morning of Mr. Trump's arrival in Paris, he led a meeting of Mrs. Merkel and members of her government at the Elysée Palace on the future of Europe. It produced a joint announcement of a new European combat aircraft. No stranger to Trump-style momentousness, Mr. Macron spoke of the decision as "a profound revolution"—although Le Monde reported nothing suggests Germany was ready for such a project.

There was also meticulously dosed silence from Mr. Macron. He had nothing to say when Mr. Trump mentioned the two having dealt with topics like Ukraine, and a U.S. energy program—presumably in fracked natural gas, which, in the president's words last month, would "unleash" American energy "dominance." More vigorous U.S. engagement in both areas would curtail French, German and Russian political influence and energy profits.

Perhaps returning the French courtesy, Mr. Trump kept quiet about the shared French-American assessment that Germany's trade and current-account surpluses are internationally damaging. Mr. Macron has even called them "untenable."

Once Mr. Trump was out the door, Mr. Macron recalibrated his sense of the visit for the neighbors and home folks. "It was important to talk to him to avoid his construction of opportunistic alliances with other nations," he said on Sunday. Russia, Saudi Arabia, Costa Rica? No answer offered.

We have now observed Mr. Macron, president of France for little more than two months, as a master juggler. Including Mr. Trump, it will be difficult for him to maintain so many balls in the air, with so many different spins, for long.

A Terrorist's Payday, Courtesy of Canada

By Peter Kent

Ottawa

Omar Khadr pulled the pin from a grenade and tossed it at Sgt. First Class Christopher Speer, a U.S. Army Delta Force medic, on July 27, 2002. Those are the facts to which Mr. Khadr, a Canadian citizen, confessed when he pleaded guilty before a Guantanamo Bay war-crimes commission.

For several years Mr. Khadr had been living and training with al Qaeda in Afghanistan under the tutelage of his father, Ahmed. The Khadrs reportedly lived in Osama bin Laden's Kandahar-area compound.

Speer died of his wounds 1½ weeks after the attack, which left another soldier, Sgt. First Class Layne Morris, partly blind. Mr. Khadr, badly wounded, was treated and transferred to the Cuba base. In 2012 the U.S. returned him to Canada to serve the remainder of his eight-year sentence.

Mr. Khadr was just shy of his 16th birthday at the time of the attack. In 2010 Canada's Supreme Court held that the interrogation of Mr. Khadr at Guantanamo Bay by Canadians in 2003-04 violated Canadian standards for the treatment of detained youths. These violations occurred during the mandates of Liberal Prime Ministers Jean Chrétien and Paul Martin. The Supreme Court left it to the government, then headed by Conservative Stephen Harper, to determine an appropriate remedy, and to the civil courts to rule on any damages.

A few months later Mr. Khadr entered his guilty plea on five war-crimes charges. He was sentenced to 40 years in prison, reduced by pretrial agreement to eight years. The Harper government determined that returning Mr. Khadr to Canada would be the appropriate remedy. In 2012 he was repatriated to serve the remaining years of his sentence. He was released on bail in 2015.

Mr. Khadr wasn't satisfied. He sued the Canadian government for 20 million Canadian dollars ($15.8 million).

Meanwhile in Utah, Sgt. Speer's widow, Tabitha, his two young children and Mr. Morris sued Mr. Khadr and received a judgment for $134.1 million in damages. Their goal was to preserve possible future action against Mr. Khadr's assets—at the time a remote possibility.

But last week Liberal Prime Minister Justin Trudeau issued a formal apology to Mr. Khadr and a massive cash settlement, though no court had ordered him to do so. Mr. Trudeau refuses to disclose the amount of the settlement, but leaked reports peg it at C$10.5 million. That's an extravagant sum in the Canadian justice system, which is much more restrained in awarding damages than U.S. courts.

Prime Minister Trudeau hands millions to Omar Khadr, whose victims may not be able to collect.

Mr. Trudeau knew there was an outstanding judgment against Mr. Khadr in Utah. An insider told the Canadian Press wire service that Ottawa rushed the payment to Mr. Khadr to dodge compliance with the Utah judgment. The Speer family and Mr. Morris had filed for an injunction June 8 to enforce the Utah judgment in Canada. The Trudeau government had the money out the door before their petition could be heard in court.

Last week the Speer family filed an emergency injunction to freeze Mr. Khadr's assets. On Thursday an Ontario judge denied the request, describing it as "extraordinary." Had Mr. Trudeau waited for a court ruling, the Speers' claims could have been adjudicated without extraordinary measures. The prime minister's choice thus undermined the Speer family's legal options.

Mr. Trudeau's actions are an affront to the memory of Christopher Speer, to Tabitha Speer and her children, to Layne Morris, to our U.S. allies, and to all men and women in uniform. This payout was a cynical subversion of Canadian principles. Mr. Trudeau made Omar Khadr a millionaire, and he didn't have to.

Mr. Kent is a member of the Canadian Parliament and official opposition critic for foreign affairs.

OPINION

U.S. Sanctions on Russia Would Alienate Europe

By Wolfgang Ischinger

The U.S. Senate was almost unanimous—98-2—when it passed a bill updating and expanding the sanctions regime against Russia. Congress has every right to make a strong statement on Russia's alleged interference in last year's presidential election. But this bill, which is awaiting a vote in the House, won't achieve its objectives and will instead cause new problems. Unless it undergoes significant revision, it would compromise European energy security and damage U.S. relations with Europe. The beneficiary of such an outcome would be Russia.

It imperils the Continent's energy security and would end up benefiting Moscow.

At risk is the joint stance the U.S. and Europe have maintained against Russia since Moscow annexed Crimea in 2014. Every sanctions measure was assessed by American and European partners before enactment. Europe and the U.S. moved hand in hand to ensure that neither would exploit markets or business opportunities previously held by the other.

This trans-Atlantic approach is now jeopardized by the Senate's desire to impose additional sanctions unilaterally, without consultation and against the explicit will of the European Commission and key U.S. allies including France, Germany and Italy.

Worse, the bill's language suggests that it aims to advance U.S. commercial interests at Europe's expense. It prioritizes "the export of United States energy resources to create American jobs"—which sounds to Europeans like an unfriendly political attempt to promote U.S. exports of liquefied natural gas to Europe.

One target of the bill is the Nord Stream 2 natural-gas pipeline from Russia to Germany, involving both Russian and European companies. There are good arguments why Europe should diversify its gas supply, but the dependency fears around NS2 are exaggerated. Europe has taken decisive measures to boost supply security: constructing additional interconnectors and LNG terminals, employing reverse-flow capabilities and eliminating restrictive clauses on ultimate destinations. These measures make it difficult for Russia to consider using energy as a weapon against Europe.

There is a vibrant debate in Europe about NS2 and the best way forward. Strong arguments, both pro and con, are being exchanged. The Polish and Ukrainian governments are concerned that the pipeline will compete against Russian gas flowing through pipelines in their territories. Some, including German Chancellor Angela Merkel, propose to welcome all additional sources and supply routes of energy to Europe, including American LNG. Ideally, the market would decide the best course.

GETTY IMAGES

European leaders symbolically start the flow of gas through the Nord Stream Baltic Sea pipeline at a 2011 ceremony in Lubmin, Germany.

This isn't a question that should be decided in Washington. It is a European issue, to be decided by Europeans based on European law and regulation. How would the U.S. react if Europe were to pass legislation on the merits of the Keystone XL pipeline, especially if it was perceived to benefit European business?

Even if one opposes NS2, the Senate-passed bill would harm Eurasian energy security in other important ways. Perhaps most egregiously, the bill would extend sanctions to countries outside Russia where U.S. persons provide goods, services and technology for certain projects "in which a Russian energy firm is involved." The presence of Lukoil, a private Russian company, in Azerbaijan could potentially trigger sanctions on the Shah Deniz gas field and deter Caspian gas shipments to Europe via the emerging Southern Corridor.

Under such a threat, banks could renege on financing. Rather than promote security, the bill would jeopardize one of Europe's new gas-pipeline alternatives to Russia, a $45 billion undertaking that is well under way. This provision would force American companies out of joint ventures in which Russian companies participate around the world.

The bill would expose to sanctions goods, services, technology and information that would "significantly facilitate" even the maintenance of pipelines carrying Russian oil and gas or passing through Russia. That could stall two-thirds of Kazakhstan's oil exports shipped through the Caspian Pipeline Consortium, which is led by Chevron but has a 31% Russian government share. It could hinder operations and safety for pipelines, such as those passing through Ukraine, that deliver some 32% of Europe's oil and a similar share of its gas consumption. For Europe, terminating such large oil or gas imports from Russia is not feasible: alternatives for such large volumes are unavailable.

Our joint U.S.-European experience with sanctions affirms two longstanding lessons. First, sanctions work best when they are multilateral. Second, sanctions alone rarely achieve a national-security outcome. Ideally, they create leverage. They almost always presume a negotiation, where adjusting the sanctions can be part of a strategy for achieving a desired goal.

Leverage goes hand-in-hand with flexibility—and the Senate bill would curtail flexibility. Its unilateral approach could tip the scales in favor of those who want to end Europe's participation in the existing trans-Atlantic policy approach on Russia, including the sanctions regime.

If the bill becomes law in its current form, it would alienate America's important European allies, complicating our alliance at a critical moment. A better approach would be to revise the bill in line with realities and recommit to a joint trans-Atlantic approach.

Mr. Ischinger was Germany's ambassador to the U.S., from 2001 to 2006, and has been chairman of the Munich Security Conference since 2008.

The EU Needs to Get Tougher on Hezbollah

By Benjamin Weinthal And Toby Dershowitz

Exactly five years after terrorists in Bulgaria detonated a bomb on a bus filled with Israeli tourists, Sofia's special terrorism court is scheduled to begin much-delayed hearings Tuesday on whether to bring the perpetrators to justice. It's also an opportunity for the European Union to finally recognize a terrorist organization for what it really is.

The attack on July 18, 2012, in the seaside city of Burgas left five Jewish-Israeli tourists and their Bulgarian-Muslim bus driver dead and another 32 Israelis wounded. An investigation by Bulgaria's interior ministry traced a printer, used to produce fake documents for the bombing suspects, back to Hezbollah.

The two men on trial for the attack, Lebanese-Australian Meliad Farah and Lebanese-Canadian Hassan El Hajj Hassan, are allegedly members of Unit 910. This is the unit that coordinates Hezbollah's terrorist activities outside of Lebanon. A third Hezbollah attacker, Lebanese-French national Mohamad Hassan El-Husseini, allegedly brought the bomb onto the bus and was killed in the blast.

The Burgas trial is an opportunity for the court to demonstrate it can hold Hezbollah accountable. In recent years it has faced resistance from within its own government as well as other European countries, such as Finland, Ireland and Sweden. The defendants are to be tried in absentia because the Lebanese government has refused to extradite the suspects. And the case has already been postponed five times due to changes in Bulgaria's government as well as the complexities involved in collecting testimony and evidence from more than 30 victims. Bulgaria's justice system needs to make this antiterror trial a priority.

In a rare sign of the growing seriousness with which the international community is watching this case, last year the European Union placed Messrs. Farah and Hassan on its terrorism list, subjecting them to asset freezes, among other measures. The U.S. did the same a year earlier.

The EU has also designated as a terrorist entity what it refers to as Hezbollah's "military wing." It did so in 2013, shortly after the Burgas attack.

But the EU needs to do more and recognize, as Hezbollah does, that the organization isn't bifurcated into political and military wings. Indeed, it should heed the call of the U.S. Congress, which, since 2012 and as recently as 2016, called on the EU to designate all of Hezbollah as a terrorist organization. The U.S. has designated Hezbollah a terrorist organization since 1997. It also sanctioned three leaders of the group in 2015 in connection to Hezbollah's military support of Bashar Assad in the Syrian war.

The fifth anniversary of a terror attack in Bulgaria is a chance for the EU to see the group for what it is.

Hezbollah's terror-financing activities and its critical role in the Syrian war should be enough for the EU to deport Hezbollah members from its 28 member countries. Anything short of full designation would enable Hezbollah to continue fundraising and operating its front companies. Last year, for instance, according to the German magazine Der Spiegel, German authorities uncovered a money-laundering operation in Europe that amassed nearly €1 million ($1.1 million) a week for more than two years, money that Europol and the U.S. Treasury Department says went to fund Hezbollah.

Membership recruitment in Europe is also a significant tool for Hezbollah. According to a recent German intelligence report, there are 950 active Hezbollah members in Germany. This calls into question the effectiveness of the EU's 2013 sanctions, which were only imposed on Hezbollah's "military wing."

Hezbollah activity isn't new to Europe. In 2015, a Cypriot court sentenced Hezbollah operative Hussein Bassam Abdallah to six years in prison for amassing explosives to target Israelis. Two years earlier, Taleb Yaacoub, a Hezbollah member carrying both Lebanese and Swedish passports, was also convicted in Cyprus and sentenced to four years for plotting to murder Israelis. Yaacoub had conducted work for his Hezbollah handler in France and the Netherlands. Cyprus was reportedly used to stash the explosives to carry out the Burgas bus bombing.

The EU might also take note of how the Arab world increasingly regards Hezbollah. In 2016, the six Gulf Cooperation Council states jointly declared Hezbollah a terrorist group. The Arab League followed suit a week later. Egypt labeled Hezbollah a terrorist group in 2009 after a Hezbollah plot was uncovered.

Many of the EU's member states may already be drawing the conclusion that it's time to designate all of Hezbollah as a terrorist group. While individual countries may unilaterally do so, the EU as a whole would need to lower its requirement of unanimous consent.

Should Europe maintain the status quo, however, it does so at its own peril. European security will continue to be put at risk. And Hezbollah will be given the signal that Europe is far from serious about countering terrorism.

Mr. Weinthal is a research fellow at the nonpartisan Foundation for Defense of Democracies, where Ms. Dershowitz is senior vice president for government relations and strategy.

To Win Against ObamaCare, Republicans Must Play as a Team

By Fred Barnes

Politics is a team sport, and U.S. Republicans are playing it poorly. They have one more chance in the Senate to repeal and replace ObamaCare—possibly their last hope for a victory.

Democrats are performing like a well-coached team. Minority Leader Chuck Schumer has all 48 members of his caucus on board with saving ObamaCare at all cost. It's been a successful strategy.

It works for one reason: Republicans are divided. Their 52-48 majority in the Senate means they can lose two votes and still prevail, since Vice President Mike Pence is the tiebreaker. After promising to get rid of ObamaCare for the past seven years, it shouldn't be difficult.

But as many as eight Republican senators opposed the first GOP bill, forcing Majority Leader Mitch McConnell to come up with a revised version. While an improvement, it has encountered opposition too.

Mr. McConnell is skillful in bringing senators together. But here his task is more difficult than usual because the dissidents don't all agree on what's wrong with the bill. Appeasing one senator may alienate another.

This is an example of why legislative success depends on operating as a team. You don't abandon your team just because you don't get everything you want (or want left out). You hold your nose and vote for an imperfect measure, sometimes merely because it's politically beneficial and better than the alternative.

This is especially true in dumping ObamaCare. The Republican alternative is a more free-market health-care system in which people can buy the insurance they want, not what government requires.

Sticking with the team makes that possible. But too many Republicans aren't comfortable as team players. To them, it's shady and unprincipled to vote for something about which you have serious doubts. Democrats are more realistic and less persnickety, so they're better at uniting.

The political consequences of failing to eliminate ObamaCare would be disastrous for Republicans next year. Midterm elections are always tough for the party that holds the White House. But reneging on the promise to "repeal and replace" would put Republican control of the House and even the Senate at risk.

Worse, ObamaCare would be further entrenched with Republican help. If repeal fails, Mr. McConnell's Plan B is to compromise with Democrats to stabilize the health-insurance marketplace and keep ObamaCare alive and kicking. He would have no other choice.

When the voting begins, Republican senators need to ask themselves three questions: How would the result affect you? How would it affect your party? How would it affect the country?

On the first question, if any Republican senator sees voting to uphold ObamaCare as politically safer, think again. Trying to reach across the aisle to protect Medicaid's rate of growth won't win you any new Democratic votes.

GOP Senators who defect from ObamaCare repeal will hurt themselves, their party and the country.

But if you desert the GOP, the base won't forget or forgive. Republicans care passionately about ending ObamaCare. If you cross them on this vote, large numbers will cut you loose. There's private polling on this, by the way.

The House Freedom Caucus learned this the hard way. In May, when its members blocked the first House health-care bill from going forward, they expected to be hailed as heroes. They weren't. When a second bill was offered, they did nothing to stop it. They got behind the team and it passed.

If the Republican Party fumbles the Senate vote, it will suffer—and will deserve to. Having made the death of ObamaCare its overriding concern, a GOP that fails to deliver would shatter its credibility.

An important element of the Republican brand is its identity as the conservative party. Fewer would see it that way if ObamaCare survives. GOP voter turnout would fall, and the party's candidates would feel the difference.

What about the country? It wouldn't benefit from making ObamaCare permanent. Health care would cost more and heal less. A political comeback by Democrats could lead to a single-payer system. Anyone who has experienced medical treatment at a Veterans Administration hospital would find the new system quite familiar.

Sen. Rand Paul of Kentucky opposes the Senate bill because it leaves too much of ObamaCare in place. But the alternative is to leave all of it in place.

Sen. Dean Heller of Nevada feels the bill's Medicaid reforms would hurt thousands of his state's residents and jeopardize his re-election in 2018. But preserving ObamaCare would hurt millions nationwide and his prospects for winning a second term.

Sen. Susan Collins of Maine says the bill won't "fix the flaws" in ObamaCare. But the alternative would lock those flaws in place, probably forever.

Messrs. Paul and Heller and Ms. Collins are playing politics as if it's an individual sport, like golf, boxing or gymnastics. In the Senate, only a team can win.

Mr. Barnes is an executive editor of the Weekly Standard.

Notable & Quotable: Riot Effect

From "Still Living With the 'Riot Effect,' 50 Years Later" by Jason L. Riley on WSJ.com, July 11:

Today's black leaders and their liberal sympathizers in the media like to attribute a political consciousness to ghetto rioters, but a previous generation of black activists had a less romantic view. In his 1968 book, "The Unheavenly City," Edward Banfield writes: "Most civil rights leaders dismissed the idea that the riots were conscious protests; that was not merely an after-the-fact rationalization, Kenneth B. Clark said, it was an 'independent of the fact' one." Bayard Rustin saw more opportunism than activism on display in the rioting: "They riot either out of sheer cussedness or for criminal reasons, and in some instances because mob action seems to be taking on the aspects of a fad. . . . Bedevil the police, strip stores, shout and yell, crush anyone who opposes you . . . and if the police try to stop it, just yell 'brutality.' This is the pattern."

That pattern persists today, and it's countenanced by groups like Black Lives Matter, the media and others on the political left who lack the honesty and courage of a Bayard Rustin. They are not doing the black underclass any favors. The racial gap in average earnings among male workers was narrowing in the 1940s, '50s and '60s—even though racism was more prevalent and blacks had little political clout—but that trend has slowed significantly since 1970 as black males have left the labor force.

Inner-city residents have legitimate grievances today—the quality of public schools, for example—just as they did when Newark exploded a half-century ago. But arson and looting in the guise of protest is a form of self-sabotage that consigns yet another generation of blacks to society's margins.

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ART REVIEW

The First Austrian Expressionist

BY KAREN WILKIN

New York

PABLO PICASSO and Jackson Pollock are synonymous with radically innovative art. Others, such as Vincent van Gogh or Caravaggio, are eponyms for extreme behavior. As the illuminating exhibition "Richard Gerstl" at the Ronald S. Lauder Neue Galerie makes clear, this pioneering Austrian modernist painter (1883-1908) should be acclaimed on both counts: for his daring, ahead-of-the-curve expressionist paintings and for his highly colored personal history. Yet though he is hailed by admirers as "the first Austrian Expressionist," Gerstl, unlike his celebrated compatriots Gustave Klimt, Egon Schiele and Oskar Kokoschka, remains obscure on this side of the Atlantic.

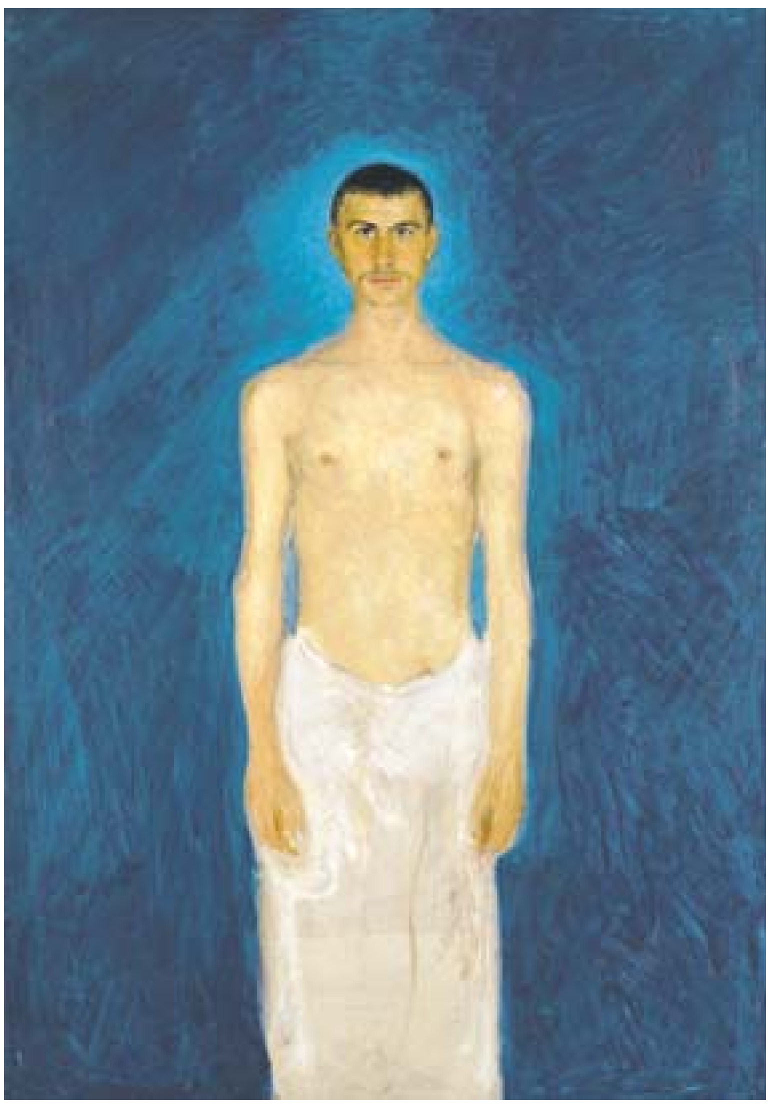
In part, this is because of the brevity of his working life, despite a precocious early start. (The exhibition's first harbinger of future directions is a semi-nude self-portrait painted around 1902-1904, before the artist was 21.) But Gerstl committed suicide soon after his 25th birthday, in the wake of a scandal, so there are few extant works, most of which are in Austrian collections. More important, because of the circumstances of his death, Gerstl's correct bourgeois family hid most of his art from view for more than 20 years; other works are believed lost. His first exhibition was not held until 1931, when his brother brought the surviving paintings to the attention of a prestigious Viennese gallery. The show was hailed as a revelation.

Gerstl fans have long been tantalized by the Neue Galerie's energetic "Portrait of a Man (Green Background)," painted in 1908, the last summer of the artist's life, with its fluent, ribbony brushstrokes, casual pose, and summarily indicated outdoor setting. "Richard Gerstl," organized by independent curator Jill Lloyd for the Neue Galerie, in partnership with the Schirn Kunsthalle, Frankfurt, sets this fine picture in context and allows us to gauge some of the excitement generated by that 1931 exhibition. We follow Gerstl's evolution over a startlingly brief six years, from prodigiously gifted maker of naturalistic portraits to fearless creator of fiercely scrawled landscapes and figures so elusive that they verge on abstraction. Through the shifts in his approach, we can follow his discovery of artists such as Vincent van Gogh, Ferdinand Hodler, Edvard Munch and perhaps Edouard Vuillard.

The exhibition's center gallery concentrates on portraits made between 1906 and 1908, the earliest constructed with large, rhythmic, broken marks, like over-scaled Impressionist touches, the latest with exuberant, uninhibited swipes and stabs of a loaded brush. Gerstl, we are told, can be seen as a bridge between Klimt and Kokoschka. Yet while his loosely patterned backgrounds may faintly echo Klimt's "mosaic" society portraits, the presence of one of the older artist's typically stylized, crisply delineated depictions of a woman in a fabulous hat emphasizes, by contrast, the greater freedom and sensuality of the younger man's paint handling. An agitated, rapidly scribbled Kokoschka portrait of a man underscores the prescience of Gerstl's approach.

That pivotal early self-portrait, with the nude Gerstl swathed in a white sheet from the waist down, is on view in the first gallery. With its rough strokes, confrontational pose and symbolist overtones, it looks remarkably progressive for the first years of the 20th century, but it's completely overwhelmed by Gerstl's last—1908—self-portrait, in the final room. A tour de force of slashing brushwork, pale flesh and full frontal nudity, it seems to show the painter at work, with the dark mass of his easel and large canvas an ominous vertical band that forces the figure to the left.

A more ambiguous, minimally suggested standing nude, possibly in an interior with watchful witnesses, also from 1908, suggests that Gerstl, had he lived longer, might have painted figures as bold and economical as those of the marvelous Bay Area artist David Park. Light-struck, outdoor group portraits, with features and details of clothing implied by slashes and sweeps of sunny color, seem to bear witness to summer pleasures and a more relaxed mood, despite the urgency of Gerstl's brushwork.



FROM LEFT: BELVEDERE MUSEUM, VIENNA; LEOPOLD MUSEUM, VIENNA

Richard Gerstl's 'Semi-Nude Self-Portrait' (1902-04), above, and 'Mathilde Schönberg' (summer 1907), left.

The subtext of the exhibition is Gerstl's close, complicated friendship with the composer Arnold Schönberg, his family, his musician colleagues and, above all, Schönberg's wife, Mathilde, with whom the painter had a brief, disastrous affair. Gerstl's portraits of these protagonists, executed with varying degrees of intensity, bring these connections to life. (That Gerstl's suicide was triggered by Schönberg's discovery of the couple in flagrante and the aftermath of that revelation was suppressed by the composer's circle until 1967; a carefully researched catalog essay by the Gerstl scholar Raymond Coffer clarifies the tragic story.)

Some of Schönberg's own self-portraits and paintings are included, along with photographs and portraits by various artists of all the players in this highly charged drama. The most vivid is Gerstl's unfinished, life-size nude of Mathilde, painted in the autumn of 1908, before the affair was discovered and she returned to her husband. It was Gerstl's last painting.

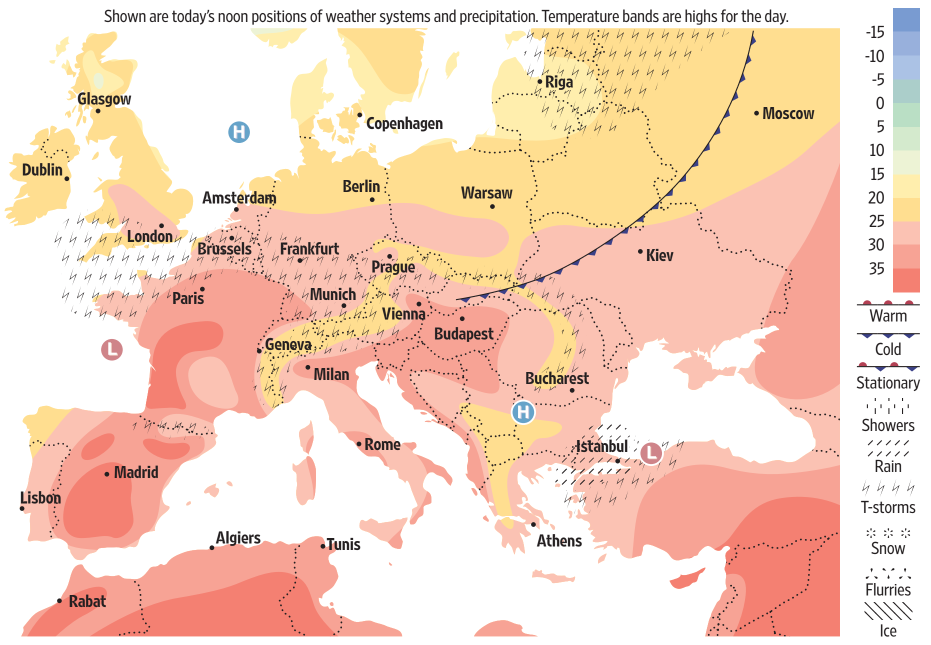
Richard Gerstl
Ronald S. Lauder Neue Galerie, through Sept. 25

Ms. Wilkin is an independent curator and critic.

Weather

AccuWeather.com

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

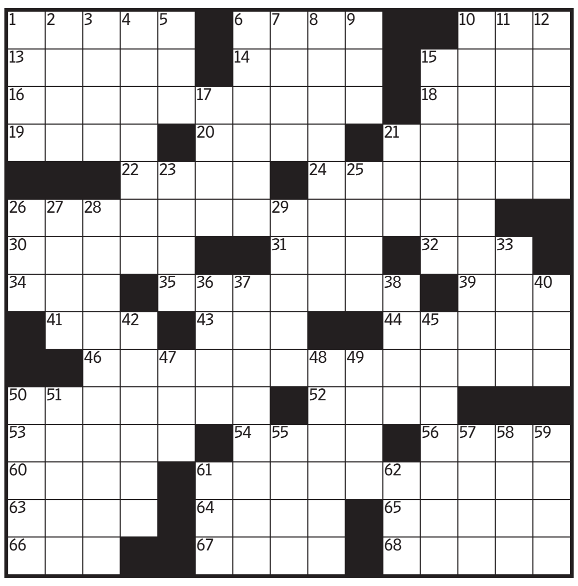


Global Forecasts

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	25	18	pc	29	18	t
Anchorage	15	12	r	16	13	r
Athens	27	22	s	30	23	s
Atlanta	32	22	t	33	23	s
Baghdad	50	32	s	48	30	s
Baltimore	32	22	pc	34	23	pc
Bangkok	31	26	t	32	25	t
Beijing	34	25	s	33	26	t
Berlin	23	13	pc	28	19	pc
Bogota	18	10	c	18	9	c
Boise	35	17	s	36	18	s
Boston	28	20	pc	30	21	pc
Brussels	28	19	t	28	17	t
Buenos Aires	12	3	s	14	5	pc
Cairo	39	26	s	37	25	s
Calgary	24	9	s	27	11	s
Caracas	32	25	pc	31	25	pc
Charlotte	32	21	t	34	22	pc
Chicago	29	22	s	32	23	t
Dallas	35	26	pc	36	26	pc
Denver	36	19	pc	36	18	s
Detroit	29	19	s	31	21	pc
Dubai	42	36	pc	44	34	pc
Dublin	21	15	pc	21	9	t
Edinburgh	23	12	pc	20	12	t
Frankfurt	30	18	t	33	19	pc
Geneva	31	17	t	31	18	pc
Hanoi	31	26	t	31	26	t
Havana	33	24	pc	32	23	pc
Hong Kong	31	27	sh	32	27	c
Honolulu	31	25	pc	31	24	pc
Houston	33	24	t	33	25	t
Istanbul	25	21	r	27	21	pc
Jakarta	30	24	c	32	24	t
Johannesburg	17	1	pc	19	2	s
Kansas City	34	24	s	35	25	s
Las Vegas	40	30	pc	38	29	t
Lima	22	15	pc	21	15	pc
London	26	20	pc	25	17	t
Los Angeles	29	19	pc	29	19	pc
Madrid	37	22	pc	34	19	pc
Manila	33	26	t	33	26	t
Melbourne	13	8	sh	12	8	sh
Mexico City	22	12	pc	23	12	t
Miami	33	26	t	33	27	pc
Milan	32	21	pc	33	20	pc
Minneapolis	29	19	t	30	22	pc
Monterrey	33	20	pc	33	21	pc
Montreal	28	18	sh	29	20	pc
Moscow	21	12	pc	20	12	pc
Mumbai	30	27	sh	30	27	r
Nashville	33	22	pc	34	23	s
New Delhi	35	28	c	35	28	c
New Orleans	31	24	t	32	25	t
New York City	29	23	pc	32	25	pc
Omaha	34	23	pc	36	26	pc
Orlando	32	23	t	32	24	t
Ottawa	28	16	pc	29	18	pc
Paris	33	20	pc	30	17	t
Philadelphia	31	23	pc	33	25	pc
Phoenix	37	29	t	37	29	pc
Pittsburgh	30	19	pc	31	20	pc
Port-au-Prince	35	23	pc	35	23	pc
Portland, Ore.	29	13	s	28	14	s
Rio de Janeiro	23	18	sh	22	18	sh
Riyadh	44	28	pc	44	30	pc
Rome	30	19	s	29	18	pc
Salt Lake City	38	26	pc	36	24	t
San Diego	26	21	pc	26	21	pc
San Francisco	21	13	pc	22	13	pc
San Juan	31	27	sh	32	27	s
Santiago	19	4	s	21	4	s
Santo Domingo	33	24	pc	33	24	s
Sao Paulo	13	9	sh	15	12	sh
Seattle	27	12	s	27	13	s
Seoul	31	25	pc	32	25	pc
Shanghai	37	29	t	38	29	pc
Singapore	30	25	pc	30	25	t
Stockholm	22	9	pc	22	11	pc
Sydney	22	10	s	18	8	s
Taipei	37	26	pc	35	26	t
Tehran	36	24	s	37	23	s
Tel Aviv	33	25	s	33	25	s
Tokyo	31	24	pc	30	25	pc
Toronto	28	17	pc	30	19	pc
Vancouver	23	13	s	23	13	s
Washington, D.C.	33	24	pc	35	26	pc
Zurich	30	16	t	32	17	pc

The WSJ Daily Crossword | Edited by Mike Shenk



SHORT NOTICE | By Zhouqin Burnikel

Across

1 Far from talkative
6 Creative endeavors
10 Gloomy guy
13 Coral island
14 Fishing line holder
15 Woodstock singer Guthrie
16 1974 Jimmy Buffett hit
18 Haves and have-___
19 Patella's place
20 Puts down ready-made lawn
21 Ghana's capital
22 Prescription unit
24 Nerdy type
26 Online referee
30 Honda's upscale brand
31 Dipstick wiper
32 Pastrami sandwich bread
34 "Turn up the heat!"
35 Summertime noisemakers
39 Sound while shearing
41 Debut music releases, at times
43 Semicolon half
44 Overflowing
46 Monthly payments, for many
50 Stew flavorer
52 Gardener, at times
53 Plus column entry
54 Nation on the Arabian Sea
56 Coors malt beverage brand
60 Unruffled
61 Influential person
63 Act ___ impulse
64 To be, to Babette
65 Jim Croce song "I Got ___"
66 "That ain't right"
67 General ___ chicken
68 Columbus's birthplace

Down

1 Poster holder
2 School near Windsor
3 Vatican City surrounder
4 Surprise hit
5 Stately tree
6 Golf's Palmer
7 Foxx of "Sanford and Son"
8 Buzz-creating promo
9 Furtive
10 Checkout item
11 Extremely
12 "That's terrible!"
15 Popeye's tattoo
17 Site of King Harald V's palace
21 IRS employee
23 Desktop covered by AppleCare
25 Bonkers
26 Chew the fat
27 Orchard unit
28 "If something can go wrong, it will"
29 Muse of lyric poetry
33 Naturalness
36 Creative spark
37 Says "There, there," say
38 Wise guy
40 Sounds of relaxation
42 Like many an oath
45 Spot for embedded journalists
47 Got together
48 Ving of "Pulp Fiction"
49 Vocal inflection
50 Club sandwich ingredient
51 Yoga pose
55 Catalan painter and sculptor
57 "Ghostbusters" director Reitman
58 Office note hidden in four of the Across answers
59 Vicinity
61 Cockatoo or cockapoo
62 Newsstand buy, for short

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

Previous Puzzle's Solution

C	H	A	R		A	D	D	U	P		S	P	A	S
P	O	R	E		D	A	N	N	Y		P	E	S	O
L	O	C	H	O	F	H	A	I	R		A	T	O	N
S	P	H	E	R	E			T	E	S	T	I	F	Y
			A	B	E	L	L		N	E	A	T		
S	C	A	R		S	E	A	S	E	C	T	I	O	N
O	A	F	S			T	O	T	E	S		O	T	O
A	N	T	E		N	O	T	E	S		O	N	T	O
P	I	E		L	O	U	I	E			P	E	E	K
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C	A	S	I	N	O	S			U	N	W	I	N	D
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S	E	T	S		D	I	R	T	Y		E	D	D	Y

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BUSINESS & FINANCE

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Beijing Reins In Wanda's Deals

By Lingling Wei And Wayne Ma

BEIJING—The Chinese government is putting the brakes on **Dalian Wanda Group**'s overseas deals, clouding the company's ambitions to become a global entertainment powerhouse.

Regulators met with executives at the country'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.

Banking regulators had previously asked lenders to review loans made to five big overseas deal makers, including Wanda, to assess whether their escalating debt posed a credit risk.

HNA Group, which was among those mentioned, has drastically slowed its deal making since then.

"Cross-border movement of funds is the background of this," said Keith Pogson, a senior partner for financial services at Ernst & Young. Regulators "are sending a clear message to the market that they're going to make it difficult for companies to finance overseas deals."

Wanda, controlled by billionaire Wang Jianlin, started as a property developer but moved into entertainment to diversify and expand its holdings. It owns the world's largest cinema chain, AMC Entertainment Holdings Inc., as well as Legendary Entertainment, a Hollywood film producer and financier.

It struck a $1 billion deal to buy Golden Globes producer Dick Clark Productions last year, but later dropped those plans amid escalating Chinese government concerns over capital outflows that put pressure on its currency.

ANDREW KELLY/REUTERS

An AMC theater in New York. Wanda owns the AMC chain.

Wanda can't use its own funds in China to pay for those overseas deals should the acquired assets run into any financing difficulties, the document shows. Wanda also is banned from injecting those foreign assets into its listed company in China, according to the document.

Some Chinese banking officials say the new rules effectively cut off another method for paying for overseas acquisitions by using assets onshore as collateral to borrow overseas funds.

Wanda used that method to help finance two of its largest cross-border deals last year. The company paid $3.5 billion to buy Legendary Entertainment and paid shareholders $4.4 billion to delist its main property unit from the Hong Kong stock exchange. In both cases, Wanda promised investors equity stakes in return for their funds once the assets were listed in China.

The document, a portion of which was reviewed by the Journal, refers to four completed and two pending foreign deals.

The other two deals involved are possible multibillion-dollar investments by Wanda in property developments in Indonesia and Malaysia, the person said. Chinese authorities won't give Wanda regulatory approvals for the

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Google Nears Partial Pay Win

By Douglas MacMillan And Jack Nicas

Google won't need to turn over an entire set of employee compensation data to federal auditors in the U.S., 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 Sunday, Google welcomed the judge's decision, saying 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 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 con-

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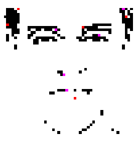
STREETWISE
By James Mackintosh

On Random Walk, Don't Be Fearful Of Robots



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

Please see STREET page B2

DADO GALDIERI/BLOOMBERG NEWS

Fears of a Chinese slowdown eased Monday on stronger-than-expected economic figures. Here, a copper smelter facility in Peru.

Copper Gets Lift From Chinese Data

Metal hits a four-month high as GDP and production in largest market exceed forecasts

By David Hodari And Ira Iosebashvili

The price of copper hit a four-month high Monday after upbeat Chinese economic data damped fears of a slowdown in the metal's largest market.

Copper for July delivery gained 1.2% to $2.717 a pound on the Comex division of the New York Mercantile Exchange, the highest settle value since early March.

Gold futures were also higher, up 0.5% at $1,232.80 a troy ounce for the July contract, hanging onto the gains made on the back of weaker-than-expected U.S. economic data released Friday.

Copper investors were reassured when the Chinese government released gross-domestic-product and industrial-production data early Monday. Both metrics outperformed consensus expectations, with industrial production at 7.6% growth beating the FXStreet.com forecast of 6.5% growth.

However, Commerzbank warned in its morning note against moving into copper too quickly.

The bank says it doesn't "believe the momentum will be maintained throughout the second half year."

Copper investors will be scrutinizing Chinese house-price index data, expected Tuesday, for any signs of market softness. The country accounts for nearly 45% of global demand.

Looking further ahead, market observers are likely to focus on the meetings of the Japanese and European central banks, said Nitesh Shah, ETF Securities' commodities strategist. Information on European Central Bank balance-sheet tightening would be of particular interest, he said.

Government-mediated wage negotiations were ongoing between Antofagasta PLC and workers at its Chilean Zaldivar copper mine after similar discussions averted a strike at the neighboring Centinela mine.

China Takes a Hard Line, and Stocks Fall

By Shen Hong

SHANGHAI—Chinese stocks tumbled and the central bank made a large-scale injection of cash into the financial system, after top officials signaled over the weekend that the country's campaign against runaway debt and speculation remains a priority.

At a high-level meeting that ended Saturday and is seen as setting the direction of Chinese financial policy for the next five years, President Xi Jinping stressed the importance of reining in high debt levels in the world's No. 2 economy and announced the formation of a new committee to coordinate financial regulation. That was in contrast to the last meeting of the National Financial Work Conference five years ago, which advocated overhauls that would bring China's markets more in line with global peers.

Chinese investors appeared to interpret the stern tone as signaling that a regulatory push in recent months to reduce risk and leverage in financial markets would continue full force. On Monday, the country's stock markets sold off, particularly the Shenzhen Stock Exchange, which is known for its smaller, more speculation-prone stocks.

ZHONG ZHI/GETTY IMAGES

The Shenzhen Composite Index fell 4.3% on Monday. The Shenzhen Stock Exchange is known for speculation-prone stocks.

The Nasdaq-style ChiNext startup board finished the day down 5.1%, and the Shenzhen Composite Index declined 4.3%. The bigger Shanghai Composite Index, in which large state-run companies are listed, closed down 1.4% after falling as much as 2.5% shortly after the opening bell.

All three indexes posted the sharpest drops since Dec. 12, 2016, FactSet data showed.

The selloff came despite data showing faster-than-expected growth in the Chinese economy in the second quarter. Some investors said the strong economic performance would give Beijing more leeway to tighten policies.

Meanwhile, the People's Bank of China injected a net 140 billion yuan ($20.64 billion) into the financial system on Monday, the largest such supply of cash in nearly six weeks. Analysts said the move appeared to be aimed at preempting panic among investors.

The big injection "suggests that the PBOC was in a way

Please see STOCKS page B2

Subscriber Growth Boosts Netflix Stock

By Austen Hufford

Netflix Inc. surpassed its estimate for subscriber growth in the second quarter, adding 5.2 million users, as the streaming giant showed it is thriving in a hotly competitive market for internet television.

The company ended the quarter with nearly 104 million subscribers globally. It added far more users than the 3.2 million it had projected and 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 that it would like to be judged primarily 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 were up 9% in aftermarket trading.

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.

The company 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.

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

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

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

BUSINESS & FINANCE

CSX Boss Bans Crew Naps

New CEO Harrison's prohibition on sleep puts railroad at odds with other rail carriers

By Paul Ziobro


LUKE SHARRETT/BLOOMBERG NEWS

CSX crew were previously allowed to nap under a strict protocol while trains were stopped.

CSX Corp.'s new boss has nixed naptime.

Hunter Harrison joined the railway as chief executive in March, promising to jolt the company's culture and bring on tighter schedules, faster trains and less downtime.

One casualty of the new plan: napping breaks, which train conductors and engineers were allowed for as long as 45 minutes under a strict protocol when trains were stopped. Now, any on-the-job shut-eye is forbidden. "We had a rule that said you could take a nap while you worked," Mr. Harrison said in a recent interview. "We don't have that now."

The change, instituted by the 72-year-old railroad veteran in a half-page bulletin in April, eliminated more than two decades of allowable naps on CSX trains. It also put CSX at odds with its U.S. rivals. **BNSF Railway** Co., **Kansas City Southern** Corp., **Norfolk Southern** Corp. and **Union Pacific** Corp., allow napping under certain conditions, as do hundreds of other railways. The two other railways Mr. Harrison ran—**Canadian National Railway** and **Canadian Pacific**—don't allow napping.

"We think it's pertinent and appropriate in certain circumstances to enable an employee to nap," said Union Pacific CEO Lance Fritz. The railway has allowed naps since 1999 and has even built "nap rooms" at various sites to facilitate rest.

The various changes that Mr. Harrison is implementing are meant to give employees less variability in their schedules, allowing them to plan their sleep better, CSX spokesman Rob Doolittle said. CSX believes employees are safer "when they are fully engaged in the activity around them at all times when they are on duty," he said, adding that worker safety hasn't slipped since the rule changed in April.

Frequent delays hauling freight provide plenty of opportunities for napping. On long routes, a train may be shunted to a "siding" to allow another to pass from the opposite direction. With dozens of kilometers between sidings and long trains chugging along at about 40 kilometers an hour, such delays can easily last more than an hour. Track repairs, derailments and congestion can also lead to waits.

Fatigue is an issue, too, in what is a 24/7 operation in which engineers can be called into work in the middle of the night. Federal laws regulate railroad shifts, including a maximum of 12 hours worked in a 24-hour period and 10 hours off before resuming work. Still, the National Transportation Safety Board says nearly 20% of investigations of railway accidents between 2001 and 2012 identified fatigue as a cause or contributing factor.

A Union Pacific spokeswoman cited a National Aeronautics and Space Administration study of airline pilots that showed a planned, 40-minute nap taken in-flight made them 34% more aware and 100% more alert.

Fatigue is a common issue in other industries—such as aviation and medicine—that are staffed round the clock, and often workers are encouraged to nap to keep alert. **United Parcel Service** Inc., for one, has 125 sleep rooms at its main hub in Louisville, Ky., where pilots can recharge between flights.

"If there was an opportunity to take a nap, 90% of the time someone in the cab was going to want to do it," said John Paul Wright, a retired CSX locomotive engineer who currently organizes for Railroad Workers United, a coalition of unions.

John Risch, national legislative director for the International Association of Sheet Metal, Air, Rail and Transportation Workers, a union that represents CSX conductors, said that napping is a key way to deal with fatigue. "Eliminating napping is a real disappointment and the wrong way to go," he said.

While union contracts govern pay, benefits and other quality-of-life issues, rules on operational procedures—which have a long history in the railroad industry—remain within the purview of railway management.

Waiting is anathema to Mr. Harrison, who is busy at CSX implementing an approach he calls precision railroading. The goal is running trains on a tighter schedule and keeping them moving along. Less than four months into his tenure, CSX's trains are moving 10% faster and spending 7% less time in terminals.

—*David George-Cosh contributed to this article.*

WANDA

Continued from the prior page
two pending deals, according to the person and the document. A person close to the company said those deals never moved beyond preliminary talks.

The fact that Chinese regulators are retroactively going back to old deals is unusual, Mr. Pogson said.

The directive would appear to block Wanda from getting new financing in connection with past and future deals from Chinese banks. In addition, it clouds financing for the two pending deals.

Last week, Dalian Wanda said it would sell most of its theme parks and hotels to developer Sunac China Holdings Ltd. for $9.28 billion to improve its balance sheet. Regulatory filings showed that Wanda will lend $4.35 billion to Sunac, using a bank as an intermediary, to help Sunac pay for the theme-park business.

STREET

Continued from the prior page
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 2.31% on Monday, 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.

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. 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.

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.

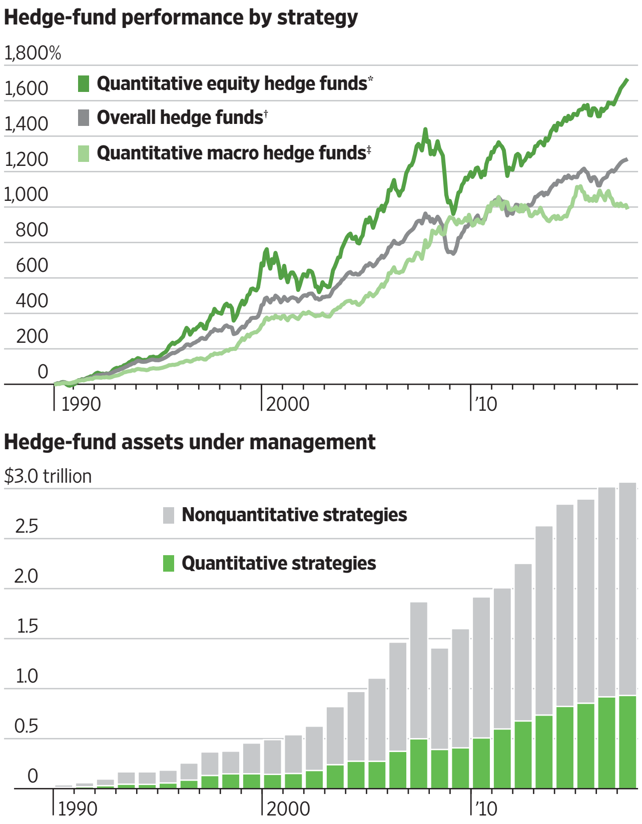
Sushil Wadhwani used machine learning when head of systems trading at hedge fund Tudor two decades ago, and now runs his own automated fund using machine learning but overrides the systems occasionally. In 2008, he turned off the European bond analysis because it had learned that spreads between the 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.

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.

'The more complicated your model…the less good it is about explaining' data in the future.

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.

STOCKS

Continued from the prior page
prepared for such market volatility and it was trying to manage people's expectations," said Zang Min, senior fixed-income analyst at Hongxin Securities.

The injection may have helped fend off jitters in China's bond market, which has seen yields spike briefly in recent months during Beijing's crackdown on leveraged investment. Yields rise as bond prices fall. On Monday, the yield on the 10-year Chinese government bond fell 0.01 percentage point to 3.56%.

A steady Chinese yuan also helped calm some investors, analysts said. The central bank set its daily "fix"—or the range in which the yuan can trade 2% above or below that level—on Monday at 6.7562 per dollar, its highest against the U.S. dollar since November.

"The yuan's fix is near the high end of our expectations, which also shows the PBOC's intention to stabilize markets," said a Shanghai-based senior currency trader at a Chinese bank.

Chinese stock markets were also weighed down by President Xi's call at the weekend conference for boosting the role of direct financing, or fundraising via the bond and stock markets, analysts said. Chinese regulators have been approving new stock listings at a fast pace in recent months, in an attempt to alleviate a yearslong backlog of companies waiting to go public.

While that is good for companies that want to list, some investors have complained that the influx of new listings is depressing the markets, particularly in Shenzhen, where new listings have been concentrated in recent years.

"This means the speed of approval for initial public offerings won't slow," said Amy Lin, senior analyst at Capital Securities.

In the first half of this year, 237 companies listed in China's domestic stock markets, raising a combined 116.6 billion yuan, nearly triple the amount raised a year earlier, according to China's securities regulator.

—*Yifan Xie in Shanghai and Gregor Stuart Hunter in Hong Kong contributed to this article.*

Toys 'R' Us in Rough Game

With $5 billion in debt, the toy retailer faces stiff web competition from Amazon, others

By Miriam Gottfried

ALAN DIAZ/ASSOCIATED PRESS
Shoppers at a Toys 'R' Us store in Miami last year. The retailer is trying to boost its online sales.

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 won't 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, 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 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 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 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 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. The company cited excess inventory and bigger discounting in the beauty business.

Emirates, Flydubai Join in Airline Tie-Up

By Nicolas Parasie

DUBAI—**Emirates Airline** and budget carrier **Flydubai** said they are going to work more closely together through a wide-ranging tie-up, in the latest sign that intensifying political and economic pressures are making Middle East carriers rethink their business plans.

The carriers, both owned by Dubai's government, announced a partnership that includes collaborating on routes and scheduling, an agreement on code sharing—in which airlines list each other's flights on their reservation systems—and the alignment of their frequent-flier programs.

Emirates Airline, the world's largest carrier by international traffic, flies **Airbus** SE A380 superjumbos and **Boeing** Co. 777 long-range jets world-wide, offering ample amenities. In contrast, Flydubai offers a no-frills service that connects cities using smaller planes. More closely integrating its schedule with Flydubai would allow Emirates to offer access to cities that don't warrant use of big planes, feeding passengers to and from those destinations to long-haul flights via its Dubai hub to help fill the large planes flying to the U.S., Europe and Asia.

Emirates and Flydubai said the partnership should allow them to "leverage each other's network to scale up their operations and accelerate growth." Jointly, the two airlines aim to offer 240 destinations by 2022, up from 216 now, using a combined fleet of 380 aircraft.

The Emirates-Flydubai partnership agreement comes at a difficult time for the Middle Eastern carriers.

After a period of rapid growth, Emirates and its two major regional rivals, Etihad Airways and Qatar Airways, are facing a prolonged period of challenges. Low oil prices have hit business travel to and from their home bases while an oversupply of seats has put downward pressure on ticket prices.

Tougher travel-security measures in response to the threat of terror attacks and uncertainty surrounding travel to the U.S. have also weakened demand. More recently, a diplomatic standoff between Qatar and its neighbors including Saudi Arabia and the United Arab Emirates—Dubai is one of the U.A.E.'s seven emirates—has added extra uncertainty to the region's aviation sector.

The disruption was visible in the latest results from Emirates. The carrier reported an 82% drop in net profit to $340 million for its fiscal year ended in March compared with the previous 12 months.

Though Emirates and Flydubai are owned by Dubai's sovereign-wealth fund and operate from the same international airport, they have functioned independently and will continue to do so, according to the airlines' statement.

—Robert Wall in London contributed to this article.

LI ZHEN/XINHUA/ZUMA PRESS
Flydubai offers a no-frills service that uses a fleet of smaller planes.

BUSINESS WATCH

H&M

Fashion Retailer Gets Solid Growth in Sales

Swedish fashion retailer **Hennes & Mauritz** AB said its June sales rose 7% in local currencies compared with the same month last year, marking a final monthly sales report before switching to quarterly reporting.

Converted into Swedish kronor, H&M said its June sales increased 10%. In June 2016, the company's sales rose 8%.

The retailer said it would no longer publish monthly sales data, and instead report quarterly data ahead of its interim reports to align itself more with how other fashion retailers report sales figures.

"The reasoning is that a month is far too short a period over which to assess how sales are developing; in fact, a single month's sales can actually be misleading, since calendar and weather effects—among other things—may significantly affect the outcome," the company said.

—Dominic Chopping

RENAULT

Emerging Markets Supply Lift to Sales

Renault SA said its world-wide vehicle sales rose 10% in the first half, far outstripping the wider market, as the French auto maker benefited from the introduction of revamped models and booked strong growth in many emerging markets.

Renault sold 1.88 million vehicles in the first six months of the year, compared with 1.70 million in the year-earlier period. The wider market advanced 2.6% in the first half, it said.

Sales in the Americas rose 15% following market recoveries in Brazil and Argentina. In the Asia-Pacific region, sales jumped 51% and in Russia Renault experienced its first increase in volume in four years. In France, the company's largest single market, sales rose 1.8%. However, it was Renault's best first-half showing in its home country in six years.

—Eric Sylvers

FEDEX

Company Struggles After Cyberattack

Customers waiting for packages abroad are experiencing significant delays as U.S.-based **FedEx** Corp. continues to suffer from the effects of a June 27 cyberattack. The logistics company said in a securities filing on Monday that the global cyberattack known as Petya significantly affected the operations of its TNT Express business, which has delivery operations in the Middle East and Africa, Asia-Pacific, Europe and South America.

FedEx said while TNT depots, hubs and facilities are operational, it has resorted to manual processes to facilitate a significant portion of operations and customer-service functions.

"We cannot estimate when TNT services will be fully restored," the company said.

FedEx said the cyberattack will have a "material" financial impact on its operations. The company said it doesn't have cyber insurance or any other insurance to cover the attack.

Last year FedEx acquired TNT Express BV for $4.8 billion. Ukraine-based TNT contributed 12% to FedEx's top line in the prior fiscal year.

—Imani Moise

ITV

TV Network Hires EasyJet Boss as CEO

The U.K.'s largest commercial TV network, **ITV** PLC, announced Monday the appointment of **easyJet** PLC boss Carolyn McCall as its new chief executive, succeeding Adam Crozier, whose departure was announced earlier this year. The "Downton Abbey" broadcaster said she would start in her new role on Jan. 8. Ms. McCall has been chief executive of budget airline easyJet for seven years, having previously been chief executive of Guardian Media Group, publisher of the U.K. newspaper Guardian.

—Rory Gallivan

DREW ANGERER/GETTY IMAGES
Fashion retailer H&M said its June sales rose 7% in local currencies compared with the prior year.

IBM Upgrades Data Protection

Latest mainframes feature more muscle for encryption efforts; a crucial profit source

By Ted Greenwald

JON SIMON/IBM/REUTERS

An IBM mainframe computer in 2015. IBM has updated its mainframes over nearly seven decades, and holds over 90% of the market.

International Business Machines Corp. on Monday unveiled its next generation of mainframes, the industrial-strength computers that underpin industries such as banking and insurance, highlighting an old product category that still drives much of its profit.

The new line of mainframe computers pairs what IBM claimed is the industry's fastest processor with additional resources in a package designed to handle large-scale, continuing tasks such as processing credit-card transactions.

In addition to increased speed, the company says the new systems, branded IBM Z and priced starting at $500,000, offer extra horsepower for encrypting data at all times throughout the system and automating compliance with international data regulations.

IBM said it expects the new units to be widely available in September.

Mainframes, which date to the 1950s, in recent decades have been overshadowed by networks of smaller computers and, more recently, cloud computing. But their extraordinary reliability, security and ability to move data in and out means they continue to crunch numbers in the back offices of many large organizations.

IBM has continued to update its mainframes over nearly seven decades through successive waves of computer design, and now holds more than 90% of the market, according to analyst Peter Rutten at International Data Corp. Global sales of these powerful machines last year totaled $3.5 billion, according to market-research firm Gartner Inc.

Mainframe revenue last year accounted for a small slice of IBM's total, but those sales combined with related support, software, storage and financing brought in 24% of revenue and 41% of operating profit, analyst Toni Sacconaghi of Bernstein Research wrote in a recent report. Mainframe sales are especially valuable to IBM as they support long-term customer relationships that drive further sales, especially software subscriptions that bring in stable recurring revenue, he said.

IBM has mentioned the new mainframes as a factor in its 2017 results that will accelerate profit in the second half of the year as investment falls and sales kick in. The company's financial forecast anticipates that IBM will generate 63% of its total, annual adjusted earnings per share in the third and fourth quarters. That would make the rest of this year one of IBM's two highest-earning second halves in the past 20 years, according to Mr. Sacconaghi—an ambitious goal in his view.

Mainframe sales drive software subscriptions that bring IBM stable recurring revenue.

IBM is expected on Tuesday to release its second-quarter results.

Users of conventional systems tend to perform encryption on limited portions of data at specific points in their use, leaving opportunities to copy unprotected data and consuming general computing capacity in the process.

By offering the option to protect data systemwide, IBM Z would help thwart such threats, according to Patrick Moorhead of Moor Insights & Strategy, a market-research firm. "They're definitely focusing on the right thing," he said.

IBM isn't the only business hardware emphasizing data protection. **Intel** Corp. this past Tuesday launched its Xeon Scalable server chips, which accelerate encryption of data as it is being transferred to storage. **Advanced Micro Devices** Inc. in June started selling its Epyc server-chip line, which encrypts data in memory. Equipment vendors such as **Hewlett Packard Enterprise** Co. are beefing up security in other ways.

ADP LLC has been using IBM mainframes since 1957 to run its payroll-processing and human-resources businesses. Stuart Sackman, vice president of global products and technology at ADP, looks forward to using IBM Z's new data-protection features to lock down personal information it maintains on some 30 million people.

"Our global security office—and our board—would be happy if we encrypted 100% of everything 100% of the time," he said. "Historically that has been hard to do."

Uber Retreats From Macau

By Dan Strumpf

HONG KONG—**Uber Technologies** Inc. said it is suspending its operations in the Chinese gambling hub of Macau, the latest retreat for the ride-sharing giant as it continues to face regulatory pressure from many overseas markets.

On its website, Uber said it is temporarily halting ride sharing in the partly autonomous southern Chinese city near Hong Kong. The company said it was "not able to secure a business environment" to continue operating. Though the city has a population of less than 650,000, the gambling and entertainment hub is a magnet for tourists from mainland China and elsewhere, with tourist arrivals topping 30 million last year.

The withdrawal, even from a small market, is another setback for Uber overseas, where it has faced regulatory headwinds from local governments and fierce competition from homegrown ride-sharing startups. The company is also seeking to right itself after the resignation of CEO Travis Kalanick last month amid a wave of controversies about its work culture.

Last week, Uber announced it was pulling out of Russia, saying it was combining operations with Yandex.Taxi, the most popular ride-hailing service there.

And earlier this year it appeared ready to withdraw from Taiwan amid a dispute over the legality of its services, though it resumed ride sharing after reaching an agreement with the government.

In 2016 Uber retreated from mainland China by giving up its operations there in exchange for a minority stake in the country's homegrown ride-hailing service Didi Chuxing Technology Co.

Uber's suspension in Macau is the latest twist for the ride-sharing company in the former Portuguese colony. Last year, it also announced plans to withdraw, only to scrap the exit plan a short time later citing support from local residents.

ERIC GAY/ASSOCIATED PRESS

The withdrawal is another setback for Uber overseas.

San Francisco-based Uber appeared to keep the door open to a future presence in Macau, saying that it is exploring ways to serve the city again and that it has had initial discussions with potential business partners such as transport operators and hotels.

In China's other semiautonomous city of Hong Kong, Uber continues to have a notable presence despite fights with local authorities. In May, Hong Kong police arrested a number of its drivers for allegedly violating permit and insurance rules.

Last week, Uber's top executive for Asia, Andrew Macdonald, appeared at a news event in Hong Kong and told reporters that the company has "a ton of commitment from our executive leadership team to the region."

Subscriber Information At Dow Jones Exposed

By Robert McMillan

An error by **Dow Jones** & Co. in configuring a cloud-computing service left addresses and other information about subscribers to some of its products, including The Wall Street Journal, exposed to possible unauthorized access.

About 2.2 million subscribers' records were affected, a Dow Jones spokesman said. Some of the records included customer names, usernames, email and physical addresses, and the last four digits of credit-card numbers, although some records were missing parts of that information, the spokesman said.

The exposed data were discovered by UpGuard Inc., a cybersecurity firm, which said it notified Dow Jones of the leak on June 5.

"We immediately remedied the situation and have no reason to believe that any data was taken," said the Dow Jones spokesman, who said the exposed data didn't include passwords. He declined to say whether the company planned to notify affected customers.

The data "did not include full credit-card or account-login information that could pose a significant risk for consumers or require notification," he said.

The data also included information relating to Dow Jones's Risk & Compliance service, which helps companies follow international regulations, the spokesman said.

According to UpGuard, this database contained information on 1.6 million people and entities. Dow Jones said that these data are taken from publicly available sources but didn't confirm the number of entries in the database.

The episode is one of a series of inadvertent leaks on cloud-computing systems by companies as they move more of their data from servers that they operate themselves to those managed by **Amazon.com** Inc. and others.

On Wednesday, for example, Verizon Communications Inc. said one of its vendors had inadvertently exposed data on about six million customers under circumstances similar to the Dow Jones incident. In a statement, Verizon said it had confirmed that there was "no loss or theft of Verizon or Verizon customer information" as a result of the incident. In both the Dow Jones and Verizon cases, administrators had misconfigured their Amazon cloud storage servers, UpGuard said.

In Dow Jones's case, the data were visible to anyone with an Amazon Web Services account, said Chris Vickery, a researcher with UpGuard, which also discovered the Verizon incident. UpGuard uses software tools that guess the internet addresses of exposed data to raise awareness about cyberrisk issues, the company said. An Amazon spokeswoman said that its cloud-storage service is configured by default to only be accessible to the account owners.

GOOGLE

Continued from page B1

tractors 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. Those investors, led by investment firm Arjuna Capital, requested the same data last year from nine tech companies. Seven complied, including Apple Inc., Amazon.com Inc. and Microsoft Corp. Google and Facebook Inc. didn't.

The Labor Department sued Oracle Corp. in January, accusing the software company of paying white men more than their counterparts, and favoring Asians for certain technical roles. Oracle, which declined to comment, has said previously that the complaint is based on false allegations and is without merit.

In April, the department settled with data firm Palantir Technologies Inc. over allegations it discriminated against Asians when hiring. Palantir, which admitted no wrongdoing, agreed to pay nearly $1.7 million in back wages to affected people and offer eight of them jobs.

Wells Fargo Hit by Broker Exodus

More than 500 have left the lender since the settlement of its cross-selling scandal

By Michael Wursthorn

CEO Timothy Sloan says Wells Fargo undertook a companywide 'culture assessment' recently.

RICHARD DREW/ASSOCIATED PRESS

Wells Fargo & Co. has lost more than 500 brokers since it agreed to a multimillion-dollar settlement last year of its cross-selling scandal, a level of attrition that outstrips the pace at the other three big U.S. brokerages.

The San Francisco bank has largely played down the scandal's impact on its brokerage arm, saying the multiquarter decline has been due, in part, to brokers retiring.

But some who feel burned by the allegations from the cross-selling scandal say otherwise.

Dustin Granger, who left Wells Fargo's brokerage arm in March to launch his own firm with brokerage **LPL Financial Holdings** Inc., said: "I was getting sick of people thinking I worked at the bank. It was a big hindrance to us and our growth." Mr. Granger, who works in Lake Charles, La., had managed more than $100 million in client assets at Wells Fargo, where he had worked for nine years.

In its second-quarter earnings release Friday, Wells Fargo said its total number of brokers had fallen by 1%, or 130, to 14,527 as of June 30 from the previous quarter. Wells Fargo's broker count had been stagnant since 2014 through early last year. Since the third quarter of last year, when the bank announced its sales-practice settlement, the attrition picked up.

From the second quarter in 2014 through the second quarter of last year, Wells Fargo's overall broker force fell slightly less than 1% to 15,042. But since the third quarter of 2016, its total number of brokers has fallen by nearly 4%, or 559 brokers. Because the bank reports net totals each quarter, it wasn't clear how many brokers left Wells Fargo.

A Wells Fargo spokeswoman attributed the declining head count to "recent demographic and regulatory shifts [that] have resulted in some retirements across the industry." She said that Wells Fargo had a strong pipeline of experienced recruits and trainees ready to join the firm.

Analysts said the head-count decline isn't surprising. "It's hard to market to new clients as you have that [issue] as an overhang," said Brian Kleinhanzl, a banking analyst with Keefe, Bruyette & Woods Inc. "It's going to be a challenge for a time period, and it's hard to say how long that will be."

The industry is dealing with a graying broker population, with researchers saying the average age of a broker these days is in the mid-50s. Besides that, analysts say the Labor Department's fiduciary rule requiring brokers to act in the best interest of retirement savers has caused some to retire sooner than they otherwise would have.

Still, Wells Fargo's brokerage departures have been outpacing those of rivals. Other brokerage-owning banks haven't reported second-quarter results yet, but both **Bank of America** Corp.'s Merrill Lynch and **Morgan Stanley** said broker forces declined by half a percentage point from the third quarter of 2016 through the first quarter of this year, while **UBS Group** AG lost slightly more, with its total number of brokers falling 1.7%.

While Wells Fargo's broker count has fallen since the sales scandal, referrals from the bank's community-banking arm to the wealth unit jumped 12% from the previous quarter. Two of the months during the quarter had $1 billion in monthly referred investment assets; in the first quarter, Wells Fargo said it had only one month in which it reached $1 billion in monthly referred investment assets.

Wells Fargo's Chief Financial Officer John Shrewsberry said those referrals were the result of "effective partnering between our bankers and financial advisers."

Total assets within Wells Fargo's wealth arm reached $1.8 trillion, up 8% from the year-earlier period, on higher market valuations and customers entrusting more cash with the bank's financial advisers.

Wells Fargo is trying to turn around its head-count fortunes with more-aggressive broker recruiting at a time when many rivals have temporarily stopped doing so. Merrill Lynch, Morgan Stanley and UBS have said they would curtail their recruitment efforts at least temporarily to save costs and shift spending elsewhere, such as on broker technology. Wells Fargo, meanwhile, sweetened its pitch in May, saying it would offer some brokers a recruitment bonus of as much as three times the annual fees and commissions they generate.

The bank has also put more emphasis on attracting younger brokers to its ranks.

Chief Executive Timothy Sloan told analysts on a conference call Friday that the bank has directed significant resources toward repairing its relations with consumers and has undertaken a companywide "culture assessment" in recent months.

"We are processing these results and the goal is to identify both positive attributes and potential weaknesses so we can take actions that will strengthen our culture," Mr. Sloan said.

BlackRock Draws In More Piles Of Cash

By Sarah Krouse

BlackRock Inc. pulled in another $103.6 billion in the second quarter, further solidifying the largest trend in asset management, where billions keep flooding into lower-cost funds, often at the cost of money run by human stock and bond pickers.

The net new money from investors was a quarterly record for the firm. Of the total, $73.8 billion flowed into its iShares exchange-traded-fund unit.

While the growing popularity of ETFs is helping many firms with significant lineups of passive investment strategies, BlackRock stands out among its peers. The firm's $1.5 trillion ETF business gives the world's largest asset manager a major competitive edge. Its assets have swelled to $5.69 trillion, up 16% from the same time last year, while fund firms without large ETF franchises have struggled to gather assets.

"We are seeing more and more active investors using ETFs for active management," Chief Executive Laurence Fink said in an interview.

Those shifting preferences, however, mean lower fees and therefore revenue for fund providers. BlackRock's revenue rose 5.7% to $2.97 billion, while analysts polled by Thomson Reuters had projected $3.02 billion in revenue. The firm's stock was down 3.1% in late trading.

Mr. Fink said changing regulations governing retail investing and advice globally were also helping BlackRock attract net new money. The Labor Department's fiduciary rule in the U.S. and the Markets in Financial Instruments Directive II in Europe are reshaping investor portfolios and shifting more assets away from traditional portfolios run by humans and into so-called model portfolios that include a number of lower-cost ETFs.

More broadly, Mr. Fink said that despite political gridlock in Washington and tepid economic growth, global investors still think the U.S. is the best place to put money to work.

The growth of passive funds has increased fee pressure and forced asset managers to better control costs. As BlackRock has expanded its iShares ETF unit, it has looked for new ways to use technology to save money and generate additional revenue.

In traditional actively managed products, flows turned positive compared with last quarter. During the second quarter, investors added $7.5 billion to the company's actively managed funds including retail fixed-income products and multiasset strategies for institutional investors.

It continued to suffer net withdrawals from its active equity business. The firm is in the throes of a revamp of its stockpicking unit, a process that puts a greater emphasis on quantitative investing rather than traditional equity selection. "It's doing better than we feared," Mr. Fink said of the project, referred to internally as Monarch. Uncertainty and management changes have led some clients to withdraw assets, but the effort remains on track, he said.

In all, BlackRock reported a profit of $857 million, or $5.22 a share, in its second quarter, up from $789 million, or $4.73 a share, a year earlier. Excluding certain items, BlackRock earned an adjusted $5.24 a share, up from $4.78 in the year prior. Analysts polled by Thomson Reuters had projected $5.39 a share in adjusted earnings.

—Imani Moise contributed to this article

BNY Mellon Appoints New Chief for Bank

By Justin Baer

Charles Scharf is returning to Wall Street as the new chief executive of **Bank of New York Mellon** Corp., placing a retail banking veteran in charge of a firm that safeguards trillions of dollars for big institutions.

Mr. Scharf, 52 years old, succeeded Gerald Hassell as CEO Monday. The 65-year-old Mr. Hassell will remain chairman at BNY Mellon until Dec. 31, when he will hand the title to Mr. Scharf.

Mr. Scharf's challenge will be to jump-start growth and navigate the technological changes sweeping through the financial-services industry. The New York company responded to pressure earlier this decade from shareholders, including activist **Trian Fund Management** LP, to cut costs during a period of low interest rates. Profits have improved, but revenue growth remains tepid.

Mr. Hassell planned to retire once the firm showed progress on a series of goals set in 2014, according to the BNY Mellon CEO and Ed Garden, Trian's chief investment officer and a BNY Mellon director. Trian didn't push for a change in leadership, Mr. Hassell said in an interview.

"I have enjoyed a highly collaborative and constructive relationship with Gerald and am excited to welcome Charlie to BNY Mellon," Mr. Garden said in a statement.

Charles Scharf's challenge will be to navigate changes sweeping the industry.

BNY Mellon's shares rose nearly 2% in Monday trading. They have climbed 32% in the past year, underperforming the KBW Nasdaq Bank Index's 43% gain.

The appointment gives Mr. Scharf a second chance at running a public company. He left the top post at San Francisco payments network **Visa** Inc. in 2016 so he could be closer to his family in New York.

Before heading to Visa in 2012, Mr. Scharf spent his entire career in the banking industry, including a seven-year stint running the enormous retail-banking division of **J.P. Morgan Chase** & Co.

A top lieutenant to J.P. Morgan Chief Executive James Dimon for roughly two decades, Mr. Scharf was at one time considered a potential successor. He left J.P. Morgan in 2012.

Mr. Scharf had been eager to return to his roots at a large financial firm, people familiar with the matter said. On Monday, he said in an interview that he weighed options inside and outside the financial-services industry before concluding BNY Mellon "was one of the most exciting places to be" given the company's central role in the world's financial system.

The bank now has more than $30 trillion in assets under custody and runs a collection of investment managers that oversee $1.7 trillion.

—Emily Glazer contributed to this article.

FINANCE WATCH

GIUSEPPE CACACE/AGENCE FRANCE-PRESSE/GETTY IMAGES

The Italian bank is unloading €17.7 billion of bad debt under a broader strategic plan.

UNICREDIT

Lender Makes Deal To Sell Bad Loans

Italian bank **UniCredit** SpA said it has signed a definitive agreement with **Pacific Investment Management** Co., or Pimco, and **Fortress Investment Group** for the sale of €17.7 billion ($20.3 billion) of bad loans.

The transaction is part of a strategic plan the bank unveiled last year, which included cutting thousands of jobs and selling €13 billion in new shares. Earlier this year, the bank completed the capital increase.

The deal with Pimco and Fortress allows the bank to shed the large portfolio of bad loans by bundling them into securities to be sold to investors.

To that end, the bank has agreed to transfer one portfolio of bad loans to a newly created firm controlled by Fortress Investment Group and another to a firm controlled by Pimco.

UniCredit will own a minority stake in the two companies.

—Giovanni Legorano

DEUTSCHE BANK

'Know Your Client' Chief is Leaving

Deutsche Bank AG's global head of "know your customer" anti-financial-crime processes, Edward Maguire, is leaving the bank at the end of this month, according to a mid-June internal memo that was confirmed by a bank spokeswoman.

Deutsche Bank is looking for a successor, the spokeswoman said.

Mr. Maguire, a director-level manager based in London who joined the lender in 2012, has been global head of so-called KYC responsibilities since early 2016. He previously oversaw anti-money-laundering processes for Deutsche Bank's European and Middle Eastern regions.

Mr. Maguire couldn't be reached for comment. The June memo said he decided to leave to pursue other opportunities. The memo, signed by Rachel Sloan, Deutsche Bank's global head of anti-money laundering and business-line anti-financial crime, said, "Ed has played a pivotal role in developing our future [anti-financial crime] framework and leaves with my best wishes."

—Jenny Strasburg

CANADA

Housing Sales Slide

A cool-down in Canadian housing appears well under way.

National resale figures for June from the Canadian Real Estate Association indicate sales fell a seasonally adjusted 6.7% from May, the steepest decline in seven years. This marked the third straight month-over-month drop in sales, and the second consecutive month transactions declined by more than 6%.

Meanwhile, growth in the association's index measuring house prices slowed for a third straight month, climbing 15.8% in June from a year ago, down from nearly 20% in April.

The association said the results reflect the impact of measures that the province of Ontario introduced in April to end speculative real-estate activity in Toronto and the surrounding area.

—Paul Vieira

BNP Paribas Will Pay To End Currency Probe

By Nick Kostov

PARIS—The French bank **BNP Paribas** SA on Monday agreed to pay $246 million to the U.S. Federal Reserve to resolve an investigation of misconduct in its foreign-exchange business.

Traders at the French bank who buy and sell U.S. dollars and other currencies used electronic chat rooms to collude with rivals to manipulate prices and benchmark rates, the Fed said in a statement. It ordered BNP Paribas to improve its senior management oversight and controls relating to the firm's foreign-exchange trading.

BNP Paribas, which also agreed to a $350 million settlement in May with New York's state banking regulator over the deficiencies, said that it "deeply regrets the past misconduct which was a clear breach of the high standards on which the group operates."

The banks added that it has improved its systems of control by increasing resources and staff dedicated to compliance, conducting staff training and launching a new code of conduct that applies to all staff.

BNP Paribas is the latest in a line of banks fined for a failure to stop traders from trying to manipulate foreign-exchange markets.

Several global banks, including **Barclays** PLC, Citigroup Inc. and J.P. Morgan Chase & Co., have together paid billions of dollars in fines in recent years after being accused of wrongdoing in currency markets.

BNP Paribas said the misconduct took place between 2007 and 2013.

In January, the Fed banned former BNP Paribas trader Jason Katz, who pleaded guilty to violating federal antitrust laws, from working in the U.S. banking industry in connection with his manipulation of foreign-exchange prices.

The U.S. central bank also barred the French lender from re-employing individuals who were involved in the misconduct.

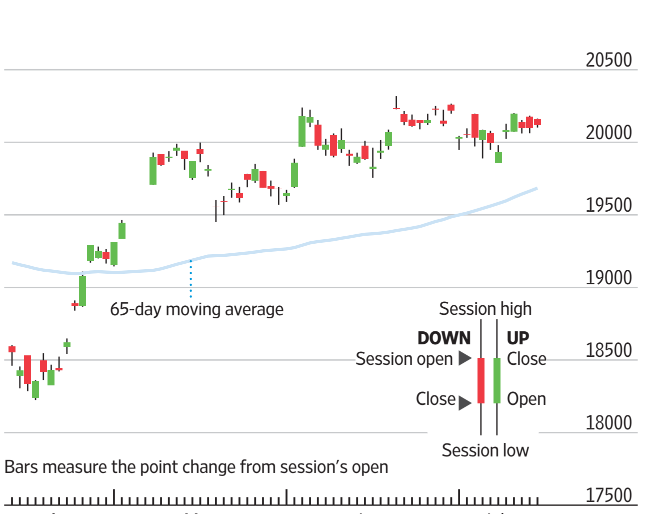
MARKETS DIGEST

Nikkei 225 Index

20118.86 Market Closed

High, low, open and close for each trading day of the past three months.

Year-to-date		▲ 5.26%
52-wk high/low	20230.41	16083.11
All-time high	38915.87	12/29/89



STOXX 600 Index

386.86 ▲0.02, or 0.01%

High, low, open and close for each trading day of the past three months.

Year-to-date		▲ 7.04%
52-wk high/low	396.45	328.80
All-time high	414.06	4/15/15

S&P 500 Index

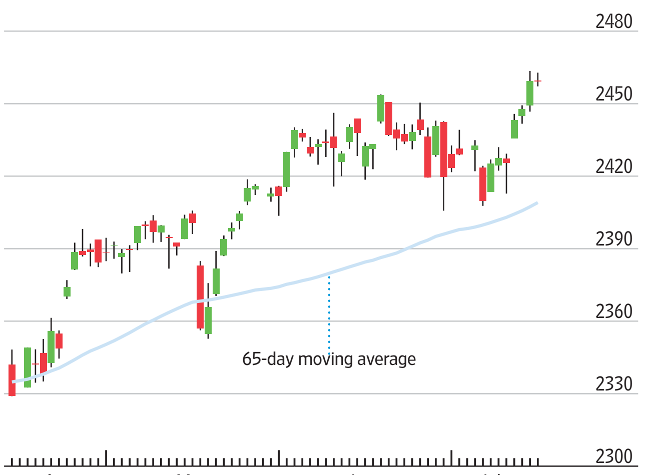
Data as of 4 p.m. New York time

2459.14 ▼0.13, or 0.01%

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 4 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**	2832.28	2.84	0.10	2383.44	2834.30	12.0
	MSCI EAFE	1921.21	2.47	0.13	1471.88	1956.39	11.9
	MSCI EM USD	1051.22	4.17	0.40	691.21	1053.07	32.4
Americas	**DJ Americas**	591.99	−0.01	−0.00	503.44	592.85	9.6
Brazil	**Sao Paulo Bovespa**	65174.81	−261.37	−0.40	55355.07	69487.58	8.2
Canada	**S&P/TSX Comp**	15162.67	−12.14	−0.08	14319.11	15943.09	−0.8
Mexico	**IPC All-Share**	51342.58	180.35	0.35	43998.98	51360.19	12.5
Chile	**Santiago IPSA**	3829.27	30.15	0.79	3120.87	3832.73	18.8
U.S.	**DJIA**	21629.72	−8.02	−0.04	17883.56	21681.53	9.4
	Nasdaq Composite	6314.43	1.97	0.03	5028.24	6341.70	17.3
	S&P 500	2459.14	−0.13	−0.01	2083.79	2463.54	9.8
	CBOE Volatility	9.95	0.44	4.63	9.37	23.01	−29.1
EMEA	**Stoxx Europe 600**	386.86	0.02	0.01	328.80	396.45	7.0
	Stoxx Europe 50	3164.53	−3.75	−0.12	2720.66	3279.71	5.1
Austria	**ATX**	3199.60	17.50	0.55	2166.58	3212.50	22.2
Belgium	**Bel-20**	3909.23	6.45	0.17	3362.71	4055.96	8.4
France	**CAC 40**	5230.17	−5.14	−0.10	4293.34	5442.10	7.6
Germany	**DAX**	12587.16	−44.56	−0.35	9923.64	12951.54	9.6
Greece	**ATG**	858.08	1.61	0.19	546.95	859.78	33.3
Hungary	**BUX**	36140.65	225.23	0.63	26912.03	36280.07	12.9
Israel	**Tel Aviv**	1456.86	−3.13	−0.21	1372.23	1490.23	−0.9
Italy	**FTSE MIB**	21484.84	−7.45	−0.03	15923.11	21828.77	11.7
Netherlands	**AEX**	521.50	0.43	0.08	436.28	537.84	7.9
Poland	**WIG**	62537.74	410.02	0.66	45713.13	62671.52	20.8
Russia	**RTS Index**	1039.34	−4.93	−0.47	898.05	1196.99	−9.8
Spain	**IBEX 35**	10651.20	−3.90	−0.04	8229.40	11184.40	13.9
Sweden	**SX All Share**	587.11	−0.96	−0.16	483.91	598.42	9.8
Switzerland	**Swiss Market**	9038.65	4.08	0.05	7585.56	9148.61	10.0
South Africa	**Johannesburg All Share**	53827.41	229.45	0.43	48935.90	54716.53	6.3
Turkey	**BIST 100**	106217.00	1041.27	0.99	70426.16	106402.15	35.9
U.K.	**FTSE 100**	7404.13	25.74	0.35	6615.83	7598.99	3.7
Asia-Pacific	**DJ Asia-Pacific TSM**	1653.10	2.23	0.14	1405.52	1656.74	16.2
Australia	**S&P/ASX 200**	5755.50	−9.60	−0.17	5156.60	5956.50	1.6
China	**Shanghai Composite**	3176.46	−45.95	−1.43	2953.39	3288.97	2.3
Hong Kong	**Hang Seng**	26470.58	81.35	0.31	21574.76	26470.58	20.3
India	**S&P BSE Sensex**	32074.78	54.03	0.17	25765.14	32074.78	20.5
Japan	**Nikkei Stock Avg**	20118.86	...	Closed	16083.11	20230.41	5.3
Singapore	**Straits Times**	3298.24	10.81	0.33	2787.27	3298.24	14.5
South Korea	**Kospi**	2425.10	10.47	0.43	1958.38	2425.10	19.7
Taiwan	**Weighted**	10457.54	13.63	0.13	8902.30	10513.96	13.0

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 3 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	**1.855**	**50.3**	48.0	36.6	**96.2**	**1.844**	1.681	**1.635**
2.750	10	**2.739**	**43.2**	39.0	26.3	**43.5**	**2.725**	2.417	**1.982**
3.000	**Belgium** 2	**-0.501**	**-185.2**	-184.0	-187.8	**-123.4**	**-0.476**	-0.563	**-0.561**
0.800	10	**0.852**	**-145.5**	-146.5	-154.5	**-129.5**	**0.870**	0.608	**0.251**
0.000	**France** 2	**-0.396**	**-174.7**	-173.8	-179.7	**-120.6**	**-0.374**	-0.482	**-0.533**
1.000	10	**0.846**	**-146.2**	-146.7	-151.4	**-132.0**	**0.868**	0.639	**0.227**
0.000	**Germany** 2	**-0.613**	**-196.5**	-197.0	-198.0	**-131.9**	**-0.607**	-0.665	**-0.646**
0.500	10	**0.584**	**-172.3**	-173.5	-187.8	**-153.9**	**0.600**	0.276	**0.008**
0.050	**Italy** 2	**0.074**	**-127.8**	-125.9	-161.3	**-70.5**	**0.105**	-0.298	**-0.032**
2.200	10	**2.236**	**-7.2**	-4.3	-17.7	**-29.1**	**2.292**	1.976	**1.256**
0.100	**Japan** 2	**-0.107**	**-145.8**	-147.0	-143.0	**-100.5**	**-0.107**	-0.115	**-0.332**
0.100	10	**0.080**	**-222.7**	-225.5	-209.8	**-177.7**	**0.080**	0.055	**-0.230**
4.000	**Netherlands** 2	**-0.598**	**-194.9**	-192.5	-196.7	**-127.2**	**-0.561**	-0.652	**-0.599**
0.750	10	**0.700**	**-160.7**	-161.7	-167.1	**-143.0**	**0.718**	0.482	**0.117**
4.750	**Portugal** 2	**0.054**	**-129.7**	-127.4	-126.8	**4.5**	**0.089**	0.047	**0.719**
4.125	10	**3.097**	**78.9**	79.0	75.0	**159.5**	**3.125**	2.904	**3.142**
2.750	**Spain** 2	**-0.275**	**-162.6**	-159.8	-161.1	**-80.5**	**-0.234**	-0.296	**-0.132**
1.500	10	**1.596**	**-71.1**	-68.4	-69.8	**-32.2**	**1.651**	1.456	**1.225**
4.250	**Sweden** 2	**-0.657**	**-200.9**	-201.6	-202.2	**-129.3**	**-0.653**	-0.707	**-0.620**
1.000	10	**0.700**	**-160.7**	-165.2	-169.0	**-133.1**	**0.683**	0.463	**0.216**
1.750	**U.K.** 2	**0.310**	**-104.2**	-103.5	-115.6	**-50.4**	**0.328**	0.159	**0.170**
4.250	10	**1.275**	**-103.2**	-102.6	-113.5	**-71.1**	**1.309**	1.018	**0.835**
1.250	**U.S.** 2	**1.352**	**...**	...	...	**...**	**1.364**	1.315	**0.673**
2.375	10	**2.307**	**...**	...	...	**...**	**2.335**	2.153	**1.547**

Commodities

Prices of futures contracts with the most open interest 3:30 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 7/14/2017

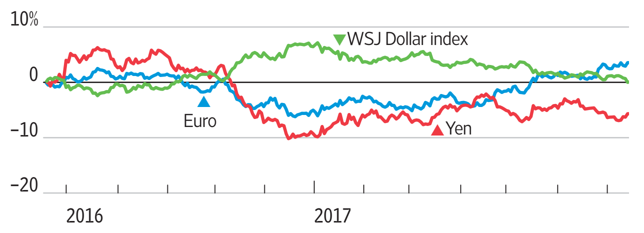
Commodity	Exchange	Last price	One-Day Change Net	Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	376.25	unch.	unch.	404.75	364.50
Soybeans (cents/bu.)	CBOT	997.75	-3.75	-0.37%	1,047.00	907.00
Wheat (cents/bu.)	CBOT	506.00	-4.75	-0.93	574.50	430.75
Live cattle (cents/lb.)	CME	118.925	0.350	0.30%	122.850	99.125
Cocoa ($/ton)	ICE-US	1,910	-5	-0.26	2,281	1,767
Coffee (cents/lb.)	ICE-US	133.45	-0.25	-0.19	163.75	115.50
Sugar (cents/lb.)	ICE-US	14.12	-0.18	-1.26	20.50	12.74
Cotton (cents/lb.)	ICE-US	67.77	1.19	1.79	75.72	66.15
Robusta coffee ($/ton)	ICE-EU	2120.00	-26.00	-1.21	2,286.00	1,885.00
Copper ($/lb.)	COMEX	2.7270	0.0360	1.34	2.8495	2.4850
Gold ($/troy oz.)	COMEX	1234.40	6.90	0.56	1,300.30	1,155.00
Silver ($/troy oz.)	COMEX	16.105	0.172	1.08	18.780	14.340
Aluminum ($/mt)*	LME	1,921.00	-8.00	-0.41	1,972.00	1,688.50
Tin ($/mt)*	LME	19,850.00	-30.00	-0.15	21,225.00	18,760.00
Copper ($/mt)*	LME	5,880.50	-39.50	-0.67	6,156.00	5,491.00
Lead ($/mt)*	LME	2,283.00	-33.50	-1.45	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,772.00	-54.50	-1.93	2,958.50	2,450.50
Nickel ($/mt)*	LME	9,420.00	190.00	2.06	11,095.00	8,780.00
Rubber (Y.01/ton)	TCE	201.60	...	Closed	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2555.00	-13.00	-0.51	2966.00	2390.00
Crude oil ($/bbl.)	NYMEX	46.31	-0.44	-0.94	58.36	42.29
NY Harbor ULSD ($/gal.)	NYMEX	1.5072	-0.0122	-0.80	1.8065	1.3703
RBOB gasoline ($/gal.)	NYMEX	1.5291	-0.0043	-0.28	1.8366	1.3805
Natural gas ($/mmBtu)	NYMEX	3.008	0.037	1.25	3.5490	2.8300
Brent crude ($/bbl.)	ICE-EU	48.52	-0.39	-0.80	60.18	44.60
Gas oil ($/ton)	ICE-EU	445.50	-2.50	-0.56	532.25	405.50

Sources: SIX Financial Information; WSJ Market Data Group

Currencies

London close on July 17

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Mon in US$	Mon per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0592	16.8977	**6.5**
Brazil real	0.3144	3.1802	**−2.3**
Canada dollar	0.7896	1.2665	**−5.8**
Chile peso	0.001523	656.70	**−2.0**
Colombia peso	0.0003300	3030.42	**0.9**
Ecuador US dollar-f	1	1	**unch**
Mexico peso-a	0.0569	17.5883	**−15.2**
Peru sol	0.3077	3.2504	**−3.1**
Uruguay peso-e	0.0348	28.730	**−2.1**
Venezuela bolivar	0.100118	9.99	**−0.1**
Asia-Pacific			
Australia dollar	0.7812	1.2801	**−7.8**
China yuan	0.1477	6.7698	**−2.5**
Hong Kong dollar	0.1281	7.8040	**0.6**
India rupee	0.0155	64.3400	**−5.3**
Indonesia rupiah	0.0000750	13328	**−1.5**
Japan yen	0.008870	112.74	**−3.6**
Kazakhstan tenge	0.003068	325.96	**−2.3**
Macau pataca	0.1246	8.0250	**1.4**
Malaysia ringgit-c	0.2332	4.2875	**−4.4**
New Zealand dollar	0.7327	1.3648	**−5.5**
Pakistan rupee	0.0095	105.135	**0.7**
Philippines peso	0.0197	50.722	**2.2**
Singapore dollar	0.7305	1.3690	**−5.4**
South Korea won	0.0008858	1128.88	**−6.5**
Sri Lanka rupee	0.0065151	153.49	**3.4**
Taiwan dollar	0.03292	30.378	**−6.4**
Thailand baht	0.02974	33.620	**−6.1**
Europe			
Bulgaria lev	0.5863	1.7056	**−8.2**
Croatia kuna	0.1548	6.458	**−10.0**
Euro zone euro	1.1474	0.8716	**−8.3**
Czech Rep. koruna-b	0.0440	22.714	**−11.6**
Denmark krone	0.1543	6.4817	**−8.3**
Hungary forint	0.003736	267.67	**−9.0**
Iceland krona	0.009653	103.60	**−8.3**
Norway krone	0.1226	8.1551	**−5.7**
Poland zloty	0.2727	3.6675	**−12.4**
Russia ruble-d	0.01684	59.369	**−3.1**
Sweden krona	0.1205	8.3017	**−8.8**
Switzerland franc	1.0389	0.9626	**−5.5**
Turkey lira	0.2833	3.5299	**0.2**
Ukraine hryvnia	0.0386	25.9085	**−4.3**
U.K. pound	1.3061	0.7656	**−5.5**
Middle East/Africa			
Bahrain dinar	2.6511	0.3772	**0.01**
Egypt pound-a	0.0557	17.9390	**−1.1**
Israel shekel	0.2792	3.5819	**−6.9**
Kuwait dinar	3.3008	0.3030	**−0.9**
Oman sul rial	2.5974	0.3850	**0.01**
Qatar rial	0.2721	3.675	**1.0**
Saudi Arabia riyal	0.2666	3.7504	**−0.01**
South Africa rand	0.0774	12.9163	**−5.7**

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	87.38	0.07	0.08	**−5.98**

Sources: Tullett Prebon, WSJ Market Data Group

Cross rates

London close on Jul 17

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.2801	1.6721	1.3300	0.0114	0.1641	1.4690	1.0109	...
Canada	1.2665	1.6543	1.3158	0.0112	0.1623	1.4531	...	0.9893
Euro	0.8716	1.1383	0.9054	0.0077	0.1117	...	0.6881	0.6808
Hong Kong	7.8040	10.1937	8.1072	0.0692	...	8.9546	6.1621	6.0957
Japan	112.7440	147.2600	117.1400	...	14.4470	129.3600	89.0200	88.0600
Switzerland	0.9626	1.2573	...	0.0085	0.1233	1.1045	0.7600	0.7519
U.K.	0.7656	...	0.7954	0.0068	0.0981	0.8784	0.6046	0.5980
U.S.	...	1.3061	1.0389	0.0089	0.1281	1.1474	0.7896	0.7812

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	**1.22833%**	0.48655%
Three month	**1.30611**	0.69560
Six month	**1.45322**	1.00280
One year	**1.73289**	1.32640
Euro Libor		
One month	**-0.40000%**	-0.37000%
Three month	**-0.37157**	-0.30643
Six month	**-0.30471**	-0.19271
One year	**-0.18343**	-0.06729
Euribor		
One month	**-0.37300%**	-0.37100%
Three month	**-0.33000**	-0.29500
Six month	**-0.27400**	-0.19100
One year	**-0.15100**	-0.06100
Yen Libor		
One month	**-0.02914%**	-0.07929%
Three month	**-0.00757**	-0.03971
Six month	**0.01129**	-0.03379
One year	**0.11786**	0.06393
	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.	**1.12%**	0.52%
Euro zone	**n.a.**	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

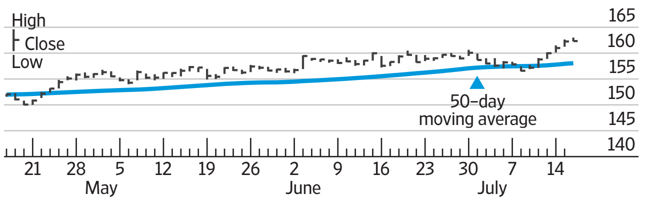
Top Stock Listings

4 p.m. New York time

Cur	Stock	Sym	Last	% Chg	YTD% Chg
Asia Titans					
HK$	AIAGroup	1299	58.25	0.26	33.14
¥	AstellasPharma	4503	1360.50	-0.69	-16.20
AU$	AustNZBk	ANZ	28.75	-0.38	-5.49
AU$	BHP	BHP	25.17	0.16	0.44
HK$	BankofChina	3988	3.79	-0.26	10.17
HK$	CKHutchison	0001	100.30	-0.30	14.11
HK$	CNOOC	0883	8.70	0.12	-10.31
AU$	CSL	CSL	129.95	-0.72	29.42
¥	Canon	7751	3790.00	-0.13	15.02
¥	CentralJapanRwy	9022	17915	0.45	-6.84
HK$	ChinaConstructnBk	0939	6.41	0.16	7.37
HK$	ChinaLifeInsurance	2628	25.80	3.20	27.72
HK$	ChinaMobile	0941	82.30	0.06	0.12
HK$	ChinaPetro&Chem	0386	5.98	0.34	8.73
AU$	CmwlthBkAust	CBA	82.94	-0.22	0.64
¥	EastJapanRailway	9020	10715	0.23	6.09
¥	Fanuc	6954	22435	1.84	13.22
¥	Hitachi	6501	724.10	0.81	14.57
TW$	Hon Hai Precisn	2317	115.50	...	37.17
¥	HondaMotor	7267	3134.00	1.39	-8.23
KRW	HyundaiMtr	005380	150500	-2.27	3.08
HK$	Ind&Comml	1398	5.29	0.38	13.76
¥	JapanTobacco	2914	3837.00	-0.08	-0.18
¥	KDDI	9433	2920.00	-0.02	-1.33
¥	Mitsubishi	8058	2420.50	1.13	-2.79
¥	MitsubishiElectric	6503	1656.00	0.98	1.63
¥	MitsubishiUFJFin	8306	731.80	0.65	1.61
¥	Mitsui	8031	1615.50	1.03	0.53
¥	Mizuho Fin	8411	201.00	0.55	-4.19
¥	NTTDoCoMo	9437	2640.50	-0.28	-0.84
AU$	NatAustBnk	NAB	29.94	-0.70	-2.38
¥	NipponTeleg	9432	5350.00	0.43	8.92
¥	NissanMotor	7201	1150.50	0.48	-2.13
¥	Panasonic	6752	1527.00	0.69	28.37
HK$	PingAnInsofChina	2318	58.50	2.27	50.77
$	RelianceIndsGDR	RIGD	47.90	1.05	51.82
KRW	SamsungElectronics	005930	2532000	0.32	40.51
¥	Seven&I Hldgs	3382	4520.00	0.04	1.50
¥	SoftBankGroup	9984	9106.00	0.26	17.27
¥	Sony	6758	4499.00	0.47	37.37
¥	Sumitomo Mitsui	8316	4293.00	0.26	-3.74
HK$	SunHngKaiPrp	0016	119.00	-0.25	21.43
TW$	TaiwanSemiMfg	2330	213.00	...	17.36
¥	TakedaPharm	4502	5681.00	-0.61	17.50
HK$	TencentHoldings	0700	285.00	0.07	50.24
¥	TokioMarineHldg	8766	4750.00	-0.77	-0.96
¥	ToyotaMtr	7203	6258.00	0.77	-9.01
AU$	Wesfarmers	WES	41.46	-0.22	-1.61
AU$	WestpacBanking	WBC	31.29	-0.35	-4.02
AU$	Woolworths	WOW	26.46	0.34	9.79
Stoxx 50					
CHF	ABB	ABBN	24.13	0.04	12.34
€	ASMLHolding	ASML	121.65	0.04	14.06
€	AXA	CS	25.15	-0.26	4.86
€	AirLiquide	AI	109.60	0.18	3.74
€	Allianz	ALV	181.95	-0.46	15.89
€	AB InBev	ABI	99.77	0.48	-0.78
£	AstraZeneca	AZN	5040.00	0.83	13.58
€	BASF	BAS	83.61	-0.13	-5.32
€	BNP Paribas	BNP	65.86	-0.66	8.77
£	BT Group	BT.A	302.00	0.45	-17.69
€	BancoBilVizAr	BBVA	7.63	-0.59	20.20
€	BancoSantander	SAN	5.74	-1.04	15.65
£	Barclays	BARC	209.05	0.26	-6.44
€	Bayer	BAYN	111.85	-0.80	12.83
£	BP	BP.	447.85	0.69	-12.12
£	BritishAmTob	BATS	5305.00	0.53	14.79
€	Daimler	DAI	64.68	-0.29	-8.54
€	DeutscheTelekom	DTE	15.73	-0.66	-2.83
£	Diageo	DGE	2293.00	0.35	8.67
€	ENI	ENI	13.21	-0.23	-14.61
£	GlaxoSmithKline	GSK	1601.00	-0.47	2.50
£	Glencore	GLEN	320.80	1.49	15.67
£	HSBC Hldgs	HSBA	737.00	0.42	12.19
€	INGGroep	INGA	15.64	-0.35	17.02
£	ImperialBrands	IMB	3442.50	-1.63	-2.82
€	IntesaSanpaolo	ISP	2.87	0.21	18.30
€	LVMHMoetHennessy	MC	222.35	1.18	22.57
£	LloydsBankingGroup	LLOY	67.13	0.28	7.39
€	LOreal	OR	184.25	0.05	6.26
£	NationalGrid	NG.	932.30	0.24	-10.19
CHF	Nestle	NESN	83.60	-0.48	14.44
CHF	Novartis	NOVN	80.15	0.31	8.16
DKK	NovoNordiskB	NOVO-B	279.70	0.72	9.82
£	Prudential	PRU	1761.50	-0.06	8.23
£	ReckittBenckiser	RB.	7765.00	0.27	12.77
£	RioTinto	RIO	3472.50	0.71	9.94
CHF	RocheHldgctf	ROG	246.00	0.04	5.76
£	RoyDtchShell A	RDSA	2057.50	0.37	-8.25
€	SAP	SAP	90.99	-0.38	9.88
€	Sanofi	SAN	83.80	-0.92	8.97
€	SchneiderElectric	SU	68.22	-0.67	3.19
€	Siemens	SIE	119.00	-1.08	1.88
€	Telefonica	TEF	9.35	0.57	5.98
€	Total	FP	43.27	-0.15	-9.40
CHF	UBSGroup	UBSG	16.89	0.18	5.89
€	Unilever	UNA	49.60	0.09	26.81
£	Unilever	ULVR	4275.00	0.27	29.84
€	Vinci	DG	77.76	-0.17	20.19
£	VodafoneGroup	VOD	220.90	0.96	10.53
CHF	ZurichInsurance	ZURN	289.80	-0.41	3.35
DJIA					
$	AmericanExpress	AXP	85.23	-0.06	15.05
$	Apple	AAPL	149.56	0.35	29.13
$	Boeing	BA	209.00	0.24	34.25
$	Caterpillar	CAT	108.84	0.06	17.36
$	Chevron	CVX	104.14	-0.29	-11.52
$	CiscoSystems	CSCO	31.50	0.25	4.24
$	Coca-Cola	KO	44.71	0.07	7.84
$	Disney	DIS	104.79	-0.29	0.55
$	DuPont	DD	84.68	-0.08	15.37
$	ExxonMobil	XOM	80.86	-0.51	-10.41
$	GeneralElec	GE	26.81	0.11	-15.16
$	GoldmanSachs	GS	229.24	0.28	-4.26
$	HomeDepot	HD	153.95	0.70	14.82
$	Intel	INTC	34.47	-0.61	-4.96
$	IBM	IBM	152.99	-0.81	-7.83
$	JPMorganChase	JPM	91.39	-0.93	5.91
$	J&J	JNJ	132.15	-0.34	14.70
$	McDonalds	MCD	155.26	-0.01	27.56
$	Merck	MRK	62.58	-0.77	6.29
$	Microsoft	MSFT	73.35	0.78	18.04
$	Nike	NKE	57.79	-0.36	13.69
$	Pfizer	PFE	33.25	-0.54	2.37
$	Procter&Gamble	PG	87.56	0.53	4.14
$	3M	MMM	211.75	-0.01	18.58
$	Travelers	TRV	126.22	0.40	3.10
$	UnitedTech	UTX	123.14	-0.22	12.33
$	UnitedHealth	UNH	186.64	-0.14	16.62
$	Visa	V	96.83	-0.10	24.11
$	Verizon	VZ	43.66	0.23	-18.21
$	Wal-Mart	WMT	76.37	0.04	10.49

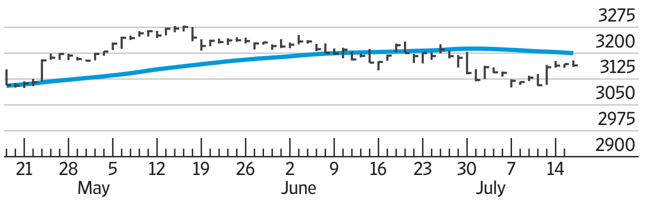
Asia Titans 50

Last: 162.33 ▲ 0.08, or 0.05% YTD ▲ 15.1%



Stoxx 50

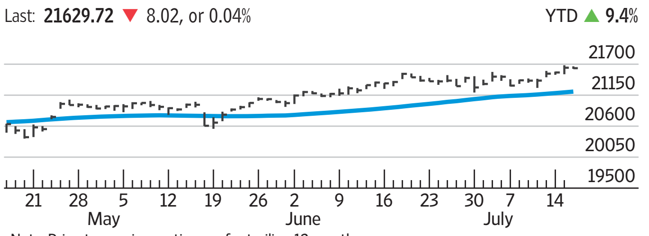
Last: 3164.53 ▼ 3.75, or 0.12% YTD ▲ 5.1%



Dow Jones Industrial Average

P/E: 21

Last: 21629.72 ▼ 8.02, or 0.04% YTD ▲ 9.4%



Note: Price-to-earnings ratios are for trailing 12 months.
Sources: WSJ Market Data Group; Birinyi Associates

China Firm Tries New Credit-Rating Tools

By Nina Trentmann

A rating firm in China is aiming to boost transparency in the country's often-murky world of corporate credit ratings.

Beijing-based **Dagong Global Credit Rating** Co. plans to launch a digital credit-rating platform in the coming months that requires companies to submit financial information daily.

CFO JOURNAL

"We need to limit the credit risks stemming from financial engineering and leveraging, especially among Chinese firms," said Jianzhong Guan, chairman of the agency. "Creditors and rating agencies often don't get access to crucial information."

The push for better reporting comes at a time of increasing competition from Western rivals to play a role in China's bond market, which was valued at $9.3 trillion at the end of last year. China's central bank said this month that foreign-owned rating firms would be allowed to assess credit risks in the interbank bond market if they register with the central bank and meet certain criteria.

JASON LEE/REUTERS

Jianzhong Guan's firm plans a platform requiring companies to submit financial information daily.

Investors are also growing more nervous about some Chinese borrowers as Beijing cracks down on runaway debt. President Xi Jinping over the weekend again stressed the importance of reining in high debt levels, sparking a drop in share prices.

Companies rated by Dagong will be able to enter sales and revenue data on a daily basis. An algorithm then calculates their creditworthiness and, if necessary, makes changes to the rating. It focuses on a company's profitability, its debt-reduction capability and the nature of its assets, Mr. Guan said.

"Tools like this could boost the credibility of Chinese credit-ratings firms," said Oliver Rui, a professor for finance at the China Europe International Business School in Shanghai. Currently, there is no local rater that asks companies to submit data on a daily basis, he said.

In fact, few raters globally do anything similar, although Business Funding Research Ltd., a U.K. firm, takes data submitted in filings and adjusts risk ratings within 24 hours if warranted.

Some Western competitors express doubts about the self-reporting. "I don't know whether a company would provide financial information on a daily basis," said Gary Lau, managing director at Moody's Investors Service Hong Kong Ltd.

Moody's doesn't use an algorithm-based system, he said, adding, "We monitor rated entities on an ongoing basis."

However, Moody's Analytics Inc., a separate unit, has since 2010 used models that can calculate ratings and default probabilities for Chinese companies, said David Hamilton, managing director for Asia Pacific Stress Testing and Credit Risk Analytics at Moody's Analytics. The company uses both company financial data and market data, such as changes in equity value, in its models. The analytics group doesn't have access to information that issuers share with the ratings firm, he said.

For Dagong, besides defending its home turf, it is also looking to challenge the industry's leaders outside China. It has offices in Milan and Frankfurt, and is looking to add more locations, Mr. Guan said.

He sees Chinese credit-rating firms serving as a counterweight to Fitch Ratings Inc., S&P Global Inc. and Moody's. "After the crisis, the three Western credit-rating organizations dramatically downgraded the ratings of over two-thirds of their clients," he said. "It proved that their rating method was wrong."

Western firms point to changes they have made since the 2008 financial crisis. "The notion that nothing has changed in this industry is pure fiction," a spokesman for Fitch Ratings said. The company said it doesn't apply ratings using algorithms.

A spokesman for S&P Global said the firm in recent years has improved its ratings methodology.

A Note for Advisers on Direct Real-Estate Investing

Alexander Philips is chief executive of TwinRock Partners, a Newport Beach, Calif., real-estate investment firm that works with registered investment advisers. Voices is an occasional feature of edited excerpts in which wealth managers address issues of interest to the advisory community. ***As told to Alex Coppola.***

ADVISER VOICES

Real estate can be a valuable alternative investment in a diversified portfolio, but access to direct investment opportunities traditionally has been restricted to accredited and institutional clients. Nonaccredited individual, or retail, investors have had access to real-estate opportunities principally through real-estate investment trusts.

That is beginning to change. The Securities and Exchange Commission recently opened to retail investors access to direct investments in real estate through crowd-funding platforms. The SEC's amended Tier 1 Regulation A offering, also known as Regulation A+, allows developers to raise capital for real-estate projects through crowd-funding—making public offerings to accredited and nonaccredited investors alike. The offerings must be approved by the SEC before any sales are made.

TWINROCK PARTNERS

Alexander Philips

Because the size of the offerings are capped at $20 million—or $50 million for Tier 2 projects—borrowers pay significantly lower legal and regulatory costs than they would on an S-1 filing that is used by companies that are going public. The result: Retail investors can purchase shares in specific projects for around $1,000, a price that is similar to what they would pay for shares of a mutual fund.

Investments may include real-estate projects from self-storage units and retail properties to residential developments and office space. While REITs allow clients to invest in the ownership of different properties, direct investment gives them ownership in the assets themselves or in debt collateralized by those properties. That structure, as well the ability to select particular real-estate opportunities, can be appealing for many clients.

There are some caveats, however. Unlike REITs, which can be traded daily like a stock, direct investments are less liquid. Depending upon the structure of the project, clients can expect to have their money tied up in an investment anywhere from one to seven years.

Despite that illiquidity, an advantage of direct investments over REITs is cost. In addition to commissions, or loads, charged on the front-end of REITs, the operational costs of managing a large pool of investments can quickly erode returns. While some direct investments do charge fees, most don't include upfront fees or commissions.

Navigating this relatively new process can be a challenge for advisers interested in using these investments with clients. You're looking at different fundamentals when evaluating real-estate opportunities than you are with traditional securities.

But being unfamiliar shouldn't be a deterrent to exploring the opportunity. The sponsors are required to operate with full transparency, providing financials as well as information on the condition of the property, its manager, the tenants and the operating performance of ownership. Ask for investor referrals and spend time conducting due diligence on sponsors and meeting with them. They should be interested in you as well—any legitimate sponsor will be looking to form a long-term relationship with you and your client.

MARKETS

U.S. Firms Sweeten 401(k) Plans

Some companies lift contributions to lure talent, ease way for older workers to retire

By Sarah Krouse

Some employees who haven't saved enough for retirement are getting more money from an unlikely source: their employers.

Companies from **Microsoft** Corp. to Host Hotels & Resorts Inc. are boosting contributions to their workers' 401(k) plans, a move many firms have long resisted because of the costs.

The average company contribution to 401(k) plans rose to an estimated 4.7% of employee salaries in 2016, up from 3.9% in 2015, according to data on 1,900 workplace retirement savings plans run by mutual-fund company **Vanguard Group**. It was the highest percentage and biggest year-to-year jump since at least 2007.

"It's a no-brainer to try and max that out as much as possible," said Francois Burianek, a 43-year-old senior software engineer for Microsoft's Xbox gaming unit, who raised his 401(k) contributions by more than 70% after the technology company increased what it was prepared to match.

Some companies in certain industries say they need to spend more to retain the best employees and motivate staff. They also need to ensure that older, relatively expensive workers can afford to retire on time and make way for younger staff, retirement specialists said. Employees who don't have adequate nest eggs will stay in their jobs longer and add to a company's overall health-care costs.

The boost in contributions represents a policy shift for American companies that embraced tax-deferred 401(k) plans partly because the savings tool allowed them to shift the burden of paying for retirement to employees. Many shed more expensive defined-benefit pension plans that guaranteed employees a certain percentage of their salary in retirement.

Companies tried to encourage more 401(k) savings over the past decade by automatically enrolling workers in the plans and boosting the amount employees set aside each year unless they opted out.

But many U.S. workers still aren't saving enough on their own. The average percentage they set aside among Vanguard-run retirement accounts has dropped since 2007 largely because more new 401(k) savers were enrolled at lower initial savings rates. The average total employee and company contributions to workplace savings plans among workers who participate, as a result, haven't moved above 11% of salaries for at least a decade.

Many retirement plan advisers say employees need to save about 15% of their salaries each year.

"If you want people to retire at a certain time they need to have acquired sufficient assets," said Jean Young, a senior research analyst at the Vanguard Center for Investor Research. "There's a growing interest among some employers in supporting that dynamic," with more money, she said.

The added contributions by some companies are a change from the depths of the financial crisis when many employers suspended or pared back contributions. The prolonged economic recovery in the years since has put many companies on more stable footing.

A 401(k) is an employer-sponsored plan that allows workers to contribute part of their pretax pay up to certain federal limits. That money typically isn't taxed until it is withdrawn, and participants generally pick from a list of funds and investment options. Companies aren't required to make their own contributions to employee accounts, but some companies agree to match a portion of what workers chip in. These accounts rise and fall with financial markets.

Some firms, particularly in the technology industry, are using more generous 401(k) contributions to help attract and retain talent, said Aimee DeCamillo, head of retirement plan services at T. Rowe Price Group Inc.

Ultimate Software Group Inc. steadily increased the company match for its $281 million 401(k) plan in recent years as it met new revenue targets. In January 2016, the Weston, Fla.-based company pushed its match to 40% of any employee contribution up to federal limits for its roughly 3,700 workers, up from 35%.

Another company that recently contributed more of its own money, Host Hotels, said it hadn't done enough to get employees closer to the savings rate many retirement advisers recommended.

"We weren't getting people to the 15%" contribution level retirement advisers recommend, said Karen Montague, director of total rewards at Host Hotels, a real-estate investment trust that owns properties run by big hotel chains such as Hilton Worldwide and Marriott International Inc.

So in April Host increased its company match and now chips in 50 cents of every dollar its 220 employees invest in its 401(k) plan, up to 8% of their salary, an increase from the previous 6% limit.

Host also has a discretionary system that matches as much as an additional 4% of salary each year, up from 3% before the change.

The change to Host's matches means the company is likely to contribute an additional $250,000 to the plan, based on 2016 contribution data. Increasing the discretionary component could result in another $300,000 a year, the plan's administrator said.

In Seattle, Microsoft tried to change employee behavior before increasing its own contributions. Roughly three years ago it increased the salary amounts workers pick to contribute when they sign up for a 401(k). Workers now choose from the options of 8%, 10% or 12%, as compared with 6%, 8% or 10%.

Last year Microsoft offered more money to the more than 60,000 current employees in its 401(k) plan. Instead of chipping in half of up to 6% of each worker's salary, the firm started matching half of all employee contributions up to federal limits. The government limits employee contributions and sets an overall limit on the amount channeled into an individual's plan.

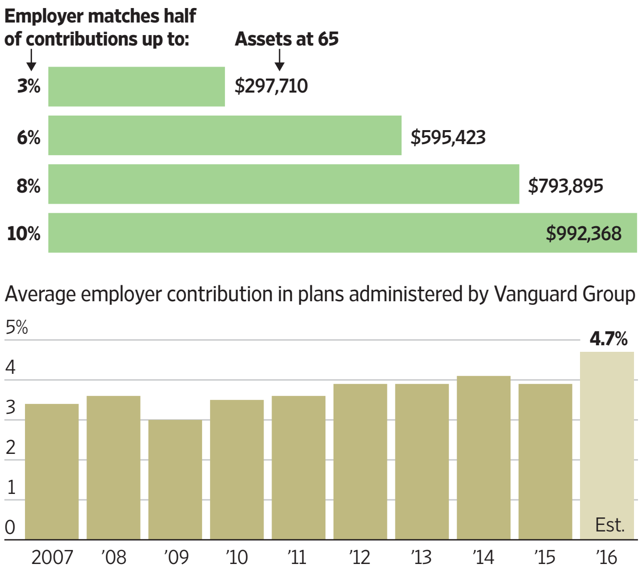
As a result of that change the company contributed roughly $150 million more to its $17 billion retirement savings plan last year.

After one year of the increased match, 52% of Microsoft workers had maximized the amount of pretax money they contributed to the plan, up from 36% in 2015, the company said. That was half the time the company's research suggested it could take to get 50% of its employees to maximize the amount they contributed. "It's blowing my budgets," said Fred Thiele, general manager, global benefits at Microsoft.

But the move encouraged more workers to save additional money for retirement, particularly those with lower incomes, which was the company's intent.

Match Stash

Growth of assets for a 25-year-old worker who starts saving for retirement making $40,000 per year and contributes the maximum matched by employer*



*Assumes annual salary increase of 2% and annual investment returns of 5%

Sources: Bankrate.com (growth); Vanguard Group (contribution)

THE WALL STREET JOURNAL.

Blue Chips Pull Back From Record

By Alexander Osipovich And Riva Gold

The Dow Jones Industrial Average and S&P 500 edged lower after ending last week at record levels.

Monday's pause came at the start of a busy week of earnings reports. Consumer-discretionary shares posted some of the biggest moves in an otherwise listless market, as investors snapped up beaten-down shares in brick-and-mortar retailers.

EQUITIES

The Dow industrials fell 8.02 points, or less than 0.1%, to 21629.72. The S&P 500 also was marginally lower, and its consumer-discretionary sector rose by 0.3% in late afternoon trading.

The Nasdaq Composite rose less than 0.1%, hovering near its closing record during the session but failing to close above that level. The index posted its biggest one-week gain in more than six months on Friday as the tech sector bounced back from a spate of declines that began June 9.

The S&P 500 technology sector has risen more than 4% so far this month after declining 2.7% in June.

In Europe, the Stoxx Europe 600 rose less than 0.1% to 386.86, as investors awaited a meeting of the European Central Bank on Thursday to see whether an improving economy prompts policy makers to shift their tone.

Macy's rose 2.9% and Kohl's added 2.7% in late trading. Both stocks have slid amid tough competition from e-commerce, but have rebounded over the past week.

The yield on the 10-year Treasury note was at 2.309% Monday, according to Tradeweb, compared with 2.319% Friday. Yields rise as prices fall.

HEARD ON THE STREET

Email: heard@wsj.com FINANCIAL ANALYSIS & COMMENTARY WSJ.com/Heard

Game Day for Disney to Lift ESPN Growth

Worries about **ESPN** have weighed on **Walt Disney**'s stock 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 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 sport 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 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.

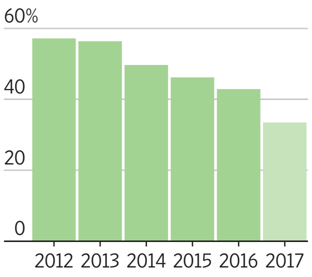
For Disney, which got about 33% of its operating income from its cable segment in the first six months of fiscal 2017, a boost in revenue could juice profit. Disney got 57% of operating income from cable in 2012.

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

There are plenty of people who would like to give the Internal Revenue Service the finger, and many feel like the U.S. tax-collecting agency is extracting its pound of flesh. Both of those feelings are figurative, of course, but apparently not for everyone.

The Seattle Post-Intelligencer reported that a 68-year-old Tacoma, Wash., man, frustrated with the IRS, sent them his severed finger in the mail.

He also sent them a marijuana cigarette, a bullet and, most recently, a device that appeared to be a bomb but turned out to be fake.

The threats to a federal agency earned him federal charges.

The man, who has been aggrieved since losing a civilian job with the Navy in the 1990s, didn't rule out more actions, according to investigators, telling them: "I'm not going to tip my hand."

Please don't.

High-Yield Bonds Aren't So Rewarding

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 like government bonds. At first glance, that looks relatively chunky.

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.

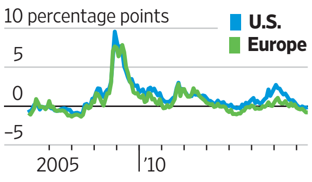
On that basis, the risk premiums on high-yield bonds in the U.S. and Europe were negative in June, PPMG calculates. The extra yield wasn't enough to compensate investors for the risk of owning them over time.

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-company balance sheets. 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.

Beijing's Financial Crackdown Could Bite

Beijing is contending with a web of financial risks. Markets are jittery about which part of the system regulators will go after.

Chinese authorities spent the weekend at the National Financial Work Conference considering risks plaguing the financial system. Fear permeated markets, which tumbled Monday after President Xi Jinping gave a speech that supported efforts to tamp down complicated lending.

At hand is an ever-growing asset-management industry—now around 60 trillion yuan ($8.8 trillion.) The central bank elaborated on the linkages it uncovered in the asset-management industry in its recently published financial-stability report. That is likely telling about where regulators will go digging.

Untangling the asset-management industry's ties will be painful. Banks have sold more than one-third of the wealth-management-product assets. These products are then further packaged and sold off to trusts, brokers and funds to be managed.

For instance, per central-bank data, more than 17 trillion yuan of assets have been unloaded to trusts. Banks have used another 18 trillion yuan of separate asset-management plans to take credit assets—like loans and bonds—off their balance sheets.

Wealth-management products—most of which are off-balance sheet—are equal to 20% of total assets of listed banks, on average, according to Nomura.

If regulators do take on the asset-management business, it could spell trouble for corporate borrowers. Corporate bonds account for more than 40% of underlying assets in wealth-management products sold by banks.

Asset managers have been the only active buyers of these bonds so far this year. These bonds are already primed for a selloff: The leverage ratio in asset managers' bond-market positions has risen to 1.4 times in the past month from 1.25.

Given the complexity of the system, regulatory disruption is likely to be painful.

—Anjani Trivedi