

THE WALL STREET JOURNAL.

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TUESDAY, JULY 10, 2018 ~ VOL. CCLXXII NO. 7

WSJ.com

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DJIA 24776.59 ▲ 320.11 1.3% NASDAQ 7756.20 ▲ 0.9% STOXX 600 384.59 ▲ 0.6% 10-YR. TREAS. ▼ 8/32, yield 2.860% OIL \$73.85 ▲ \$0.05 GOLD \$1,258.10 ▲ \$3.80 EURO \$1.1733 YEN 110.84

What's News

Business & Finance

Rising wages are starting to eat into the profits of some U.S. firms, a potential headwind for the nine-year stock-market rally as earnings season approaches. **A1**

◆ **Starbucks and Hyatt** said they would phase out single-serve plastic straws and cut packaging waste from their drinks and meals. **B1**

◆ **An ex-Goldman banker** is in talks with U.S. prosecutors to potentially plead guilty to criminal charges stemming from the IMDB scandal. **B1**

◆ **Xiaomi's shares** fell 1.2% in their first day of trading in Hong Kong, a lackluster start for the Chinese maker of smartphones. **B1**

◆ **U.S. stocks climbed**, with the Dow industrials adding 320.11 points, or 1.3%, to 24776.59, the blue-chip index's best day in a month. **B12**

◆ **Hedge funds lagged** behind the S&P 500 in the first half, despite market swings tied to trade tensions and interest rate increases. **B10**

◆ **Investors in rental homes** are acquiring more of them, in a bet that more well-off Americans will opt to rent rather than buy a house. **B1**

◆ **Staff at four Nissan** plants in Japan falsified auto-emissions and fuel-economy data as far back as 2013, the company said. **B3**

◆ **Uber has tapped** a former top official at the Justice Department to be its first chief compliance officer. **B4**

◆ **Sorrell's new venture** is expected to acquire digital-production agency MediaMonks, topping a WPP bid. **B2**

World-Wide

◆ **Trump tapped Kavanaugh**, a favorite of the Republican legal establishment, for the Supreme Court, choosing a conservative figure who is likely to push a divided court to the right after years of seesaw rulings. **A1, A5**

◆ **The resignation** of two Brexit hard-liners from U.K. Prime Minister Theresa May's cabinet plunged her government and party into a political crisis that threatens to change the country's course toward leaving the European Union.

Britain is due to leave the bloc in less than nine months, and the resignations of Foreign Secretary Boris Johnson

and David Davis, the minister in charge of Britain's negotiations to leave the EU, blew apart a fragile truce in the government over its Brexit strategy.

Both ministers campaigned for Brexit and became standard bearers for a decisive break with the EU. They quit after a cabinet meeting on Friday when a plan was agreed on to seek a close economic relationship with the EU and to retain large parts of EU regulation.

◆ **A judge refused** the administration's bid to amend a court order so that officials could detain asylum-seeking families together during lengthy immigration proceedings. **A3**

◆ **House lawmakers** are demanding information from Alphabet and Apple about how the firms handle users' personal information. **A3**

◆ **French President Macron** summoned both chambers of parliament to the Palace of Versailles to defend his first year in office. **A6**

◆ **Turkey's Erdogan** embarked on another term as the nation's president, taking up a new mandate with vastly expanded powers. **A7**

◆ **Rescuers in Thailand** were preparing a bid to save the last five people in a flooded cave after bringing out four more boys on Monday. **A16**

◆ **Islamic State fighters** who fled from U.S.-backed forces in Syria and Iraq are retrieving stashed weapons to renew attacks. **A7**

◆ **Eritrea and Ethiopia** signed a peace accord, capping an unprecedented summit between the countries. **A7**

CONTENTS Markets B11-12 Banking & Finance B10 Opinion A13-15 Business News... B3 Sports A12 Capital Journal... A4 Technology B4 Crossword... A10 U.S. News... A2-5 Head on Street: B12 Weather A10 Life & Arts... A9-11 World News A6-716

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Trump Taps Kavanaugh for Court



President Donald Trump presented his Supreme Court pick, Judge Brett Kavanaugh, and his family Monday night at the White House.

Selection sets stage for fierce political fight, as groups on both sides plan costly campaigns

WASHINGTON—President Donald Trump on Monday night named Judge Brett Kavanaugh, a favorite of the Republican legal establishment, to fill the newest vacancy on the U.S. Supreme Court, tapping a conservative figure who is likely to push the court to the right after years of seesaw rulings.

In selecting Judge Ka-

By Louise Radnofsky,
Peter Nicholas
and Brent Kendall

vanaugh, a fixture of the U.S. Court of Appeals for the District of Columbia Circuit, Mr. Trump heeded the calls of his chief advisers, who emphasized the 53-year-old judge's lengthy record of conservative jurisprudence that they believe could be defended in a heated confirmation fight.

Please turn to page A5

◆ Nomination to spark weeklong ad blitz..... A5

◆ Judge has established record on range of issues..... A5

Brexit Resignations Pose Threat to May

BY STEPHEN FIDLER
AND JASON DOUGLAS

LONDON—The resignation of two Brexit hard-liners from U.K. Prime Minister Theresa May's cabinet plunged her government and party into a political crisis that threatens to change the country's course toward leaving the European Union.

Britain is due to leave the bloc in less than nine months, and the resignations of Foreign Secretary Boris Johnson

and David Davis, the minister in charge of Britain's negotiations to leave the EU, blew apart a fragile truce in the government over its Brexit strategy.

Both ministers campaigned for Brexit and became standard bearers for a decisive break with the EU. They quit after a cabinet meeting on Friday when a plan was agreed on to seek a close economic relationship with the EU and to retain large parts of EU regulation.

The turmoil emphasizes

that almost any type of Brexit is possible, from one extreme in which the U.K. crashes out without a deal in March to the other extreme that Parliament won't be able to agree on a Brexit deal and call for Britain's departure to be delayed or reversed.

It comes ahead of Mr. Trump's visit to the U.K. on Thursday and with relations with Russia sinking to a nadir over the killing of a British citizen with a Soviet-era nerve agent. The U.K. holds Moscow

responsible for the death; Russia has denied responsibility.

The resignations sent the British pound down 0.2% to \$1.3256 and 0.3% against the euro on Monday.

Mr. Johnson wrote in a resignation letter to Mrs. May that the latest Brexit plan would keep the U.K. economy too bound by EU regulations, effectively rendering Britain

Please turn to page A6

◆ U.K. political turmoil weighs on the pound..... B11



Workers Welcome Wage Gains, But Companies Feel Squeeze

BY DANIELLE CHEMTOB

Rising wages are beginning to eat into the profits of some U.S. companies.

Businesses from dollar stores to hotel operators to fast-food chains have warned in recent months that higher labor costs have been a drag on their profits—a potential headwind for the nine-year stock-market rally as it struggles for momentum ahead of the sec-

ond-quarter earnings season.

Average hourly earnings increased 2.7% in June from a year earlier, according to the Labor Department's monthly jobs data released Friday. Although that is below the 2.8% economists expected, wages have risen at least 2.5% for 16 of the past 17 months, a faster pace than recorded earlier in the economic expansion.

That is good news for U.S. workers who have seen tepid

wage increases over the past few years and may benefit some businesses as consumers more willingly open their wallets for discretionary purchases.

But the higher costs pose a threat to some U.S. companies that are already facing trade-related tensions and a limited ability to raise prices to keep up

Please turn to page A2

◆ Heard on the Street: Don't fear earnings slowdown.... B12

O, Canada, for a Free Flag, Long May You Wait

* * *

Patriots join a 99-year list for a giant flag flown over Parliament

BY KIM MACKRAE

OTTAWA—Xavier Villeneuve read online that the Canadian government gave away the flags flown above the main Parliament building, and he immediately got on the list.

It turns out to be a really, really long list. Mr. Villeneuve, who is 19 years old, will be 102 when his flag arrives.

Canada's giveaway of flags flown on Parliament Hill has surged in popularity since Mr.

Villeneuve signed up last year. The estimated wait time is now edging toward 100 years, longer than the average life expectancy.

Mr. Villeneuve, who attends college in the U.S., feels it is worth the wait. Like many Canadians, the pre-med student has a deep affinity for the red-and-white flag adorned with

the nation's maple leaf. People sew it on backpacks when they travel abroad and paint their faces with a maple leaf on July 1 to celebrate Canada Day.

Mr. Villeneuve said he planned to put his flag on prominent display but isn't sure where. "If in 83 years I'm still alive," he said, "I'll have

Please turn to page A8

High demand

High demand

INSIDE



STARBUCKS,
HYATT TO GO
STRAWLESS

BUSINESS & FINANCE, B1

LIFE & ARTS, A9

WHEN MEN DO
THE GROCERY
SHOPPING

U.S. NEWS

CAPITAL ACCOUNT | By Greg Ip

Exporters Are Surprise Losers in Tariff Fight



Who's the biggest loser when tariffs are imposed on imports? The surprising answer: exporters. Though completely counterintuitive, theory and evidence show that taxes on imports act just like a tax on exports.

The Trump administration's recent round of tariffs is already rippling out to exporters: Soybean farmers face plunging prices as China raises tariffs, Harley-Davidson will move production of motorcycles destined for the European Union out of the U.S., and BMW says foreign retaliation may hit exports from its South Carolina plant.

Economists credit Abba Lerner, then a graduate student at the London School of Economics, for proving theoretically in 1936 that an import tariff was equivalent to a tax on exports. The Lerner Symmetry Theorem is a key principle of trade economics, like 19th century economist David Ricardo's theory of comparative advantage.

The practical link was obvious to protectionists and free traders alike as far back as the 1600s, says Douglas A.

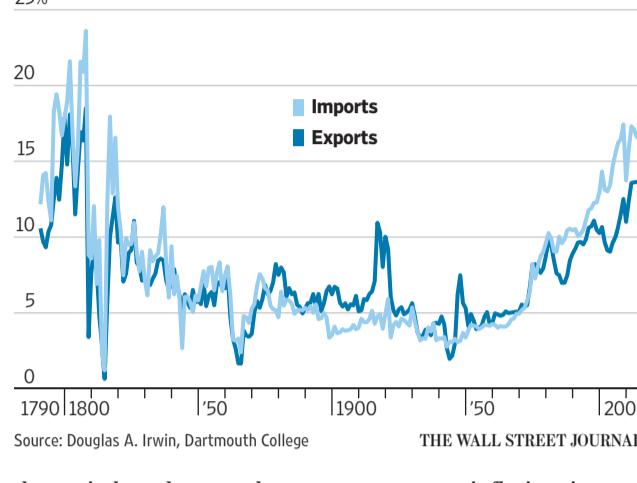
Irwin, an economist and trade historian at Dartmouth College. They understood that a country that shuts out imports deprives its trading partners of money to buy exports.

This, Mr. Irwin notes in his book, "Clashing Over Commerce: A History of U.S. Trade Policy," is why Americans were so divided over tariff policy in the 1800s. When tariffs were raised to protect Northern manufacturers, Southerners resented paying more for manufactured goods and suffering lower prices for their exports such as cotton and tobacco. Mr. Irwin's data show that while exports and imports have varied between 3% and 25% of gross domestic product since 1790, the two tend to move together.

The link was especially strong under the gold standard because trade imbalances were financed by gold flows. If the U.S. ran a trade surplus, gold would flow in, depriving foreigners of the means to purchase U.S. goods. Now that exchange rates float, the effect is less direct, and a country can pay for imports by borrowing in

Lockstep

Over time imports and exports have risen and fallen together. Share of U.S. GDP:



Source: Douglas A. Irwin, Dartmouth College

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the capital markets, as the U.S. has since the late 1970s.

Yet even now, exports and imports tend to rise and fall together. If the U.S., for any reason, cuts its imports from a trading partner, that country's economy and currency both weaken, so it buys less from U.S. companies.

If a tariff generated significant new demand for the protected American sector, the resulting boost to prices and jobs would put upward

pressure on inflation, interest rates and the dollar, further hurting exports.

In a National Bureau of Economic Research study, Alessandro Barattieri, Matteo Cacciatori and Fabio Ghironi examined changes in tariffs in 21 countries (though not the U.S.) and found increases tended to reduce both imports and exports. On net, imports fell more, so the trade balance improved, but overall growth suffered be-

cause higher consumer and capital-goods prices hurt consumption and investment.

Tariffs also reshape the economy. Newly protected industries draw workers and investment away from exporting industries whose inputs are now more expensive and may be targeted by foreign retaliatory tariffs. Heavily protected industries, like U.S. sugar farmers, don't export much because prices abroad are much lower than at home. Protectionist countries like India and Brazil have lower imports and lower exports relative to GDP than open economies like South Korea and Chile, Mr. Irwin notes.

Since the U.S. began to raise tariffs only a few months ago, it's too early to evaluate the impact. Exports grew relatively strongly in April and May, mostly due to aircraft and soybeans, according to Ian Shepherdson of Pantheon Macroeconomics. The rise in soybean exports may have been temporary, as buyers rushed to beat the imposition of Chinese tariffs.

There are other signs of trouble for exporters. The dollar has risen sharply this

year, mostly because of rising U.S. interest rates but also because U.S. tariffs have weighed on the currencies of Canada, Mexico, and China. That will tend to dampen their purchases of U.S. products, even those unaffected by tariffs. The Texas Alliance of Energy Producers says higher costs and shortages of tubular steel due to the tariffs will hurt drilling and production of oil, the biggest U.S. export success story of recent years.

Many manufacturers who export from the U.S. may have to shift that activity abroad. "We export to more than 100 countries," one manufacturer in the food, beverage and tobacco industry told the Institute for Supply Management in its latest monthly survey. "We are preparing to shift some customer responsibilities among manufacturing plants and business units due to trade issues (for example, we'll shift production for China market from the U.S. to our Canadian plant to avoid higher tariffs.)"

The end result of Mr. Trump's efforts to make Americans spend more on American-made products is that foreigners will spend less.

Georgia Blaze Displaces Two Dozen Residents



EARLY WARNING: Two men jumped from a second-floor window and alerted neighbors in DeKalb County, near Atlanta, on Monday.

Wage Gains Squeeze Profits

Continued from Page One

with inflation. Fears about rising wages sparked concerns in February and sent stocks tumbling as investors worried the tightening labor market may finally trigger higher inflation rates.

Economists at Goldman Sachs predict that every percentage-point increase in labor-cost inflation will drag down earnings of companies in the S&P 500 by 0.8%. In total, the bank estimates labor costs equate to 13% of revenue for companies in the S&P 500.

"At the end of the day, I haven't heard this many CEOs talk about shortages in skilled

labor and wage increases to attract talent in a long time—in at least a decade," said Will Muggia, president and chief executive at Westfield Capital Management in Boston.

According to a report from Bank of America Merrill Lynch Global Research, 10% of companies in the S&P 500 mentioned higher labor costs as a factor that weighed on their first-quarter results, up from 8% in the fourth quarter and the highest level since the bank began tracking the data in late 2015.

The earnings of companies in the industrials sector, which has already been hit hard this year by trade tensions and rising expenses for things such as raw materials, are most susceptible to increasing labor costs, followed by the consumer-discretionary sector, Goldman says.

Labor costs equal 21% of revenue for companies in the industrials sector, and ana-

lysts expect that a percentage-point increase in labor-cost inflation would dent the sector's earnings by 1.5%.

Some industrial companies are struggling to find workers, a sign that they may be forced to raise wages. In its first-quarter earnings call, railroad company Union Pacific Corp. said it was offering bonuses in more-competitive labor markets. Building-products companies Allegion PLC, Fortune Brands Home & Security Inc. and A.O. Smith Corp. all mentioned labor shortages as well.

In a traditional economic cycle, companies would try to pass along increasing labor costs to customers, but that doesn't appear to be happening this time.

A National Association for Business Economics survey for the first quarter showed 56% of respondents reported rising wage costs—the highest share since the survey's inception in

1982—but only 28% of respondents reported charging customers higher prices.

That discrepancy is partly because of the pricing power of Amazon.com Inc., which has disrupted industries from retail to entertainment to health care with its low prices and free shipping options.

"Some tech companies are threatening to get into every industry now," said Matt Miskin, market strategist for John Hancock Investments. "That's kind of a major headwind to the traditional wage growth dynamic that we've seen in past cycles."

Competition with online retail will make it particularly difficult for retail companies to offset wages that are rising much faster than in other industries. In the three months through June, nonsupervisor retail wages were up 3.9% from a year earlier, based on a three-month average, their strongest growth since 2002, according to the Labor Department.

According to Goldman, a percentage-point increase in wage inflation would reduce earnings in the consumer-discretionary sector by 1.1%. And Bank of America notes that operating margins have begun to soften in the sector, which includes the most labor-intensive companies in the market.

Discount-store operators Dollar General Corp. and Dollar Tree Corp. are among the retailers that pointed to higher labor costs in the first quarter when their earnings fell short of estimates.

Companies in the leisure industry, many of which sit in the S&P 500's consumer-discretionary sector, are the most exposed to increases in the minimum wage, Goldman says. Hotel operator Marriott International Inc. cited a tightening labor market and rising wages in its first-quarter earnings call as it reported declining profit margins in North America.

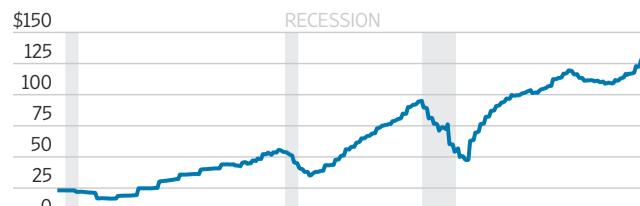
Weighing Labor Costs

Rising wages pose a threat to the profit margins of some U.S. companies that are already grappling with trade-related jitters and a limited ability to raise prices.

Average hourly earnings growth from the previous year

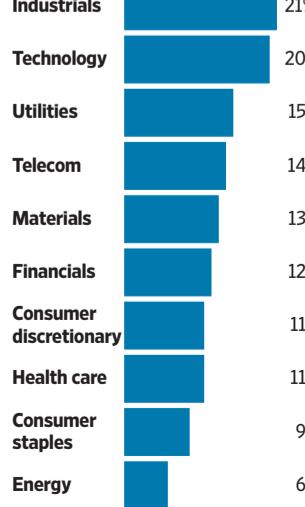


S&P 500 earnings per share for the prior 12 months



Sources: FactSet (hourly earnings, S&P 500 earnings); Goldman Sachs (labor costs)

Labor costs as a percentage of revenue



umn on Monday incorrectly said it is to the left.

Doug Foreman is chief investment officer of Los Angeles-based **Kayne Anderson Rudnick**, an affiliate of Virtus Investment Partners. He was incorrectly described as chief investment officer of Virtus itself in an Investing in Funds report article Monday about small-stock fund managers.

CORRECTIONS & AMPLIFICATIONS

European Commission President Jean-Claude Juncker's first name and title were incorrectly omitted from a Page One article on Monday about the coming North Atlantic Treaty Organization summit in Brussels.

The Apple Messages app's push-to-talk microphone icon is to the right of the text box. The Personal Technology col-

Readers can alert The Wall Street Journal to any errors in news articles by emailing wsjcontact@wsj.com or by calling 888-410-2667.

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U.S. NEWS

Alphabet, Apple Prodded On Privacy

By JOHN D. MCKINNON

House lawmakers are demanding information from Alphabet Inc. and Apple Inc. about how the companies handle users' personal information, including spoken words, email content and location data.

In letters to the companies' chief executives, leaders of the powerful House Energy and Commerce Committee said recent media reports and related information obtained by the panel have raised questions about how the companies gather and use consumers' information.

The letters show that consumer-privacy concerns in Washington have spread beyond Facebook Inc., which has been in regulators' and lawmakers' crosshairs this past year over the sharing of user information with a data-analytics firm that had ties to the Donald Trump presidential campaign.

The lawmakers' letter to Alphabet CEO Larry Page said recent reports indicate that its Android smartphone operating system collects extensive user-location data and reports it back to Alphabet's Google unit even when location services are disabled.

Considering that many consumers likely believe that their phones aren't actively tracking them when the location services are turned off, "this alleged behavior is troubling," according to the letter, which was signed by the committee's chairman, Greg Walden (R., Ore.), as well as three subcommittee chairmen, Reps. Gregg Harper (R., Miss.), Marsha Blackburn (R., Tenn.) and Robert Latta (R., Ohio).

The letter to Alphabet also raised questions concerning a report last week in The Wall Street Journal that Google continues to allow third parties to access content of users' emails, even though the company itself said last year it would halt scanning the contents of emails to "keep privacy and security paramount."

The letter to Apple CEO Tim Cook raised fewer issues but posed similar questions about whether Apple smartphones collect and transmit extensive location data. The letter says that Apple's actions "raise questions about how Apple device users' data is protected and when it is shared and compiled," given that Apple provides access to apps that appear contradictory to its own privacy principles, the letter says.

Request to Detain Families Denied

Judge calls Trump administration bid to change court order 'a cynical attempt'

By SADIE GURMAN

A federal judge on Monday refused the Trump administration's request to change a longstanding federal court settlement so that officials could detain asylum-seeking families together during lengthy immigration proceedings.

The ruling by U.S. District Judge Dolly M. Gee in Los Angeles further complicates the administration's efforts to reunite more than 2,000 children who have been separated from their parents since this spring under a zero-tolerance policy toward illegal border-crossers.

Amending the so-called Flores settlement was a central part of President Donald Trump's executive order ending the practice of family separations. Justice Department officials had for weeks said the separations were unavoidable because the 1997 settlement bars authorities from detaining children for more than 20 days when their parents are arrested for trying to enter the U.S. illegally. Obama administration officials, facing a similar predicament, had also unsuccessfully tried to persuade the same judge to change the settlement.

Judge Gee said the Justice Department offered no basis to change the settlement and called the Trump administra-



Undocumented immigrant families walked from a bus depot after being released from detention in McAllen, Texas, last week.

tion's efforts to do so "a cynical attempt...to shift responsibility to the Judiciary for over 20 years of Congressional inaction and ill considered Executive action that have led to the current stalemate."

The Justice Department said it was reviewing the ruling. "The court does appear to acknowledge that parents who cross the border will not be released" and must choose be-

tween remaining together in custody during their asylum proceedings or requesting to be separated so their children may be placed with sponsors, a spokesman said.

The ruling followed a separate setback Monday for the Justice Department, as it told a different federal judge in California that officials would be unable to meet a court-imposed Tuesday deadline to re-

unite more than 100 children younger than 5 with their parents. The department cited struggles verifying familial relationships and locating adults.

Just 54 of the 102 youngest immigrant children will likely be reconnected with their families Tuesday, a government attorney said during a hearing in San Diego, Justice Department attorney Sarah Fabian

said. Five others are also soon to be reconnected with their families in the custody of U.S. Immigration and Customs Enforcement.

The reunions were the result of a separate court order by U.S. District Judge Dana Sabraw in San Diego, who set a Tuesday deadline for the youngest children and said older minors must be returned to their families by July 26.

Legacies May Slow Colleges' Diversity Push

By MELISSA KORN

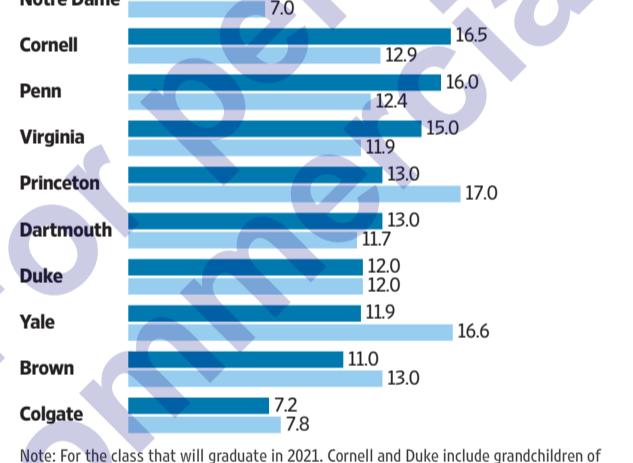
Top colleges have pledged to become more socioeconomically diverse, but the admissions edge many give to children of alumni may make that goal harder to achieve.

At the University of Notre Dame, the University of Virginia and Georgetown University, the admission rate for legacies is about double the rate for the overall applicant pool, according to data from the schools. At Princeton University, legacies are admitted at four times the general rate, or roughly 30% compared with about 7% overall over the past five years, the school says.

Legacy applicants at Harvard University were five times as likely to be admitted as non-legacies, according to an analysis of data from 2010 through 2015. The numbers—33.6% for legacies and 5.9% for those without parental ties—were submitted in a June court filing for a case claiming Asian students are

Admissions Advantage

At some top schools, there are similar proportions of students whose parents are alumni and students who are the first in their families to attend college.



being discriminated against in the name of greater diversity at the school.

All of those schools have

signed on to or plan to join the American Talent Initiative, a Bloomberg Philanthropies-backed effort to enroll 50,000

more low- and moderate-income students by 2025.

Concerns over legacies reflect broader unease about competing priorities in admissions. Diversity initiatives have led to complaints by white students that minority students have a leg up. Meanwhile, highly qualified Asian students say they should get more slots based on academics. Both say traditions like legacy admissions soak up coveted spots.

Advocates for considering legacy status argue that favoring the children—and, in some cases, grandchildren—of graduates helps maintain an engaged and generous alumni base.

Cornell University President Martha E. Pollack has said legacy admissions help perpetuate "a Cornell family that goes on for generations." She told the student newspaper in May that the practice isn't about giving preference or an advantage to legacies, but is one of many "balancing factors."

Critics say the practice un-

dermines diversity initiatives.

"I really don't see how our best universities can continue to justify this practice," said William Dudley, Federal Reserve Bank of New York president, in an October speech. "Such an approach only preserves the status quo and constrains economic mobility."

A handful of elite schools, including the Massachusetts Institute of Technology and California Institute of Technology, don't consider legacy status in admissions.

Schools that do weigh legacy status generally state as much, but say it doesn't make any candidate a shoo-in.

Columbia University's undergraduate admission website refers to a "slight advantage" for "extremely competitive" candidates whose parents attended Columbia, while Harvard's site says that among "similarly distinguished applicants," those whose parents attended Harvard's undergraduate college "may receive an additional look."

Few Who Vape Stop Smoking, Study Finds

By BETSY MCKAY

Makers of electronic cigarettes and other vaping devices often tout their products as smoking cessation aids. But new research suggests that the devices haven't helped many U.S. smokers quit.

In a study published Monday in the journal PLOS One, researchers at Georgia State University found that U.S. adult smokers who didn't use electronic vaping devices were more than twice as likely to quit as those who did.

Moreover, more than 90% of smokers who also vaped at

the outset of the study were still smoking a year later, according to the study. More than half of these smokers were also still vaping.

"These products have not been fulfilling the public health promise of helping people in the U.S. quit smoking," said Scott Weaver, assistant professor of epidemiology and biostatistics at Georgia State, and lead author of the observational study. "We need to look at changes to their design, marketing or regulation that could help them be more effective as smoking cessation tools."

Still, some experts noted, the percentage of "dual users"—those who simultaneously use cigarettes and vaping devices—in the study who quit smoking was higher at just under 10% than the overall quit rate for U.S. smokers.

The study, funded by the National Institutes of Health and the Food and Drug Administration, is the latest in a growing but conflicting body of research on the role that e-cigarettes play in the war on tobacco. Some papers have found that e-cigarettes help smokers stop using traditional cigarettes, while others have found that they don't. A National Academies of Sciences, Engineering and Medicine report in January concluded that evidence as to whether e-cigarettes promote smoking cessation is limited.

A decline in the U.S. adult smoking rate has accelerated in the four years since e-cigarettes began to proliferate, along with more cigarette taxes and anti-smoking campaigns, experts note. The rate was 13.9% in 2017, down from 20.6% in 2009, according to the Centers for Disease Control and Prevention.

"Certainly the possibility is that e-cigarettes are part of that," said Nancy Rigotti, director of the Tobacco Research and Treatment Center at Massachusetts General Hospital in Boston and a member of the expert committee that produced the National Academies report. She wasn't in-

volved in the latest study.

The Georgia State researchers analyzed results from 858 adult smokers who took part in a survey in late summer 2015 as well as a follow-up survey a year later.

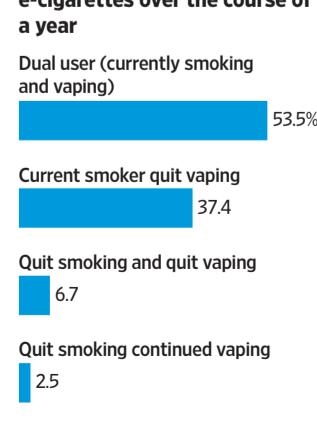
The researchers said they "found no evidence" that vaping devices in the U.S. in 2015-16 "helped adult smokers quit at rates higher than smokers who did not use these products." These vaping devices "may not be the disruptive technology that increases the population quit rate" and reduces the harms of smoking, the study said.

They cited several possible reasons for their findings, including that smokers might not get enough nicotine from vaping to switch from cigarettes completely.

Michael Eriksen, dean of Georgia State's School of Public Health and senior author of the study, said the results might differ if the researchers conducted the same survey today because the study was conducted before newer, higher-nicotine vaping devices that deliver an experience that more closely resembles the experience of smoking became popular.

Another important factor, Dr. Eriksen said, is likely that some smokers are confused about whether vaping is more or less harmful than cigarettes, and whether it can help them quit.

How U.S. smokers used e-cigarettes over the course of a year



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Sources: National Center for Health Statistics (current smokers); PLOS One (survey)

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U.S. NEWS

Risks Loom in Trump-Putin Meeting

**CAPITAL JOURNAL**

By Gerald F. Seib

Based on meetings he and other senators just held with Russian leaders in Moscow, Sen. Jerry Moran has a few words of caution for President Donald Trump as he prepares to meet Russian President Vladimir Putin.

"If our experience is any indication of what the president will find, it will be denial, hostility, blaming

others and long and tedious responses," the Kansas Republican said in an interview as he was returning home.

Moreover, Mr. Moran suggests the president might want to think twice about his plan to meet privately with Mr. Putin, with no aides present. The senator and his colleagues are fuming at the way the Russian media portrayed (or, they say, baldly mis-portrayed) their own private meetings with Russian officials, suggesting the Americans only briefly and meekly raised the issue of Russian meddling in the 2016 election campaign.

Mr. Moran and his colleagues say there were, in fact, long and blunt discussions on election meddling, and that they were stonewalled on the issue. "The Russians are skilled propagandists," Mr. Moran says. "I understand why the president feels the need to meet one on one....But based on my experience, more Americans in the room would be better for the president's protection."

The senator's experiences



METZEL MIKHAIL/ZUMA PRESS

A group of U.S. lawmakers, right, met with Russians in Moscow last week and left fuming at the way local media portrayed their talks.

underscore a simple reality: There are downsides aplenty to Mr. Trump's planned meeting with his Russian counterpart in Helsinki in a week's time.

Mr. Trump, understandably, has focused instead on what he sees as the upside potential. In general, he thinks the world is a safer place if the U.S. and Russia get along. More specifically, he wants Russia to help in the effort to force North Korea to denuclearize by not providing backdoor economic relief to the regime in Pyongyang, particularly by buying North Korean coal.

Perhaps most important, Mr. Trump wants Russian help in reducing the fighting in Syria's civil war before the U.S. faces the unsavory choice of giving more military help to the Syrian opposition forces it supports or seeing them vanquished by the government forces Russia supports. The U.S. has demanded that Russia stop helping Syria launch new attacks in southern Syria, and, more broadly, use its influence on Damascus to reduce

Iran's role in Syria, an increasingly dangerous flash-point for Israel.

Maybe Mr. Trump also could persuade Mr. Putin to stop cheating on nuclear-arms agreements and to be of more help in fighting terrorism worldwide.

Stacked up against those possibilities are some pretty significant risks. Russia may use the very fact of a private meeting with the president to claim the U.S. has accepted Russia's annexation of Crimea and acknowledged its right to interfere in Ukraine. Russian media already have trumpeted statements by Mr. Trump suggesting sympathy for the Russian position on Crimea as proof the Americans have thrown in the towel on the subject.

Moreover, Mr. Putin may well use Mr. Trump's own apparent ambivalence about the value of the North Atlantic Treaty Organization to portray the U.S. and Russia as moving beyond the traditional alliance that has guarded Western security

through the post-World War II era.

Mr. Trump's skepticism was clear in a pair of tweets Monday, when he complained that the U.S. is "spending far more on NATO than any other Country. This is not fair.... On top of this the European Union has a Trade Surplus of \$151 Million with the U.S." The president will arrive for his meeting with Mr. Putin fresh from a NATO summit meeting this week, and the mood there will do a lot to set the stage for his meeting with the Russian leader.

On this front, Mr. Trump and his aides are playing a good-cop, bad-cop routine, in which Mr. Trump questions the motives of America's allies and carries on pointed spats with the leaders of France, Germany and Canada, while his aides praise the allies and their efforts. In a briefing for reporters last week, Kay Bailey Hutchison, Mr. Trump's ambassador to NATO, lauded what she called "the biggest increase in defense spending by our allies since the Cold War."

Which face of NATO will Mr. Trump present to his Russian counterpart: the one of a unified alliance, or the one of a splintered partnership the U.S. now considers an undue burden?

Finally, Mr. Putin doubtless will continue to simply deny any interference in the 2016 presidential election campaign, a denial that Mr. Trump noted again on Twitter last week: "Russia continues to say they had nothing to do with Meddling in our Election!"

The risk is that the Russian leader will use Mr. Trump's seeming willingness to accept his denials as proof that any claims to the contrary—including a seven-page bipartisan report from the Senate Intelligence Committee last week—are specious.

Mr. Trump's critics already portray him as way too cozy with his Russian counterpart. Unless Mr. Trump plays the summit well, he could allow the meeting to play directly into that critique.

President Confident In Kim 'Contract'

BY REBECCA BALLHAUS

WASHINGTON—President Donald Trump said Monday that he was confident North Korean leader Kim Jong Un would "honor the contract" the two leaders signed last month in Singapore, while suggesting that China was "exerting negative pressure" on the agreement amid its trade fight with the U.S.

In a tweet, Mr. Trump said he and Mr. Kim at a meeting in Singapore last month "agreed to the denuclearization of North Korea." After their meeting, the two leaders signed an agreement in which Mr. Kim said he would denuclearize North Korea—while offering no specifics on how or when—and Mr. Trump pledged to halt joint military exercises with South Korea.

U.S. foreign-policy analysts said the lack of details in the document suggested the U.S. had given away more than it had received in the talks.

In his tweet Monday, Mr. Trump said China "may be exerting negative pressure on a deal because of our posture on Chinese Trade-Hope Not!"

On Friday, the U.S. and China slapped levies on \$34 billion of each other's exports, escalating a trade battle that both sides are bracing to fight.

Secretary of State Mike Pompeo visited North Korea over the weekend to continue denuclearization talks, which ended with Pyongyang accusing the U.S. of "gangster-like tactics" and increasing the "risk of war" while saying it retained confidence in Mr. Trump to reach an agreement.

Mr. Pompeo told reporters after the talks that the two sides had "good-faith, productive conversations which will continue."

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U.S. NEWS

Court Nominee to Spark Costly Battle

Liberal ads to press Roe v. Wade issue; conservatives to blitz vulnerable states

BY JULIE BYKOWICZ

President Donald Trump's announcement of Brett Kavanaugh as his pick for Supreme Court justice is the starting gun for weeks-long, multimillion-dollar ad campaigns featuring everything from the nominee's personal record to the country's future.

Among the biggest targets will be two Republican senators who back abortion rights: Lisa Murkowski of Alaska and Susan Collins of Maine. Though neither faces re-election this fall, liberal groups are expected to flood their states with ads urging them to press Judge Kavanaugh, of the U.S. Court of Appeals for the District of Columbia Circuit, about any possibility of challenging the 1973 Roe v. Wade decision that guarantees the right to abortion.

On the other side, conservative groups are poised to unleash ads supporting Judge Kavanaugh. The Judicial Crisis



Pro-choice and antiabortion protesters demonstrate outside the Supreme Court Monday night.

Network's confirmkavanaugh.com website went live as Mr. Trump announced his selection just after 9 p.m. Eastern time.

The pro-Kavanaugh campaign will be most intense in states where Mr. Trump won and vulnerable Democrats face re-election, including Sens. Joe Manchin of West Virginia, Heidi

Heitkamp of North Dakota and Joe Donnelly of Indiana. All three voted last year to confirm Mr. Trump's first pick to the high court, Justice Neil Gorsuch, and the administration's supporters will be looking to again peel them away from the majority of Democratic senators who opposed him.

The White House invited to

the nominee announcement several of the Democratic senators, who declined. Mr. Manchin wrote on Twitter: "I appreciate the President inviting me to attend tonight's announcement at the WH. I look forward to meeting the nominee in a setting where we can discuss his or her experience, judicial philosophy & perspec-

tive on access to healthcare for WVians with pre-existing conditions."

Senate Minority Leader Chuck Schumer (D., N.Y.) said Monday that affordable health care and abortion rights "hang in the balance with this nominee." Senate Majority Leader Mitch McConnell (R., Ky.) dismissed such concern. "The far-left rhetoric comes out every single time. But the apocalypse never comes," he said.

For all the high stakes, this fight could be relatively short, because Republicans hope to confirm the nominee by early October, when the Supreme Court's next term begins. But what it lacks in duration could be made up in bitterness, given that Senate confirmation would replace Justice Anthony Kennedy, a swing vote on the court, with a justice who is expected to be a far more consistent conservative.

As a result, opponents plan to spend millions to pore over Judge Kavanaugh's life and judicial record, and likely portray him as an enemy of women's and civil rights. Supporters, meanwhile, expect to follow their playbook from Justice Gorsuch's confirmation and

suggest that Democrats are tearing down an honorable individual for partisan purposes and that Judge Kavanaugh will be true to conservative values of limiting government's executive authority and upholding the Second Amendment.

Liberal groups largely sat out the Gorsuch confirmation process. Groups opposed to his nomination aired about 10% of the Supreme Court-related TV ads, according to Kantar Media/C MAG, an advertising tracker.

This time, they promise to spend big. A group called Demand Justice, led by Brian Fallon, a former aide to Hillary Clinton and Mr. Schumer, said it wants to raise \$10 million. As a nonprofit, it isn't required to disclose its donors.

The American Civil Liberties Union last week began an ad campaign in Alaska and Maine, home to Ms. Murkowski and Ms. Collins, respectively. The spots urge viewers to call their senator and concludes, "Americans need to know whether the nominee will protect the right of women to make their own health-care decisions."

—Joshua Jamerson
and Reid J. Epstein
contributed to this article.

Trump Nominates Kavanaugh

Continued from Page One

"Judge Kavanaugh has impeccable credentials, unsurpassed qualifications and a proven commitment to equal justice under the law," Mr. Trump said from the East Room of the White House.

Mr. Trump settled on the pick after a rapid-fire search that opened on June 27, when 81-year-old Justice Anthony Kennedy told the president he was stepping down, creating the second court vacancy during Mr. Trump's presidency.

Justice Kennedy, though a conservative, has long been a swing vote on the court, sometimes siding with liberal justices, and his departure gives Mr. Trump a chance to leave an enduring imprint on American jurisprudence after a year and a half in office. Mr. Trump has already filled one seat on the high court, installing conservative Justice Neil Gorsuch last year. Should the Senate approve his new choice, Mr. Trump will have chosen as many justices as former President Barack Obama and Mr. Bush each did over the course of eight-year presidencies.

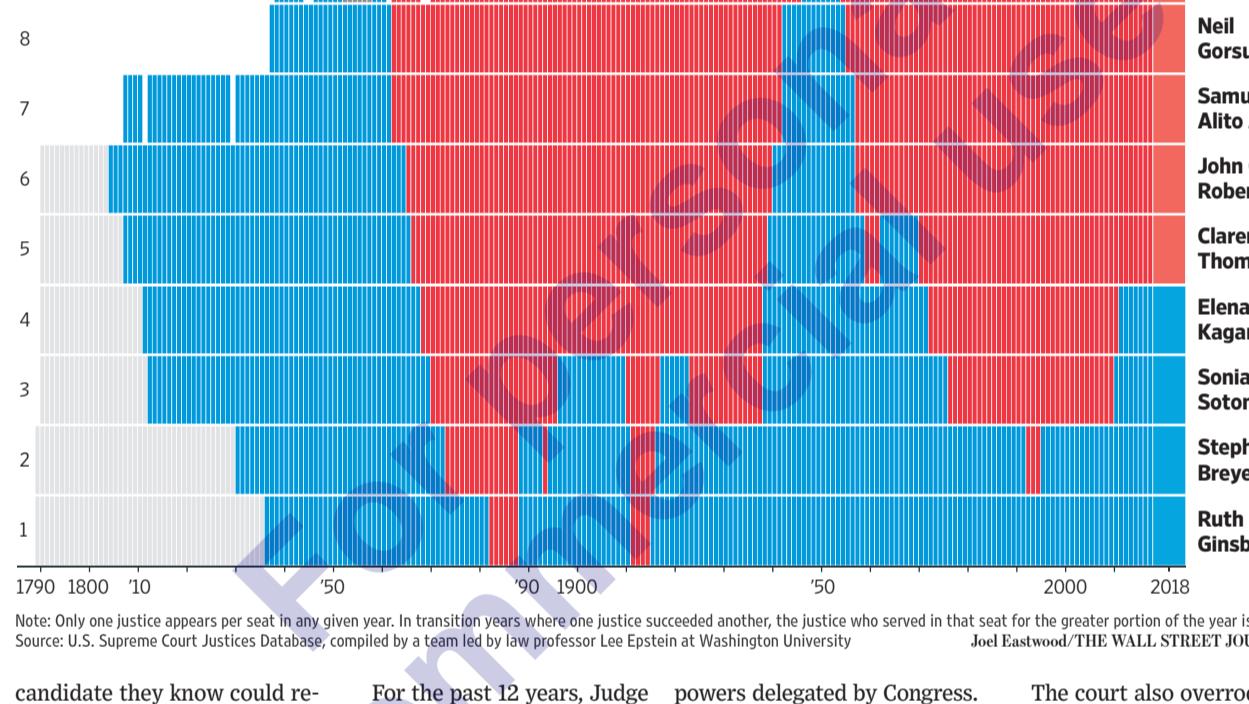
That choice weighed on Mr. Trump, who days and even hours before his televised announcement was still contemplating the historic appeal of a choosing a conservative woman, Judge Amy Coney Barrett of Indiana, who supporters promised would fire up Mr. Trump's base. But she carried a risk of a difficult confirmation fight.

Judge Kavanaugh will now face a closely divided Senate, and Republicans hope to cement his candidacy quickly. The GOP holds 51 of 100 seats in the Senate, and that narrow majority includes Sen. John McCain, who is at home in Arizona fighting cancer. Democrats, for their part, are wrestling with how to approach a

Pick Is Likely to Strengthen Conservative Court

President Donald Trump's nominee to fill Justice Anthony M. Kennedy's seat on the Supreme Court, if confirmed, is likely to extend the conservative majority that has dominated the highest court for more than four decades.

Justices by political party of appointing president ■ Federalist ■ Whig ■ Democrat ■ Republican



Joel Eastwood/THE WALL STREET JOURNAL.

candidate they know could reshape the court for decades and whose nomination could be tied up with their prospects in the midterm elections.

Liberals groups were swift to push senators to fight to take down the nominee, particularly citing abortion rights and health care. "There's no way to sugarcoat it: With this nomination, the constitutional right to access safe, legal abortion in this country is on the line," said Dawn Laguens, a top lobbyist for Planned Parenthood Federation of America.

Mr. Trump's second Supreme Court pick could energize both the Democratic and Republican loyalists for November. But with Democrats already demonstrating enthusiasm about the election, the effect could be to help Republicans close that gap.

For the past 12 years, Judge Kavanaugh has built a conservative record on the D.C. Circuit, which sits a few blocks from the Supreme Court. The court is regarded as one of the most consequential in the nation because it is the venue for

For all the high stakes, the GOP hopes to confirm the nominee by early October.

legal challenges to a range of actions by federal agencies.

Judge Kavanaugh has taken aim at those agencies with some regularity, voicing concern when he believes government actions go beyond the

powers delegated by Congress. The Environmental Protection Agency has been a notable target of Kavanaugh opinions and dissents, including for how it has implemented air-pollution rules and for what he saw as a lack of attention to the costs of regulations.

The judge has also been concerned by the structure of government agencies, including the Consumer Financial Protection Bureau, whose setup he ruled unconstitutional in 2016 because its director couldn't be easily removed by the president.

The D.C. Circuit, which has leaned to the left since the Obama era, has reined in Judge Kavanaugh on multiple occasions, including the CFPB case, where it withdrew his opinion and ruled for the agency.

The court also overrode the judge in a hot-button case last year involving the Trump administration's efforts to prevent pregnant undocumented teenagers in government custody from getting abortions. Judge Kavanaugh initially forged a middle-ground ruling that temporarily allowed the government to hold one unnamed girl while the sides sought a compromise, but the full court stepped in and ordered the girl to be released for the procedure.

If he is confirmed to the Supreme Court, Judge Kavanaugh's days in the minority will likely be over, as he is expected to be part of a solid conservative majority.

Judge Kavanaugh's advocates are expected to emphasize his credentials and his experience on the bench. Judge

Kavanaugh also was part of Independent Counsel Kenneth Starr's team that investigated then-President Bill Clinton, a Democrat, and was tapped to write sections of the report that led to his impeachment by the GOP-led House.

The White House will have to assuage social conservatives, some of whom had questioned Judge Kavanaugh's commitment to their cause. Judge Kavanaugh's supporters will simultaneously have to avoid the trap of allowing him to be portrayed as excessively ideological.

The revamped Supreme Court, whose term begins in October, could take a new look at some of the most polarizing disputes of modern American life, including abortion, affirmative action, executive power and health care.

Judge's Long Record Is Right of Center on Range of Issues

BY ASHBY JONES

Judge Brett Kavanaugh has established a robust record in his more than 12 years as a member of the U.S. Court of Appeals for the D.C. Circuit. Judge Kavanaugh, a nominee of President George W. Bush, has written notable rulings on a host of topics, including guns and abortion. Many have tipped right-of-center.

Here are some of Judge Kavanaugh's most high-profile rulings:

Garza v. Hargan (2017): The full D.C. Circuit last year overturned a lower panel ruling by Judge Kavanaugh, which tossed a district-court ruling requiring the government to allow a pregnant teen in immigration custody to receive an abortion. Judge Kavanaugh dissented from the full court's ruling.

He wrote:

Today's majority decision...is ultimately based on a constitutional principle as novel as it is wrong: a new right for unlawful immigrant minors in U.S. Government detention to obtain immediate abortion on demand, thereby barring any Government efforts to expediently transfer the minors to their immigration sponsors before they make that momentous life decision. The majority's decision represents a radical extension of the Supreme Court's abortion jurisprudence. It is in line with dissents over the years by Justices Brennan, Marshall, and Blackmun, not with the many majority opinions of the Supreme Court that have repeatedly upheld reasonable regulations that do not impose an undue burden on the abortion right recognized by the Supreme Court in Roe v. Wade.

Heller v. D.C. (2011): Two judges of the court's three-judge panel upheld as constitutional a D.C. law that banned the sale of semiautomatic rifles in the city. Judge Kavanaugh disagreed. In a lengthy dissent, he wrote:

There is no meaningful or persuasive constitutional distinction between semiautomatic handguns and semiautomatic rifles. Semiautomatic rifles, like semiautomatic handguns, have not traditionally been banned and are in common use by law-abiding citizens for self-defense in the home, hunting and other lawful uses. Moreover, semiautomatic handguns are used in connection with violent crimes far more than semiautomatic rifles are.

Seven-Sky v. Holder (2011): In Seven-Sky, Judge Kavanaugh dissented from the panel's decision upholding the constitu-

tionality of the Affordable Care Act. But his dissent didn't win widespread applause from conservative legal scholars.

Judge Kavanaugh didn't rule, as many conservatives had advocated, that Congress lacked the congressional authority to pass the ACA, the Obama-era law that overhauled the nation's health-care system. Rather, Judge Kavanaugh ruled that a federal law, the Anti-Injunction Act, a federal statute barring suits that restrain the collection of taxes, meant the lawsuit at issue had been brought before the court had proper jurisdiction. Judge Kavanaugh wrote:

As the Court has stressed time and again, although the [Anti-Injunction] Act might seem an inconvenient technicality in the context of a particular case, it is essential to the overall system of orderly and prompt federal tax administration....

In order for the Affordable Care Act penalties to be assessed and collected "in the same manner as taxes," the assessment and collection of these Affordable Care Act penalties likewise must be insulated from pre-enforcement suits by the Anti-Injunction Act.

The following year, the Supreme Court, in an opinion written by Chief Justice John Roberts, disagreed with Judge Kavanaugh, finding that the act didn't apply to the ACA.

Hamdan v. U.S. (2012): The D.C. Circuit, in an opinion by Judge Kavanaugh, tossed out a military tribunal's conviction against Salim Hamdan, a former driver for Osama bin Laden. Judge Kavanaugh wrote that the charge of providing material support for terrorism wasn't made a crime under U.S. law until well after

Mr. Hamdan was detained by the U.S. in 2001. Judge Kavanaugh wrote:

Because we read the Military Commissions Act not to retroactively punish new crimes, and because material support for terrorism was not a pre-existing war crime...Hamdan's conviction for material support for terrorism cannot stand.

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WORLD NEWS

French Leader Defends Economic Revamp

Macron tries to shore up support from those who say his policies favor business, the rich

By JOSH JACOBS
AND STACY MEICHTRY

PARIS—French President Emmanuel Macron summoned both chambers of parliament to the ornate Palace of Versailles on Monday to defend his first year in office, rejecting claims that his pro-business agenda favors the wealthy.

In a sweeping 90-minute address akin to a State of the Union, Mr. Macron dismissed opponents who have branded him the “president of the rich.” Instead, Mr. Macron said his tax cuts and labor-market overhauls aimed to encourage investment and open up France’s heavily regulated economy to a new generation of workers.

Looming over Mr. Macron’s address was his choice of venue: the lavish grounds of Versailles on the outskirts of Paris where French monarchs held court before the French Revolution swept them from power. It was at Versailles that Queen Marie Antoinette, according to legend, said, “Let them eat cake,” after hearing the French people had no bread to eat.

“I don’t like elites, unequal income or privilege,” Mr. Macron said. “But the prosperity of a nation is the



In his Monday address to lawmakers in Versailles, Mr. Macron touted plans to fight poverty and expand apprentice programs for youth.

bedrock of any plan for justice and equality. If we want to share the cake, it is first necessary to have a cake.”

Mr. Macron peppered his speech with measures that aim to shore up support on the left wing of his centrist coalition. Many include former socialists who feel ignored by the pro-business focus of Mr. Macron’s first year in office.

The French leader touted

his plan to extend unemployment payments to people who voluntarily leave their jobs or work freelance jobs. He also said he will launch a new plan to fight poverty in September.

Mr. Macron said he aimed to overhaul and expand France’s use of apprentice programs to cut a path for younger workers to enter the workforce. He also called for deeper spending cuts across France’s

bloated public sector, which he said his government planned to detail in the days to come.

“These are only the first fruits,” he said. “I am perfectly aware of the gap between the breadth of reforms undertaken and the result felt. It takes time.”

Months of battles with striking transport workers and civil servants who oppose Mr. Macron’s plans to slash public

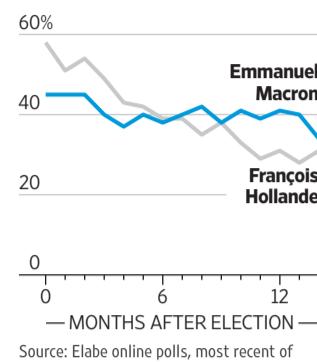
spending have begun to take a toll on his popularity.

An Elabe poll conducted in early July showed Mr. Macron’s approval rating at 34%, down 6 points from June.

Bruno Cautrèes, a political scientist at the Center for Political Research at Sciences Po in Paris, said the French leader “wanted to show that he would fight against true injustice, against a blocked soci-

State of Discontent

French President Emmanuel Macron’s approval ratings are closing in on the lows of his unpopular predecessor.



Source: Elabe online polls, most recent of 1,001 French adults conducted July 3-4; margin of error: +/-3.1 p.c. pts.

THE WALL STREET JOURNAL.

ety which stops people from being free.” Instead, he said, the Versailles speech might “continue to feed the idea that he is more center-right than center-left.”

Past presidents kept their distance from Versailles, using the palace only in times of emergency. But Versailles is making a comeback under Mr. Macron as a center for statecraft. A year ago, Mr. Macron hosted talks with Russian President Vladimir Putin there.

More than a dozen lawmakers from three different opposition parties declined to attend the president’s address.

Jean-Luc Mélenchon, leader of the far-left France Unbowed party, described the event as a symbol of “absolute presidential monarchy” in a Twitter post.



U.K. Prime Minister Theresa May, above, is reeling after Brexit czar David Davis, top right, and Foreign Secretary Boris Johnson quit.

Jeremy Corbyn, leader of the opposition Labour Party, said in Parliament on Monday that the resignations show her government is in crisis. “The Chequers compromise took two years to reach and just two days to unravel.”

Addressing Parliament on Monday, Mrs. May said the new agreement “is the right Brexit deal for Britain.”

Her political future now hangs in the balance. The prime minister was already in a weakened state after losing her parliamentary majority in last year’s general election. Conservative members of Parliament who want to force a vote of confidence in Mrs. May must win the support of 48 party lawmakers.

There are at least that many pro-Brexit lawmakers among the 316 Conservatives in the House of Commons to make that happen. If she loses a confidence vote, then a leadership contest would ensue.

If the party switches leader, the new head would become prime minister provided he or she can continue to command a majority in the House of Commons.

In the past 30 years, three prime ministers—John Major, Gordon Brown and Mrs. May herself—first took office without winning a general election.

Mr. Davis told the British Broadcasting Corp. on Monday that he wouldn’t stand in a leadership challenge and wouldn’t encourage others to do so. “I think it is the wrong thing to do,” he said.

Mr. Johnson, though, has long been seen by lawmakers as harboring leadership ambitions.

Two big factors are working in Mrs. May’s favor. The first is that a leadership contest that could take a month or more would further weaken London’s hand in negotiations. The second is that many Conservative lawmakers are terrified that a leadership contest

could set in motion events that would lead to another general election—and a victory for Mr. Corbyn.

But if a leadership challenge was mounted and failed,

A leadership challenge “is not going to strengthen her and her party will be completely divided,” he said. She still needs to reach agreement on her latest plan with a skeptical Brussels. And she must then sell it to Parliament, where she can expect to face resistance from pro-Brexit Conservatives.

Earlier, officials in Brussels said they didn’t expect to see a significant shift following Mr. Davis’s resignation, though Donald Tusk, president of the European Council, in a message on his verified Twitter account raised the slim chance it may lead the U.K. to reconsider leaving.

“Politicians come and go but the problems they have created for people remain. I can only regret that the idea of Brexit has not left with Da-

vis and Johnson. But...who knows?” he wrote.

Mrs. May moved quickly to replace Mr. Davis, appointing the 44-year-old housing minister Dominic Raab to the post. Much of the day-to-day Brexit negotiations has been handled by Oliver Robbins, a senior civil servant who works out of Mrs. May’s office.

She also named Jeremy Hunt as Mr. Johnson’s successor as foreign secretary.

Mr. Hunt, 51, has been health secretary since 2012, overseeing the state-run National Health Service. He backed remaining in the EU in the referendum but has since thrown his weight behind Brexit.

—Will Horner in London and Valentina Pop in Brussels contributed to this article.

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German and Chinese Leaders, Eyeing U.S., Praise Rules-Based Trade

BERLIN—Germany and China stressed their commitment to the multilateral rules governing free trade on Monday, cementing their opposition to the Trump administration’s efforts to reshape international commerce in a way it thinks would better suit U.S. interests.

The comments by German Chancellor Angela Merkel and Chinese Premier Li Keqiang in Berlin coincided with the signing of business deals underlining the close economic ties between the world’s two largest exporters of goods.

“Germany supports the rules-based system of free trade and is therefore concerned when what in our minds are illegal tariffs are being levied,” Ms. Merkel said in a veiled jab at new U.S. tariffs.

Mr. Li said free trade was a key factor in promoting economic growth, though his country has previously been accused by Germany of unfair trade policies.

—Andrea Thomas



SEAN GALLUP/GETTY IMAGES

WORLD NEWS

Eritrea, Ethiopia Cement Peace Deal

BY MATINA STEVIS-GRIDNEFF

The leaders of Eritrea and Ethiopia signed a peace agreement at the conclusion of an unprecedented summit between the countries as they attempt to normalize relations after two decades of conflict.

The agreement lays out a new era of cooperation between the former enemies, including re-establishing telecommunications and transport links, reopening embassies and resolving a border dispute that has locked them in disarray since the late 1990s.

Lasting peace between Ethiopia and Eritrea could herald a new era in the strategically significant Horn of Africa, which borders the Middle East and is located along the Red Sea, one of the world's busiest shipping routes for goods and oil from Asia to Europe via the Suez Canal.

It would also remove a fault line that has complicated international relations in this conflict-prone region, where the U.S. maintains a heavy military presence and has made major investments in peacekeeping to secure trade routes and stop the spread of terrorism.

Ethiopian leader Abiy Ahmed arrived in Asmara on Sunday and was greeted warmly by longtime Eritrean rebel-turned-dictator Isaias Afwerki. Mr. Afwerki, 72 years old, became president of Eritrea when it won independence from Ethiopia in 1993.

Ethiopia and Eritrea then went on to enjoy five years of cordial relations until 1998, when clashes erupted over a border area called Badme. In 2002, a United Nations-backed commission said the territory rightfully belonged to Eritrea and ordered Ethiopian troops to withdraw, but Ethiopia has never done so.

Islamic State's Remnants Fight On

Islamic State fighters who fled into the desert to escape U.S.-backed forces in Syria and Iraq are now drawing on stashed weapons and ammunition to stage renewed attacks in both countries, as friction among foreign powers hinders efforts to finish the terror group off.

By Sune Engel
Rasmussen in Beirut,
Nour Alakraa in Berlin
and Nancy A. Youssef
in Washington

The attacks are a sign of Islamic State's advance planning, and they have complicated the Trump administration's plans to withdraw U.S. troops. Before retreating from its urban strongholds, Islamic State decentralized its command structure, set up sleeper cells, and dug tunnels in the vast desert that spans the two countries.

The Pentagon now no longer gives a timeline for wrapping up a campaign that the White House said in April was coming to a rapid end. The U.S. keeps approximately 2,000 troops in Syria.

"Our military campaign in Syria continues," Defense Secretary Jim Mattis said last month. A Trump administration proposal to replace the U.S. contingent with Arab forces—to be largely funded by Arab states—has made little headway.

Islamic State is able to hang on in part because of conflicting priorities among the many local and foreign troops fighting in Syria. Iranian forces patrol parts of the Syrian desert where Islamic State hides, and Russia has conducted airstrikes, but both powers are primarily preoccupied with battling other, larger insurgent groups to ensure the survival of the Syrian regime.

And earlier this year U.S.-backed Kurdish fighters withdrew from the anti-Islamic State campaign after Turkish forces crossed the border in January to seize parts of northern Syria that had been



A Syrian town lies in ruins after the army recaptured it from ISIS in May. The group has largely been defeated in Syria and Iraq.

captured by the Kurdish YPG militia, which Ankara considers a terrorist group.

"For whom is Islamic State the number one priority? It's only really for the United States," said Christopher Phillips, a Syria expert with Chatham House, a London-based think tank.

The U.S. has been going after what is seen as the largest remaining pocket of Islamic State fighters—believed to number at least 1,000—in the oil-rich eastern Syrian province of Deir Ezzour. Since launching what it calls Operation Roundup in May, the U.S.-led coalition has regained about 20 square miles in Deir Ezzour, according to Col. Sean Ryan, a spokesman for the U.S. military. In May, the U.S. conducted 225 airstrikes on Islamic State positions—three times as many as in March, most of them in or around Deir Ezzour.

But while the coalition has focused on an area east of the

Euphrates River along the Iraqi border, Islamic State has a presence in another area west of the river. And that area falls outside the coalition's area of control as outlined in a deconfliction agreement with Russia.

Islamic State's recent attacks have targeted an array of

attack followed another bombing on the city's outskirts on June 22. Both attacks were confirmed by local antigovernment activists.

Islamic State's survival strategy was long in the making. Months before being ousted from Raqqa and Mosul, the Iraqi city the group lost control of last summer, Islamic State began preparing to use the desert as a base to fight regime and foreign forces.

"Now, the group is trying to activate this contingency plan," said Haid Haid, research fellow with the London-based International Center for the Study of Radicalization and Political Violence. "They are trying to increase attacks to stay relevant."

Fears that fleeing Islamic State fighters would ramp up attacks in the West after losing Mosul and Raqqa have so far not become reality. Of the 1,500 or so Europeans who went to fight for Islamic State, at least 1,200 have returned to their home countries, according to the European Union.

The bigger concern, the U.S. military officials said, lies in fissures emerging among U.S.-backed forces in Syria. The Assad regime is trying to undermine faith in those U.S.-backed forces by sowing discord between them and local residents who are returning to places like Raqqa, the U.S. officials said.

Analysts warn any substantial U.S. drawdown could presage the group's return. The Trump administration's stance on troop presence in Syria is difficult to predict, they say.

"There is a very real possibility that, in the future ISIS or an ISIS equivalent would take advantage of the poor governance in the Kurdish areas," where the Americans currently fight the group, said Mr. Phillips of Chatham House.

—Isabel Coles in Baghdad and Raja Abdulrahim in Beirut contributed to this article.



President Erdogan was escorted on Monday to his presidential swearing-in ceremony in Ankara.

Turkey's Erdogan Takes Oath With New Power, Ambitions

BY DAVID GAUTHIER-VILLARS

ISTANBUL—President Recep Tayyip Erdogan took up a new mandate with vastly expanded powers on Monday, vowing to use his broadened authority to position Turkey as a driving force linking East and West—a gambit that will face an immediate test at a NATO summit.

The Turkish leader, who won re-election and secured a majority in parliament last month, took the oath of office before kicking off his new term with a ceremony at Ankara's sprawling presidential palace.

Russia's Prime Minister Dmitry Medvedev was among the guests—while no senior U.S. official traveled to the Turkish capital for the event—highlighting Turkey's rapprochement with Moscow and bruised relations with Washington.

"We're starting our journey for a strong Turkey," the president said in a short speech.

Mr. Erdogan has dominated Turkish politics for 15 years, refashioning the constitution of the secular parliamentary republic into a presidential regime rooted in conservative Islam. He now holds powers unprecedented in Turkey's democracy to steer the nation

of 80 million.

Even before constitutional changes adopted last year took effect Monday, Mr. Erdogan has run Turkey in an increasingly authoritarian way, launching mass purges and jailing thousands of people in the wake of a failed military coup in 2016.

In the latest wave of dismissals, announced Sunday, more than 18,000 state em-

Vow to use Turkey to link East and West faces test at NATO summit this week.

ployees were stripped of their jobs for alleged ties to terror groups.

Abroad, Mr. Erdogan has sought to impose himself as an indispensable interlocutor in foreign-policy matters such as the war in Syria and the flow of migrants challenging the European Union. Legitimacy earned in ballot boxes will allow him to pursue this strategy even more forcefully, according to Murat Yetkin, editor in chief of Turkey's Hurriyet

Daily News.

"If the U.S., Russia, the European Union, Israel want to do something with Turkey, they have to find a way to work with Mr. Erdogan," Mr. Yetkin said. "There is no other option, there is no second man."

Mr. Erdogan will have an opportunity to gauge his new authority at a summit of the North Atlantic Treaty Organization in Brussels on Wednesday and Thursday, where he is due to meet with U.S. President Donald Trump.

Bilateral relations are at a low. The U.S. is angry over Turkey's decision to purchase an antimissile shield from Russia and Turkish authorities are stewing over the lack of action on their demand that the U.S. deport a cleric they say was behind the failed coup. The cleric, Fethullah Gulen, denies the accusation.

In his speech, Mr. Erdogan said he would aim to turn Turkey into one of the world's top 10 economies, a quantum leap from the country's 17th rank last year. Turkey faces immediate challenges in stabilizing its currency, weakened by double-digit inflation and pledges by the president to keep central-bank interest rates low.



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IN DEPTH

Canadians Brave Flag Wait List

Continued from Page One

figured it out by then." He also is prepared for the flag to go to his grandchildren. He gave the mailing address on his request to his family's Quebec lake house, he said, hoping it still belongs to a descendant when the flag finally arrives.

The sheer size of the flags flown over Parliament Hill is a burden—7½ feet tall and 15 wide, roughly the area of a car.

People who have received the flags flown over Canada's Parliament said they kept them folded at home because they are too big to unfurl.

The U.S. has a similar program for American flags flown over the Capitol, although it more closely tracks consumer demand. More than 100,000 of

the flags are requested each year with no long waiting list.

There are dedicated flagpoles at the Capitol where the flags are hoisted and lowered as needed to fill orders. For a nominal fee, the flags can be ordered in nylon or cotton in various sizes, as well as ordered flown, however briefly, on specific dates.

Canada takes a different view. The government dispenses only about 250 flags a year that have flown over the nation's Peace Tower, which stands in the middle of Canada's Parliament Hill. It also gives away smaller flags that have flown at other Parliament Hill locations.

Rayan El-Kotob received one of those flags this year. Her parents got her on the list in 2007, when wait times were only a decade or so. "I was 10. My parents said, 'Oh, can't wait for your 21st birthday,'" said Ms. El-Kotob, who is studying materials engineering at the University of British Columbia.



Canada's flag near the Peace Tower on Parliament Hill in Ottawa.

RICHARD LAUTEN/THETORONTOSTAR/ZUMAPRESS

Ms. El-Kotob, whose family immigrated to Canada from Lebanon, said she wanted to display the flag in her room. After trying to unfold it in her dorm, she realized "it's a lot bigger than I expected."

Around 3,000 people requested the Parliament Hill flags in 2016, the government said, but demand surged last year, when Canada celebrated

its 150th anniversary. Nearly 10,000 more names were added to the list.

Magda Hovjacky, who is responsible for the flag program, said she noticed another spike earlier this year, after Ms. El-Kotob posted about her flag on Reddit, the online discussion board.

The long wait has prompted letters pleading to get bumped

ahead in time for landmark wedding anniversaries or birthdays. The requests "are considered on a one by one basis," Ms. Hovjacky said.

Lorne Cohen, 40, got his flag in 2014 after a 10-year wait. "The odds are not in your favor to see it in your lifetime," he said of those at the back of the line. Like other recipients, Mr. Cohen found the Parliament Hill flag too big to fly at home. He keeps it folded in the closet.

There is one more coveted list Mr. Cohen would very much like to make in his lifetime, he said: He has been waiting for a chance at season tickets to the Toronto Maple Leafs hockey team since 1998.

The central flag on Parliament Hill is changed every weekday by Robert Labonté, a government worker and, for the past eight years, the country's Flag Master.

Every weekday morning, Mr. Labonté climbs 141 steps from the Peace Tower observation area to reach a closet-

sized space just below the main flagpole. After opening a hatch-style door in the ceiling, he pops his upper body through the space to lower the old flag and raise the new one.

Mr. Labonté sings Canada's national anthem, usually under his breath, on his way back down the stairs. "I'm kind of tone deaf," he said, "so it's great that I'm by myself."

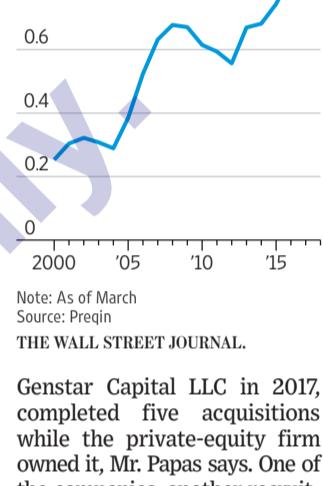
When Mr. Labonté was 14, he painted his room red and white, he said, with a giant red maple leaf splashed across the double doors of his closet. He added the words "#1 In The World Since 1867," the date of Canada's confederation.

"People love being Canadian," he said. "If you go around the world people recognize that maple leaf as Canadian. People tend to accept you more."

Mr. Labonté, 35, added his name to the list about seven years ago. That leaves Canada's Flag Master about another 20 years to wait for one of his own.

Dry Powder

Money the private-equity industry has to spend on buyouts



THE WALL STREET JOURNAL.

Genstar Capital LLC in 2017, completed five acquisitions while the private-equity firm owned it, Mr. Papas says. One of the companies, another recruiting-software provider called Sendouts, was based in St. Louis, Mo. After the deal, Vista encouraged Boston-based Bullhorn to expand its operations in St. Louis.

Sometimes a Vista hedge fund buys stock in a publicly traded company before its buyout fund acquires the whole company at a premium. In the process, the hedge fund makes a profit on its stock purchase. Because the buyout fund has a stake in the hedge fund, the process reduces the overall cost of the takeover.

Vista's 2016 deals for marketing software firm Marketo Inc., which it bought for \$1.8 billion—a 64% premium—and network-security provider Infoblox Inc., bought for \$1.6 billion—a 73% premium—both followed market-price stock purchases by its hedge fund, according to securities filings. Vista also has a credit fund that helps finance a significant number of its deals.

While investors in Vista's early funds have received significant cash returns, a lot of the gains for its largest deals are still based on paper valuations. The endgame for those remains unclear. They include insurance-software company Solera Holdings Inc., bought for \$3.7 billion in 2015; IT-systems provider Tibco Software Inc., a \$4 billion deal in 2014; and Misys, a \$2 billion acqui-

A cognitive test inspires fear and consternation among employees.

sition in 2012.

The performance of Vista's 2014 fund lags behind similar-size private-equity pools from the same year, according to data from private-equity investment and advisory firm Hamilton Lane Inc.

Vista did file for an initial public offering of Misys, the banking-software provider, in 2016, but ended up scrapping the offering because of market conditions, it said. It instead recapitalized Misys, adding debt and extracting a dividend, and merged it with another acquisition, renaming the combined company Finastra.

At a recent conference, Mr. Smith said Vista's formula works because it begins with "a very simple methodology of critical factors for success being under our control...We underline to things we know we can change, have changed and have been successful at changing."

Secret Formula Fuels Firm

Continued from Page One

ference in New York a few years ago. "They're selling different products, but 80% of what they do is pretty much the same."

Derek Jones, managing director at longtime Vista investor Grosvenor Capital Management, says "their process is like a factory. A deal comes in and it gets compartmentalized, and they apply experts on each compartment. After it goes off the assembly line, the margins are higher."

Vista, which has done more than 300 deals, tells investors it has never lost money on a buyout—notable in an industry known for big hits and misses. Its largest fund has consistently been in the top quartile of comparable funds formed the same year, measured by annualized returns after fees, according to data provider Preqin. It now manages more than \$31 billion, up from just \$7 billion five years ago.

The ultimate gauge of success for any private-equity firm is the price at which it cashes out of its investments. Vista has yet to unload some of its biggest bets, and has never done an initial public offering for a portfolio company—an avenue used frequently by other buyout firms to dispose of assets.

Still, its success has made Mr. Smith, Vista's 55-year-old founder and chief executive, the richest African-American in the U.S., ahead of Oprah Winfrey, with a net worth of \$4.4 billion, according to Forbes. He owns a \$59 million penthouse in Manhattan and a \$19.5 million mansion in Malibu, among other properties. In 2015, he wed a former Playboy playmate of the year. He is chairman of Carnegie Hall and has donated tens of millions of dollars to cultural institutions and social causes.

Mr. Smith has kept the details of his firm's methods largely secret. The Wall Street Journal discussed some of them in interviews with investors, former employees of the firm and its portfolio companies, and other people familiar with its business model.

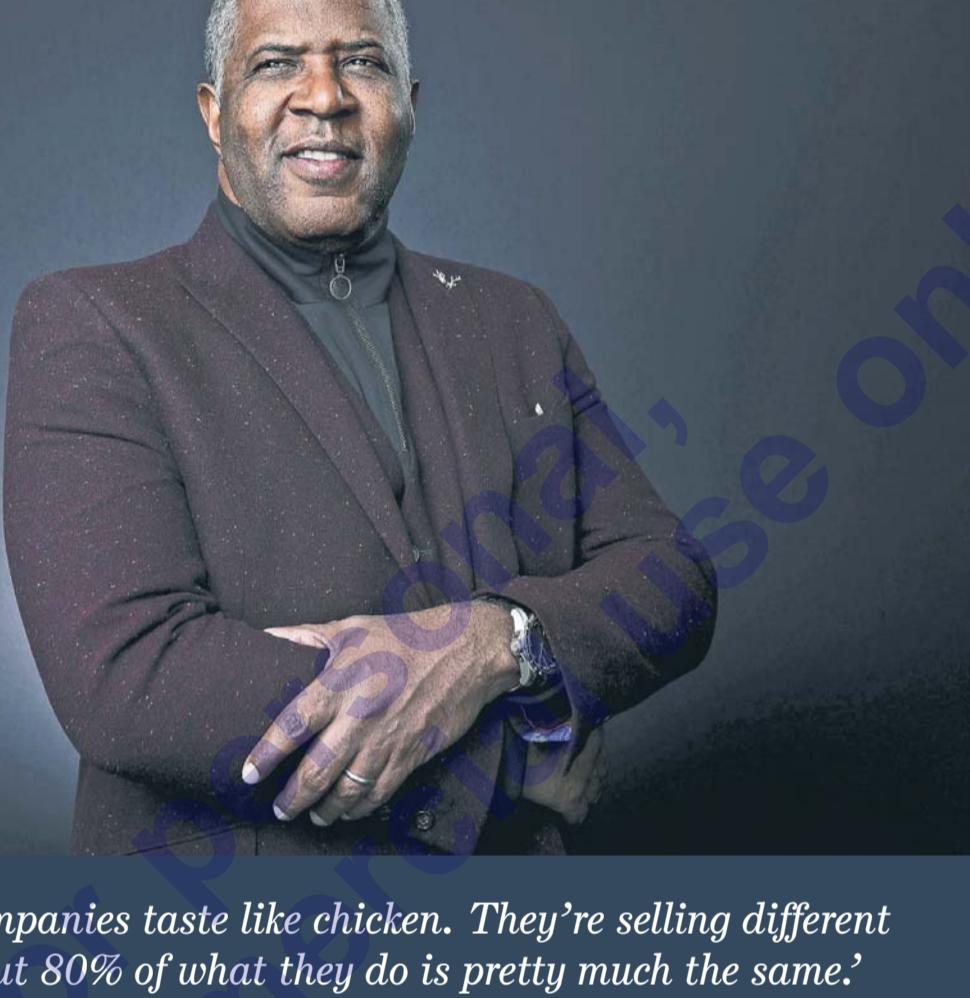
A Vista spokesman declined to make Mr. Smith or other Vista executives available for interviews, citing a policy of not commenting during fundraising periods. Vista is currently trying to raise \$12 billion for a new buyout fund.

Engineering work

Mr. Smith, the son of two high-school principals, grew up in Denver and studied chemical engineering at Cornell University. He worked as a chemical engineer at several companies, then attended Columbia Business School. In 1994, he joined Goldman Sachs Group Inc. as a mergers-and-acquisitions banker.

At Goldman, he worked with Houston auto-dealership-software maker Universal Computer Systems Inc. He eventually persuaded its founder, Robert Brockman, to buy other business-software companies and improve them using Universal's operating principles.

In 2000, after a Brockman family charitable trust agreed to commit \$1 billion in two phases, Mr. Smith started Vista with co-founder Brian Sheth, now the firm's president, and



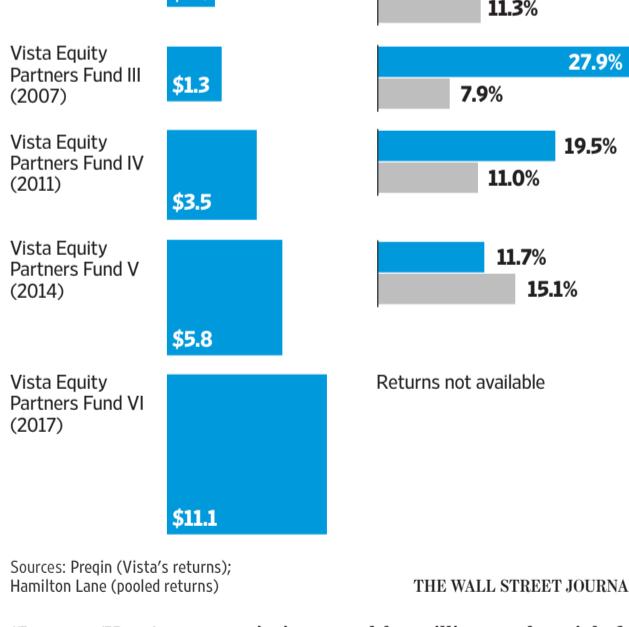
SIMON DAWSON/BLOOMBERGNEWS

'Software companies taste like chicken. They're selling different products, but 80% of what they do is pretty much the same.'

Robert Smith, founder Vista Equity Partners

Profitable Formula

Internal rate of return, after fees, on Vista Equity Partners' flagship funds



Sources: Preqin (Vista's returns); Hamilton Lane (pooled returns)

"It was: 'Here's a commission template we've built, and it has seven tabs in the spreadsheet, and there are the formulas.'

Former employees say cost cutting is critical to Vista's model. Some of the companies Vista takes over are located in markets with a high cost of living, such as Southern California or New York City. To tamp down wages and other costs, Vista will relocate part or all of the company to a less-expensive city such as Dallas. Many employees won't make the move, allowing Vista to hire cheaper replacements. Vista often keeps a company's headquarters in place and encourages it to expand in lower-cost markets.

Most of the people Vista hires score highly on the cognitive test. Often they are young employees with less-impressive credentials or experience. These HPELs, as they are known, may have gone to state universities

and be willing to do a job for \$75,000 that an Ivy League graduate in a high-cost market would demand twice as much for.

Vista takes the tests very seriously, using proctors or observing test-takers by video to make sure no one cheats. The test's purpose, says an executive at a former Vista portfolio company, is to "level the playing field" among employees. The executive says he told a manager who was upset about having to take it that all of his subordinates would be doing so as well.

Former employees say low scorers aren't fired, but they are less likely to be promoted.

Industry veterans tend to be offended by the requirement. A former sales manager at portfolio company Misys PLC, a banking-software provider now called Finastra, says the test kept him from hiring experi-

enced candidates who received low scores. Instead, he says, he hired younger workers with less experience who were able to score highly on the test.

Great equalizer

Vista touts the tests to its investors as a great equalizer, helping make its companies diverse meritocracies. It says 35% of its portfolio-company employees are women—in line with what Facebook Inc. reports and higher than numbers from Alphabet Inc.'s Google and Microsoft Corp. Women also run two of Vista's five funds, unusual in the male-dominated world of private equity.

Mr. Sheth, the firm's president and a co-founder, also is a multibillionaire and philanthropist. The workplace is an unusual mixture of formal and informal. Many employees emulate Mr. Smith's office uniform—a three-piece suit. Bullhorn's Mr. Papas describes the office vibe as relaxed and friendly. "There's a lot of hugging going on," he says. "They typically greet each other with hugs. My board meetings would start and end with hugs."

In a textbook Vista deal, operating margins at a company might be around 20% when Vista buys it, according to investors and former employees. Once its "best practices" are implemented, four to five years later, profitability is at 50%, these people say. That enables Vista to recapitalize, adding more debt, and then pay dividends to its investors, these people say.

Vista's strategy is to buy other software companies suitable for merging with its existing holdings. It often does strings of deals that enable it to boost revenue while streamlining its general and administrative functions, freeing up resources to expand research and development and sales.

Bullhorn, which Vista sold to Insight Venture Partners and

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GREATER NEW YORK

Tax Breaks Fuel Camden Upswing

In the last eight years, New Jersey has approved more than \$1.6 billion in credits

BY KATE KING

CAMDEN, N.J.—Construction crews are busy at work on the waterfront in this downtrodden city, where \$1.6 billion in corporate tax breaks and the advocacy of one of New Jersey's most formidable power brokers have fueled a development boom.

Camden, located across the Delaware River from Philadelphia, has long been ranked one

of the country's poorest and most dangerous urban areas. During the past five years, however, dozens of companies have agreed to expand or build in the former manufacturing hub in exchange for tax subsidies.

One of Camden's biggest booster is an insurance executive, George Norcross, who also serves as chairman of the board of trustees for the city's largest employer, Cooper University Health Care. He is widely considered the kingmaker in southern New Jersey politics even though he has never held elected office and only once served in an official political position in the state,

as chairman of the Camden County Democratic Committee from 1989 until late 1993.

New Jersey has authorized more than \$8 billion in corpo-

Businessman George Norcross has pressed to secure tax incentives to attract firms to Camden.

rate tax breaks since 2010, with more money flowing to Camden than any other city. During the past eight years,

the New Jersey Economic Development Authority has approved more than \$1.6 billion in tax breaks for about three dozen companies that stayed in or relocated to Camden.

Critics question the amount of Camden's incentives and the benefit received by political insiders. Darnell Hardwick, president of the Camden County NAACP, said the city's tax base has hardly grown. "The taxpayers in Camden haven't gotten any relief from all this. It's just more corporate welfare," he said. "From what I see, the people that are rising are the people who are associated or have some kind of nexus to Norcross."

Last year, New Jersey approved \$86 million in tax breaks for the new waterfront headquarters of the insurance company Conner Strong & Bucklew, where the 62-year-old Mr. Norcross is executive chairman. The headquarters is part of a \$250 million project to build an 18-story office building.

In an interview, Mr. Norcross said he has helped recruit major businesses to Camden, including Subaru Corp., energy company Holtec International and American Water, a utility. Generous tax incentives were needed to convince companies to move to

Please turn to page A8B



Disney Pays Millions To Build Campus

BY KEIKO MORRIS

The Walt Disney Co. is selling its Upper West Side Manhattan campus and developing new offices downtown for its New York operations, the company said Monday.

Disney acquired the rights to develop about 1 million square feet at 4 Hudson Square from Trinity Church Wall Street in a 99-year deal, Disney said. The transaction is valued at \$650 million. The entertainment giant also is selling its 1-million-square-foot Upper West Side campus for \$1.155 billion to Silverstein Properties Inc. The deal allows Disney to lease back the space for up to five years while its new offices are built.

"The new building will also incorporate the latest technology as well as the ability to adapt to the next generation technological advances," said Disney Chief Executive Robert

The firm bought the rights to develop about 1 million square feet at 4 Hudson Square.

Iger in a statement. "The Hudson Square district is rapidly becoming a dynamic innovative hub for media, technology and other creative businesses."

Disney plans to build modern offices and production spaces that will house operations for subsidiaries including ABC News, ABC and ESPN, the company said. Shows such as "Live With Kelly and Ryan" and "The View" will be moving to the new building. Disney Streaming Services, which is in the Chelsea Market building, also will relocate to Hudson Square. "Good Morning America" will continue to be broadcast from its Times Square studio.

Disney and Comcast Corp. are in a bidding war for the assets of 21st Century Fox Inc. Wall Street Journal-parent News Corp and 21st Century Fox share common ownership.

Disney's deal with Silverstein Properties, which has secured a \$900 million acquisition loan from Deutsche Bank AG, is expected to close Tuesday, according to people familiar with the transaction. Disney's Upper West Side campus runs along West 66th Street and West End Avenue. Silverstein Properties, which recently opened its office tower 3 World Trade Center, didn't provide detail of its plans.

"He would never miss it. He liked going," said Junior's sister, Genesis Collado Feliz. "He'd be leaving and he'd say, 'I'm going to the Explorers program!'

"We look forward to working collaboratively with all our stakeholders, as we have always done, as we assume responsibility for Disney's properties in the heart of Manhattan's Upper West Side," said Silverstein Properties Chief Executive Marty Burger.

Disney's operations won't be moving soon. The company is still in the early stages of its planning for the new building, which will rise on a full city block bordered by Hudson, Varick, Vandam and Spring streets.

There are four buildings on the site, including 304 Hudson St. and 137 Varick St., ranging from two to eight stories. Office and retail tenants currently occupy the buildings.

Teen's Death Shines Light on NYPD Program

BY ZOLAN KANNO-YOUNGS

When Lesandro "Junior" Guzman Feliz was 5 years old, he made a career decision. Entranced by the flashing lights on a speeding police car he saw, he told his mother he wanted to become a detective in his birthplace of the Bronx.

A decade later, he moved a step closer to his dream in January when his mother, Leandra Feliz, signed him up for the New York Police Department's Law Enforcement Explorers program, which shows young people what it is like to be a police officer.

"He would say, 'Mommy, I know what I have to do. I've been going to the police and asking lots of questions,'" Ms. Feliz recalled her son telling her after he started the program.

More than two weeks after her 15-year-old son's death, Ms. Feliz is still in disbelief that she will never again see him walk out of their Bronx apartment eagerly heading to an Explorers meeting.

On the night of June 20, while Junior was at a nearby bodega, police say members of the Dominican-American gang known as the Trinitarios dragged him from the store and stabbed him to death with knives and a machete.

Police say he was targeted after the gang members mistook him for someone else. The NYPD has arrested 11 men in connection with his death.

The killing, which was recorded by surveillance cameras, shocked the city and sparked a social-media campaign, #JusticeForJunior. It has also drawn attention to the little-known NYPD program. Five days after the teen's death, the average number of daily page views of the Explorers website rose to 18,500, up from an average of 11,000, according to the NYPD.

"It's been hard, but I feel like we are motivated to put on the uniform more because it makes us feel like we're honoring Junior in a way," said Kemani Scott, 15, Junior's friend and a member of the Explorers. "Ev-

erybody knows he was an Explorer now—so when they see this patch, they think of Junior."

The program, which has more than 2,000 members, is geared toward teens and young adults. Each precinct has its own group. Junior belonged to the 45th Precinct's team. Members meet once a week for

three hours. They work on community-service projects and go on outings together.

NYPD First Deputy Commissioner Benjamin Tucker has said the program is a key tool to improving diversity in the department's ranks.

Kemani, who holds the rank of sergeant in the program, said Junior made shy children

in the group more outgoing. Junior always volunteered for community-service events and enjoyed group trips to the movies or a bowling alley, he said. One time Junior played music and danced to keep the group entertained when their adviser's car broke down.

That adviser, John Grace, an auxiliary police officer, said Ju-

nior cared about fellow Explorers. He recalled taking the group to a horror film earlier this year and attempting to play a prank on them. When the movie finished, Mr. Grace rushed out of the theater and hid behind a corner. When he jumped out to scare the group, Junior punched him in the face.

Junior recently came home from an Explorers meeting and was excited to tell his family about a drill he did in which they practiced arresting bank robbers, Ms. Feliz said.

"He would never miss it. He liked going," said Junior's sister, Genesis Collado Feliz. "He'd be leaving and he'd say, 'I'm going to the Explorers program!'



Leandra Feliz met well-wishers last week at a memorial to her 15-year-old son, Lesandro "Junior" Guzman Feliz, near the scene of his slaying. Below, Junior's peers in the Explorers handed out fliers and explained the program in the Bronx.



Trump's Ex-Chauffeur Sues for Unpaid Overtime

BY MELANIE GRAYCE WEST

President Donald Trump's longtime personal driver filed suit Monday in Manhattan, saying he is owed about \$180,000 of unpaid overtime.

In an 11-page complaint filed in State Supreme Court against Trump Organization LLC and Trump Tower Commercial LLC, chauffeur Noel Cintron says he has been owed roughly 550 hours of uncom-

pensated overtime pay annually for years, though he is only able to seek compensation for overtime clocked during the past six years due to the statute of limitations.

Larry Hutcher, one of Mr. Cintron's attorneys, said the amount owed to his client in overtime totals about \$180,000 and, with penalties, damages and legal fees, the claim will top \$300,000.

In an interview, Mr. Hutcher said he and his client find it

"highly ironic" that they have to pursue a lawsuit for back wages when Mr. Trump has presented himself as the champion of the working man. "Mr. Cintron was forced to sue to recover wages that were rightly due to him," he said. Mr. Cintron is pursuing the claim now because he "wasn't aware of what his rights were," Mr. Hutcher added.

A representative for the New York-based Trump Organization

said in a statement: "Mr. Cintron was at all times paid generously and in accordance with the law. Once the facts come out we expect to be fully vindicated."

As part of his job with the Trump Organization, Mr. Cintron, who is 59 years old and a Queens resident, said he was required to begin work at 7 a.m. and end whenever Mr. Trump, his family or business associates no longer needed him. He typically worked 50 to 55 hours

a week, though he was paid for only 40 hours, the suit said.

Mr. Cintron was employed in that position for 25 years until recently when the Secret Service undertook the role. He now works in Trump security, Mr. Hutcher said.

As of December 2010, Mr. Cintron made \$75,000 a year—the result of a rare pay raise—but the increase came with the loss of his health benefits, according to the suit.

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LIFE & ARTS

SHOPPING

Supermarkets Lure In Male Shoppers

Sausage stations, 'beer dens' cater to growing ranks of men in aisles

BY ANNE MARIE CHAKER

GROCERY STORES are discovering what women have known for years: Men shop...different.

"Sometimes he'll buy things and I'll say, 'Take it to the office because I don't want it in the house,'" says Leandra Hutchinson, a 36-year-old health-care operations consultant in Ottawa Hills, Ohio, who follows a low-carb diet. She appreciates that her husband, Matt, 40, buys half the groceries since the birth of their second child, Lilly, three years ago. But the fridge can become a sticking point.

"I might pick up a loaf of French bread or angel food cake or doughnuts for the kids," says Matt Hutchinson, a lawyer. "My wife would never buy that."

As more men do the grocery shopping, supermarkets are taking note.

Lowes Foods, a chain in North and South Carolina, introduced gourmet sausage stations and "beer dens," where customers can drink while they shop or get a half-gallon jug filled with a craft beer, in 14 locations four years ago. After they were launched, "there was an immediate, noticeable increase in the number of men shopping in our stores," says Heather George, senior vice president of brand strategy. The male-focused amenities are now featured in 61 stores.

Hy-Vee Inc., a Midwest chain of more than 240 supermarkets, revamped its store recipe magazines this year to include sports stars on covers and weightlifting spreads; past issues featured covers such as We Love Veggies and actress Valerie Bertinelli.

Mega Meat sales, where customers earn gas discounts, are particularly popular, Hy-Vee says. "We have found that is a very strong incentive for men," says Donna Tweeten, Hy-Vee executive vice president and chief marketing officer. The July flier promoting the Mega Meat event suggests beer pairings.

At Alfalfa's Market, a Boulder,



Colo.-based grocery-store retailer, the percentage of men shopping has risen to 40% from 30% while the share of female customers has declined, says co-owner Tripp Wall. He is currently expanding the company to 10 stores from its current two, and working with architects to incorporate more of a male point of view into designs.

Based on his observations of customers, Mr. Wall says, men like when they can see the exit, even when they are deep in the middle of the store. He is minimizing visual clutter, creating more straight corridors and lowering shelves by 2.5 feet so shoppers can see around them more clearly.

"It helps this new male shopper navigate and feel more comfortable," Mr. Wall says.

Signs point to man-centric sections—men's heart health or men's facial care—in the beauty aisles, which carry products like beard salves and protein supplements. The meat department offers butchery classes. Stores have even had requests for more-masculine floral arrangements. "Our floral designer has been doing more with willow branches, bark and wood," Mr. Wall says.

New research has found that men who participate in grocery shopping may have better relationships. A University of Utah-based

study earlier this year analyzed data on household work—including cooking, cleaning and laundry—of more than 1,700 couples between 1992 and 2006, and found that most men who participated in grocery shopping reported higher levels of sexual satisfaction than men in couples where women did most of the work.

"Sharing shopping is important to men's assessment of relationship quality, perhaps more so than any other household task," says Daniel Carlson, professor of family and consumer studies and the lead researcher on the study. Many men actually enjoy the chore, Dr. Carlson says. "It gets you out of the house; it's a little reprieve. That makes it very different from other tasks that can be gross or dirty, like cleaning the toilet."

Fifty-eight percent of men who do grocery shopping said they believe they are doing the vast majority of it for their households, according to a 2017 study by Hartman Group Inc., a Bellevue, Wash., food consultancy. "Men are making more decisions and feeling more empowered of the shopping that they are doing," says Laurie Demeritt, the firm's chief executive.

Men are less price-sensitive and less health-conscious while shopping than women, the Hartman study found. They often conduct "search-and-retrieve missions," getting in and out of the store as quickly as possible. They tend to load up on treats the household's main shopper avoids and often buy too much or too little, or forget items.

Supermarkets have a clear business rationale for speaking directly to men. "The dad has been the most overlooked population in grocery-store marketing and brand communication," says Elaine Klein Schmidt, an executive vice president at WD Partners, a Columbus, Ohio, retail design and architecture firm. By ignoring half the population, "stores are leaving money on the table," she says.

Experts on families caution that stores pitching to one gender more than the other might not feel relevant to younger shoppers, male or female, who are likely to be new to cooking. "Millennial women have not been trained with the same assumptions about cooking and shopping," says Stephanie Coontz, director of research for the Council on Contemporary Families based at the University of Texas at Austin. "If you've got humorous ways to speak to men and women, you're opening up yourself to men but also many younger women."

At Lucky's Market, a Boulder, Colo.-based grocery-store chain, co-owner Bo Sharon says stores use traces of Dad humor that reso-

nate with women and men. A sign over the kombucha section reads, "We thought it was weird at first, too."

Some supermarket chains are creating new products geared to their growing number of male shoppers. Kroger Co. has introduced a new men's facial care line called Bromley's. A four-pack of Smooth Operator razor cartridges costs \$8 and can be found in many of the 2,800 stores' expanding men's-care sections.

Jonathan Schoenberg, a 50-year-old executive creative director for TDA, a Boulder, Colo., ad agency, says he grocery-shops at Lucky's at least three times a week—bigger trips on weekends and smaller ones after work.

Mr. Schoenberg says he likes discovering new products and stocking up on foods he really likes. "I buy more meat than I should and too little produce. I'll forget yogurt and granola," he says. "I'll definitely remember sausage and bacon."

Mr. Schoenberg's wife, Megan, a 49-year-old magazine photographer, agrees with his assessment. "He is the worst grocery shopper I've ever met. He'll come home with one salami, one apple and beef jerky," she says. "I say, 'That's not really going to work for our family of four.'"

"I enjoy it way too much," Mr. Schoenberg says. "Most supermarkets are pastel colors and sell tons of flowers, and the language is merry-merry, happy-happy," he says. Lucky's "feels like a hardware store with groceries."

Grocery Stores Pitch Havens for Dads



Grocery stores are creating new design concepts, products and programs to appeal to men.

■ Lower shelving heights and straight corridors give guys a clearer view to checkout.

■ New men's sections near makeup aisles include beard salves and protein supplements.

■ Forget the pink carnations: More-masculine floral designs include woods, barks and branches.

■ Fewer ads and promotional messages in food aisles, which men tend to ignore anyway.

■ Programs such as butchery classes, beer refill stations and gas-discount programs aim to catch men's attention.

FROM LEFT: DANIEL DOWNEY; HY-VEE, INC.

YOUR HEALTH | By Sumathi Reddy

EFFORT FOR LYME DISEASE VACCINE DRAWS FIRE

EFFECTS TO BRING a vaccine for Lyme disease to the market have run aground amid heated debate over the years.

Now, a European company is in the early stages of creating a vaccine for the increasingly common tick-borne disease. Lyme disease patient-advocacy groups—who disagree with the protocols used by most doctors for the diagnosis and treatment of Lyme disease—are already raising concerns.

The Centers for Disease Control and Prevention estimate that there are more than 300,000 new cases of Lyme a year, about triple the rate from two decades ago. Most cases are in the Northeast, mid-Atlantic region and Upper Midwest states, but the disease is spreading across the country.

When blacklegged or deer ticks infected with the *Borrelia burgdorferi* bacterium bite humans, they can transmit Lyme disease, which typically causes flu-like symptoms such as a fever, headache, muscle and joint aches, and sometimes a ring-like skin rash. If untreated, the infection can spread and cause more serious health problems, including arthritis, heart palpitations and brain inflammation.

Ticks that transmit Lyme disease can also transmit other pathogens causing less-common diseases such as anaplasmosis and babesiosis.

In March, Valneva SE, a company based in France, announced initial



Phase 1 clinical trial results after testing its proposed vaccine in 180 healthy adults who took the vaccine with no serious side effects. The study also showed that the vaccine stimulated an immune response, says David Lawrence, chief financial officer of the company.

Later this year it intends to start a Phase 2 clinical trial to determine the dosing of the vaccine. The U.S. Food and Drug Administration granted the vaccine candidate a fast-track status last year. Still, Mr. Lawrence estimates that it will take at least five years for a product to

be commercially available.

The vaccine is similar to Lymerix, the vaccine that was manufactured by SmithKline Beecham, now GlaxoSmithKline, from 1998 until it was withdrawn from the market in 2002. The vaccine had a 78% efficacy rate after three doses were taken. The company voluntarily withdrew it after class-action lawsuits that alleged it caused side effects such as arthritis. The lawsuits were settled in 2003 with the company agreeing to pay attorney fees and costs associated with the cases.

"Lymerix was approved by FDA in

December 1998 and was voluntarily discontinued in February 2002 due to low demand," says a spokeswoman for GSK. "Currently there are no plans to bring it back."

The data evaluated by the FDA supported the safety and effectiveness of Lymerix, the agency says.

Mr. Lawrence of Valneva says there are two main differences with the French company's proposed vaccine. One, it protects against six strains

of Lyme disease, whereas the old vaccine protected against only one, he says. And, to assuage concerns about side effects, the company cut a gene sequence in the vaccine that had been identified in some scientific papers as possibly related to arthritis—though no evidence emerged of arthritis related to the vaccine.

The company intends to test the vaccine in children as well as adults.

Lyme disease patient-advocacy groups—a powerful lobby that experts say has stopped previous vaccine efforts—are raising doubts.

"The last Lyme vaccine that came

out had significant safety concerns," says Lorraine Johnson, CEO of LymeDisease.org, a nonprofit patient advocacy group. "The feeling in the community is that whoever is going to be putting together [a vaccine] ought to be dialoguing with the community and ought to be transparent about the process." Ticks can cause co-infections and other diseases and the vaccine may offer a false sense of complacency, she says.

"We don't feel that there has been enough research done to answer the questions as to what occurred with the prior vaccine," says Patricia Smith, president of the Lyme Disease Association Inc., a New Jersey-based national nonprofit group, which raises money for Lyme research, education and patient support. "The vaccine that is now in development is something with the same base. There were a lot of patients that thought they were harmed from that vaccine. It's very problematic."

Many doctors and medical experts say there was never any evidence that the old vaccine caused serious side effects such as arthritis or neurological problems. They say a vaccine would greatly limit the spread of Lyme disease.

"There's a lot of general tick prevention advice, such as using DEET and other insect and tick repellent, doing tick checks, and wearing long trousers and long sleeves. But despite that we still have abundant

Please turn to page A10

LIFE & ARTS

ART REVIEW

More Than Apocalyptic Visions

BY MARY TOMPKINS LEWIS

New York

GUSTAV KLIMT (1862-1918)—the first president of the Vienna Secessionists, a group of artists and architects who shunned the conservatism of the prevailing national school—became known for his outrageously opulent paintings of beautiful women. His work, like that of his cocksure young protégé Egon Schiele (1890-1918)—famed for his moody, expressive portraits and raw, erotic nudes—seemed to echo the decadence of a world cursed by an inescapably dark destiny. Their deaths in the final days of World War I, and the critical neglect their painting long suffered, only compounded readings of their art as apocalyptic reflections of their age. Two noteworthy shows in New York argue for a broader understanding of their work while also showcasing its singular appeal for vanguard collectors.

The Neue Galerie's "Gustav Klimt and Egon Schiele: 1918 Centenary," organized by the museum's director, Renée Price, and its curatorial director, Janis Staggs, opens with a room of Schiele's paintings, including early efforts that point to paths not taken. His "Head of a Bearded Man" (1907), painted when he was only 17, is executed with thick, tangible brushstrokes that give the subject's face enormous physical presence on the canvas and place Schiele in the orbit of late Impressionism. The artist's introduction to the more established Klimt would dramatically reshape his art. Schiele's exquisite "Danaë" (1909), a fragile, thinly painted nude who floats over a flat

ground adorned with roses and rivulets of metallic paint, echoes the sumptuous surface ornament and linear grace of Klimt's figural works. Likewise, Schiele's "Man and Woman I (Lovers I)" (1914) puts a deliberately dark spin on his mentor's compositions of entwined, amorous figures. Only in such canvases as Schiele's "Portrait of the Painter Karl Zakovsek" (1910), a skeletal image of a fellow artist in an exaggerated melancholic pose, can we glimpse the intensity and utter originality of the artist we know.

The museum's most celebrated painting, Klimt's "Adele Bloch-Bauer I" (1907), presides over his monumental canvases that fill the show's second room to capacity. A product of Klimt's extravagant "golden style," the painting immerses his sitter in a profusion of gilded swirls, spirals, leaves and painted tesserae, an abstract, impenetrable patterning from which only the reality of her bejeweled head and hands emerge. While for some the richly embellished canvas captured the profligacy of its era, the unresolved tension between its flattened, decorative surface and the sitter's naturalistic forms became its real subject and the essence here of Klimt's modernity, the nature of which would evolve over time. In the later "Portrait of Adele Bloch-Bauer II" (1912), where the subject is framed by decorative panels of Fauvist color and frozen in place by the frontal plane of her dress, Klimt aligns his vision with the painting of Henri Matisse.

The exhibition's final gallery, hung floor-to-ceiling with both artists' works on paper, offers spectac-



Gustav Klimt's 'The Black Feathered Hat' (1910)

are so faintly rendered as to be almost imperceptible, the artist's ethereal contour lines would be adopted by Schiele in his own work, whose take on such subjects would be both more indecorous and more salable.

Thayer owned 32 works on paper by Schiele, and almost all are on view. On one knockout wall, four drawings of provocative female nudes frame his gaunt "Self-Portrait" of 1911, a viscerally theatrical production despite its delicate watercolor technique. A later room, which features the kind of erotic figures he churned out for a ready market, is countered by beautiful late drawings of mothers and children, suggesting a change of course in the last months of his life that significantly extends our view of the artist.

Thayer also collected Picasso's work. The beautiful figure studies, however, that conclude the exhibition chart, above all, the Spanish artist's fascination with archaic and lyrical classical modes. That the collector who so prized Klimt and Schiele also found them provocative is our good fortune.

Gustav Klimt and Egon Schiele: 1918 Centenary

Neue Galerie New York, through Sept. 3

Obsession: Nudes by Klimt, Schiele, and Picasso From the Scofield Thayer Collection

The Met Breuer, through Oct. 7

Ms. Lewis teaches art history at Trinity College, Hartford, Conn.

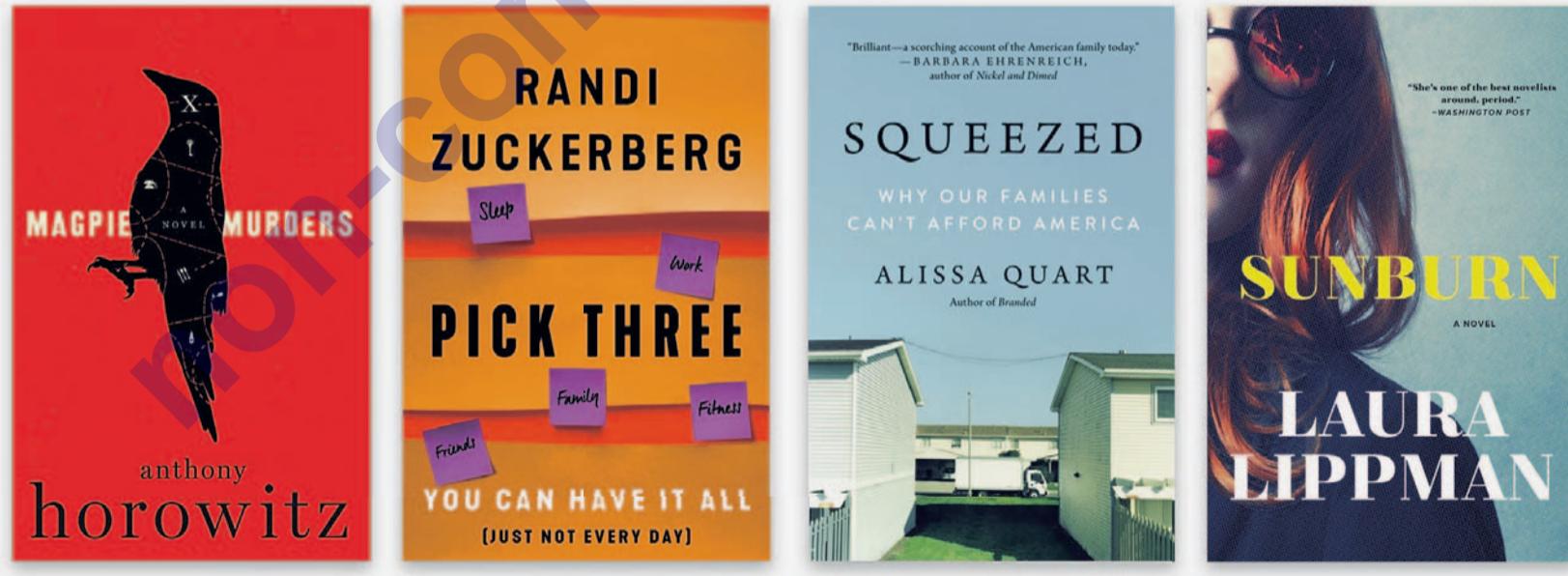
ular proof of how their gifted draftsmanship underpinned the pictorial powers unleashed in their painting. Klimt's evolution from an academic artist to a leading voice of Austrian modernism is tracked in such telling works as his remarkably naturalistic "Portrait of a Bearded Man" (1879); his moving chalk drawing of a "Seated Old Woman in Profile" (1904), which bears echoes of Van Gogh; and such delicate sketches of erotic nudes as his "Friends" (1916-17), which mirrors the overt sensuality of Klimt's mythic fantasies.

Schiele's works here, however, are absolutely stunning. The stark proximity and power of his portraits is compelling, even when, as in his likeness of the composer Arnold Schoenberg (1917), they are only loosely sketched out. The unflinchingly sexuality of his explicit, willfully

uncouth nudes, and Schiele's stunning self-portraits—in which he is turns emaciated, angry, contorted, naked—lay bare not only his graphic skills but the performative aspect of his art that still speaks to us today.

* * *

The Met Breuer's "Obsession: Nudes by Klimt, Schiele, and Picasso From the Scofield Thayer Collection," a smaller exhibition organized by the curator Sabine Rewald of its Department of Modern and Contemporary Art, focuses on Scofield Thayer (1889-1982), whose large collection was given to the Met in 1984. A publisher of the avant-garde journal The Dial, a poet and aesthete, Thayer had a trove of artworks that featured numerous images of a frankly sexual nature. Though some of his elegant Klimt drawings here



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SPORTS

WORLD CUP

Belgium Soccer: From Lousy to Super

After an embarrassing flameout in Euro 2000, fundamental changes turned around the direction of the country's program

BY ANDREW BEATON

St. Petersburg, Russia
WERNER HELSEN, a professor at KU Leuven in Belgium, met 18 years ago with Michel Sablon, the national soccer team's technical director, to tackle the big question looming over Belgium's faltering soccer program.

"What do we need to change?" Sablon asked.

The answer was almost everything. The country's soccer program was lousy. The future didn't look any brighter.

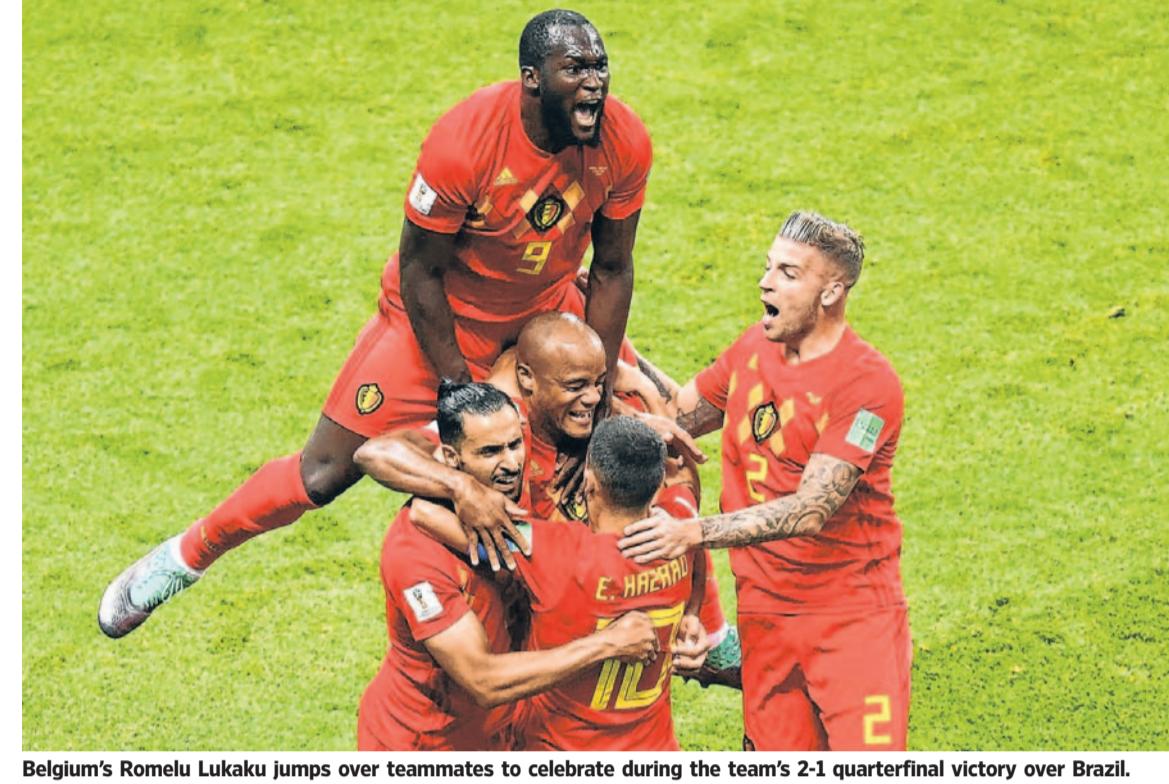
Nearly two decades later, Belgium has arguably the most talented roster in the entire world, with players who dominate the English Premier League and have romped through this World Cup into Tuesday's semifinal clash against France.

And the people who understand this country's soccer success say it isn't a fluke or a lucky cluster of exceptional players. They point to fundamental changes made by a group of academics, a technical director and football association that completely overhauled and irrevocably changed the foundations of Belgian soccer.

The studies were as strange as they were game-changing. In one, they watched tens of thousands of hours of soccer footage—from youth games—to better understand the country's problems. Another was influenced by the youth training regimens of expert German violinists. The results from the studies altered everything from the schoolyard games Belgian soccer players compete in to the national team's tactics. You only have to look to the quality of players now to see the impact.

"The Red Devils are so good now because most of these players went through this youth system," says Helsen, who is a sport scientist and training expert at UEFA.

Helsen and Sablon collaborated only because of another meeting that was born out of desperation. Two days after the 2000 European Championship, Sablon went to the house of Michel D'Hooge, the president of the Royal Belgian Football Association at the time. It



Belgium's Romelu Lukaku jumps over teammates to celebrate during the team's 2-1 quarterfinal victory over Brazil.

was early in the morning as they shared breakfast and discussed just how dire the situation was.

Belgium had been thwacked by Italy and Turkey in the group stage of that 2000 tournament in a resounding message about the country's prowess. Even worse, it was particularly distressing because Belgium had co-hosted the 2000 Euro. Belgian fans had a front-row seat to watching a team that Sablon simply calls "rubbish."

Eventually, D'Hooge told Sablon: "You have to go now. You have to change everything."

"To do that," Sablon told himself, "we need a strategy."

Sablon knew just how much change would be needed, but he also knew just how difficult it would be to convince pretty much everybody around the country involved with the sport to completely upend everything they had built and start over. He concluded that if he simply described changes that were necessary, everything would stay the same.

But he figured if his proposed fixes came with the backing of ac-

tual scientific research, people might buy in. So he worked with a number of professors on a host of analyses and studies. Many of the most profound conclusions came from Helsen.

Helsen wasn't just any guy with a Ph.D. who studied soccer. Sablon grew to trust him not only because Helsen had done work for FIFA and UEFA while publishing eye-opening research, but also because Helsen didn't just look at things from an academic perspective. A former player and manager in Belgium's lower division, Helsen understood soccer both practically and academically.

Among other research areas, Helsen looked at the youth system. He had been intrigued by Anders Ericsson, a professor at Florida State who had studied violinists at the Berlin Music Academy and concluded that the best in their craft spend exorbitant hours practicing intensively over the course of their lifetimes. And while Belgian soccer players wanted to be the best, they didn't train or practice nearly enough or in the right

ways from a young age.

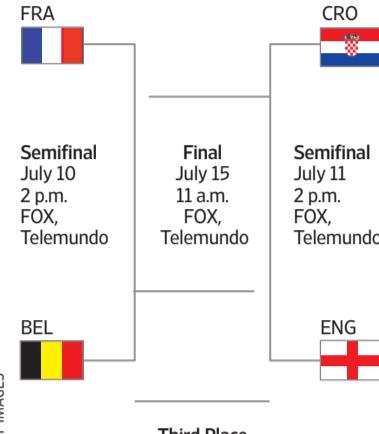
"He did it with musicians," said Helsen. "I said, 'I will do it in football.'"

So he crafted proposals with how much and when the various schools and training academies should practice. Those places adopted those changes. Those places involved went on to produce many of Belgium's stars, from Romelu Lukaku to Kevin De Bruyne.

The work, at points, was painstakingly laborious. On one project, Helsen and his team filmed more than 1,000 youth soccer matches. They watched the games, poring over every minute detail in search of any clue about what else they could do. Slowly, video after video, it became clear that in many ways, Belgium's young players were tactically unsophisticated compared with their European peers.

They devised a peculiar solution: Belgium needed to completely reformat youth soccer games. Doing this meant abandoning soccer orthodoxy. They believed playing five-a-side, then seven-a-side, then nine-a-side, be-

World Cup Bracket



Note: all times are Eastern
Source: FIFA
THE WALL STREET JOURNAL.

fore the formal 11-on-11 games, wasn't developing their players properly. Instead, they decided to limit the structure to only four-a-side and then eight-a-side. That way, players could learn the four-person diamond formation tactics, then double that with eight before moving on to the real thing.

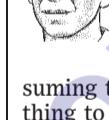
To prepare for the new type of Belgian player that would eventually be coming from changes like this, Sablon altered the tactics with the national team, too. He shifted the country to play a 4-3-3 formation at the time, which went against the small bit of soccer identity that Belgium had. Historically, Belgium had been known as a defensive-minded country that could win on the counterattack.

This would completely reverse that. Belgium, Sablon believed, could thrive as a team that mercilessly attacks its opponents when the players brought up in the revamped youth system matured and rose to the national level. Which, he knew, meant that the changes might be felt only a decade or two down the line.

Belgium has shifted away from that 4-3-3 in the time since but the attacking mindset has endured: No team has scored more goals at the 2018 World Cup than Belgium.

TENNIS | By Jason Gay

My Manic Monday at Wimbledon



Wimbledon, England

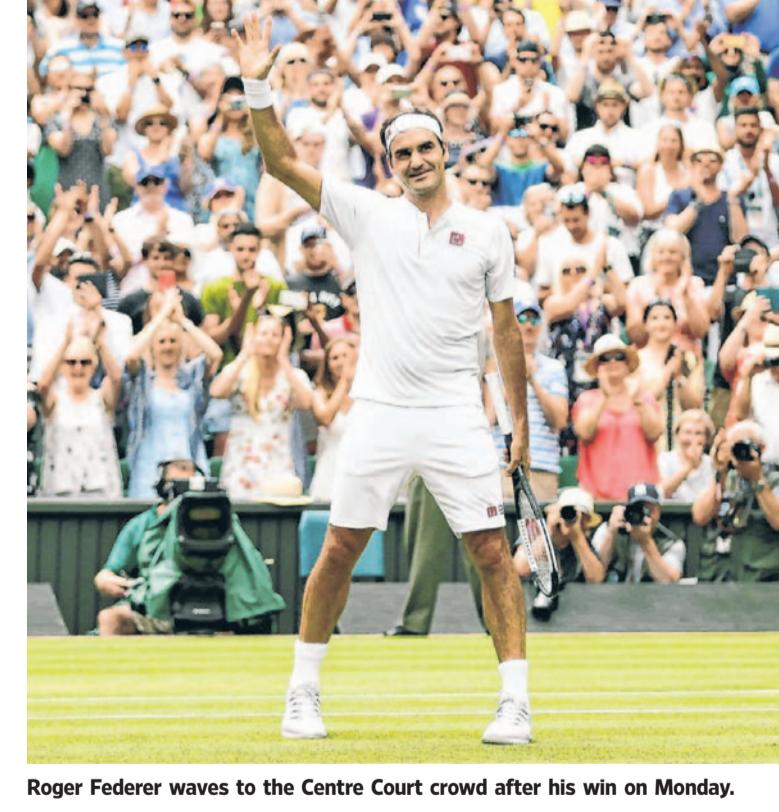
I am here in England for the lawn tennis. Apparently, there is another sporting event simultaneously consuming this fine country—something to do with soccer, or "football," in Russia someplace; I'll check and report back to you. I remain excited for the lawn tennis—everyone knows that Wimbledon is one of the great cathedrals of sport and style. You know, like a Jets game, without as many tailgate fights.

A second Monday at the All England Lawn Tennis Club is regarded as tennis heaven, a true bucket list for tennis freaks.

Sunday is an off day, so everyone plays, men and women, top seeds and interlopers, in a manic buffet that stretches from morning to night. The Centre Court lineup on this sunny Monday was superhero surreal: a match featuring Roger Federer, followed by a match featuring Serena Williams, followed by a nightcap with Rafael Nadal. That is a combined 60—sixty!—singles Grand slams among three players on one court on a single afternoon. And there was oodles of action elsewhere.

If that is not tennis heaven, I'm Prince William. Spoiler alert: I'm not Prince William.

This is my first time here, so I'm doing all the first-timer newbie things. Yes, I ate the strawberries and cream, which tasted exactly like strawberries and cream: delicious. I looked in the swanky gift shop and debated buying presents for my kids, or sending the kids to college. I drank a Pimm's cup, the traditional concoction featuring the liqueur and lemonade and other fruity things. I also started on a Pimm's mule, but I need to finish this column without taking off my shirt and running around the grounds, screaming about the Knicks. I'll get back to you on the Pimm's



Roger Federer waves to the Centre Court crowd after his win on Monday.

mule.

It's a lot less stuffy around here than I expected. That's not to say there aren't people in suits and ties, or a royal box, or a handful of places you and I probably can't go without getting marched out by the ear. It is to say that it's OK to be casual at Wimbledon. I shared a train to the tournament with a man wearing a Pac-Man T-shirt. I stared for a long while at a golden figure I assumed was some kind of tennis statue—until I realized it was an actual human being, dressed in gold and bathed in gold paint, pretending to be the men's singles trophy.

(And yes, that was before I had a single Pimm's cup.)

I started my day with Federer,

which is kind of like starting the Louvre with Mona Lisa, but hey: How many times do we have left to see him, the eight-time champion, now 36, prowling about his favorite court? The Fed straight-setted Adrian Mannarino of France, winning the first one a crisp, bagely 6-0, and has not lost a set here since 2016.

But my favorite Federer moment occurred in the post-match news conference, when he was asked if he worried about the impending Sunday afternoon collision of the men's singles final and the World Cup final—especially if, you know, Federer made the final and, you know, a certain soccer-mad, tennis event-having country made its way to the Cup final in

Moscow. Would a Wimbledon finalist get distracted by soccer nuts watching on phones?

Federer smiled. "I'm more concerned that the World Cup final will have issues because the Wimbledon final is going on," he said. "[The soccer players] will hear every point—'Wow, Love-15, 15-30.' The players are going to look up in the crowd and not understand what's going on at Wimbledon."

See: Federer's a lot funnier than people give him credit for!

Meanwhile, the geezer No. 1 seed is now in his new Uniqlo duds, having just left Nike for the Japanese clothing giant. This appears to be a soft opening, however, as Federer's clothes are muted, and absent of any noticeable bespoke touches; the man wore a plain maroon T-shirt to the news conference, like he was speaking at a Facebook lunch meeting.

Elsewhere, Serena rolled, Rafa rolled, straight sets for both. I was especially excited to see Williams's form—this is her first Wimbledon back from the birth of her daughter, Olympia. She's seeded No. 25 here, which is a laugh: She's playing like a favorite again, and has a cleaner road now that the entire Top 10 of the women's bracket has crashed out (yikes). Nadal was Nadal. I'm not going to get into the possibility of the Spanish great winding up in the men's final with you-know-who, because I wrote something like that before the U.S. Open, and it didn't happen, and you all complained I jinxed it.

As evening arrived, there was more starry tennis, including matches with Juan Martin del Potro and Novak Djokovic, on the comeback road himself after a rocky patch. Tall Georgia Bulldog John Isner is into the quarterfinals for the first time in his Wimbledon career.

And me? I'm onto that Pimm's mule, also the first of my Wimbledon career.

OPINION

Dick Durbin's Supreme Sacrifice

**MAIN STREET**
By William McGurn

In Tennyson's hands the light brigade's disastrous frontal assault on Russian troops in the Crimean War produced some stirring verse. But suicidal charges are less advised for political parties. So it's startling to hear a high-ranking member of the Democratic leadership call on the most vulnerable members of his own party to march into their own Valley of Death for the sake of rejecting Donald Trump's pick to replace Anthony Kennedy on the Supreme Court.

Mr. Durbin pitched his charge on Sunday's "Meet the Press." The Illinois Democrat acknowledged that the resistance he is proposing could mean a smaller Democratic minority in the Senate.

Host Chuck Todd put it to Mr. Durbin this way: "Staying united to stop the Supreme Court pick could cost you red-state senators. Not fighting it as hard might allow the red-state senators to get re-elected and get Democrats in control of the Senate. That's your dilemma."

Sen. Durbin replied as follows: "It is a dilemma in one respect but not in another. I will tell you, the men and women that I work with on the Democratic side really take this seriously. They understand it's an historic decision.

OPINION

REVIEW & OUTLOOK

Kavanaugh for the Court

President Trump kept everyone guessing to the end about his Supreme Court selection Monday, but in nominating Brett Kavanaugh he also kept his promise to select a Justice "who will faithfully interpret the Constitution as written." Judge Kavanaugh has an exemplary record that suggests he will help to restore the Supreme Court to its proper, more modest role in American politics and society.

Mr. Trump stressed the 53-year-old Judge Kavanaugh's legal credentials Monday evening, and well he should. In 12 years on the D.C. Circuit Court of Appeals, he has written more than 300 opinions that span nearly every significant constitutional issue including the separation of powers and federalism. The Supreme Court has adopted the logic of 11 of his opinions in whole or part. He has the experience and intellect to be a leader on the Court, not merely a predictable vote on this or that issue.

In particular, Judge Kavanaugh is among a younger generation of judges who base their rulings on the text of the Constitution and Congressional statute. This method comes through clearly in many opinions, including a case (*Heller v. D.C.*) in which he rejected a balancing test for gun laws and said the Second Amendment requires an originalist historical inquiry.

Judge Kavanaugh has also been a leader on the appellate courts in challenging the *Chevron* doctrine of judicial deference to regulators. In *U.S. Telecom Assn. v. FCC* (2017) he concluded that the Obama Administration's net neutrality rules flouted telecom law. He's also held that regulators must consider the costs of their decisions (*White Stallion Energy v. EPA*).

His sterling dissents in *Free Enterprise Fund v. PCAOB* (2008) and *PHH Corp. v. CFPB* (2018) held that limits on the President's ability to remove executive officers except "for cause" are unconstitutional. The Supreme Court adopted his dissent in *Free Enterprise Fund*.

Judge Kavanaugh has also demonstrated judicial modesty on foreign policy by upholding the executive's collection of metadata and use of military commissions to prosecute enemy combatants. Democrats should note that Judge Kavanaugh has consistently demonstrated deference to the President's core powers regardless of the White House occupant.

Judge Kavanaugh's First Amendment juris-

prudence also reflects a deep respect for the free exercise of religion and speech. In *Priests for Life v. HHS*, he concluded the Obama Administration's rule requiring religious organizations to file forms facilitating contraception by third parties substantially burdened their exercise of religion since they had to act contrary to their sincere beliefs.

Given that this is the polarized America of 2018, Judge Kavanaugh's confirmation will inevitably be a political brawl. Democrats can't defeat his nomination alone, so they will deploy every tactic to frighten two or more Republicans to oppose him.

This will include demanding millions of documents from Mr. Kavanaugh's tenure on the staff of special counsel Ken Starr in the 1990s. But Judiciary Chairman Chuck Grassley should resist this gambit as irrelevant to Judge Kavanaugh's duties on the Court. We trust Republicans understand that if they don't hold together to confirm Judge Kavanaugh, they will deserve to lose their majority in November. If they do stay united, they may persuade a couple of Democrats to vote to confirm him as well.

Democrats will also claim that a new conservative 5-4 majority will mean the rollback of American rights from abortion to voting. Don't believe it.

The change we expect would be a Court that returned to the role it played before the 1960s when the Justices became an engine of progressive policy. The American left is distraught because it fears losing the Court as its preferred legislature. A conservative Court won't overturn liberal precedents willy-nilly. But we hope it will be inclined to let most political questions be settled where they should be in a democracy—by the political branches.

This still preserves for the Court a large role in protecting fundamental rights and the structure of the separation of powers that is a bulwark against tyranny. The Court has become far too embroiled in politics, which has undermined public faith in the law and Constitution.

We firmly believe that liberals have much less to fear from a conservative majority than they imagine. A genuinely conservative Court might even help progressives by liberating them to focus once again on the core task of self-government—persuading their fellow Americans through elections, not judicial fiat.

The Taxi Empire Strikes Back

If you can't beat them, hamstring them with regulation. That seems to be the motto of New York City's Taxi and Limousine Commission, which is proposing a \$17.22 per hour minimum wage for ride-hailing firms like Uber and Lyft.

Mayor Bill de Blasio three years ago tried to limit the growth of ride-hailing companies, also referred to as for-hire vehicles. But his plans were defeated by a public uproar, and the apps have since become even more popular. Twice as many people called a ride from a smartphone than hailed a cab in February 2018, and for-hire vehicles outnumber yellow cabs nearly six to one.

Enter the commission, which in late June issued a report targeting for-hire vehicles. Drivers are typically paid per trip based on distance and duration, and they can earn more when demand is higher. Uber increases fares when more people request rides—i.e., surge pricing—to encourage more drivers to hit the road.

But the commission complains that a glut of drivers is depressing driver earnings and has

proposed a minimum-wage equation that would require apps to compensate drivers more per trip when more drivers are idle. In other words, they'd have to pay drivers more if they drive fewer passengers. This gimmick would likely make Uber and its competitors increase fares, as well as restrict the number of drivers.

Many for-hire vehicle drivers are immigrants and count on the gigs for stable work or extra cash, and the minimum wage could hurt more drivers than it would help. The commission purports to care about drivers, but why does it exempt taxis from its proposal? The reason is that it wants to protect the taxi industry from competition even as millions of consumers benefit from more convenience and choice.

While the taxi commission can impose the wage mandate without the City Council's approval, it's unlikely to do so without Mayor de Blasio's blessing. If he's learned anything from the last Uber bruising, he might avoid hamstringing the one well-functioning mode of transit in New York City.

Moment of Truth for Brexit

Britain's government plunged into another melodrama Monday as Brexit Secretary David Davis and Foreign Secretary Boris Johnson resigned over Theresa May's proposal for future trading relations with the European Union. This sets up an overdue moment of truth for the Tory Brexiteers.

Messrs. Davis and Johnson object to the Brexit plan Mrs. May imposed on her cabinet on Friday. That roadmap—to be followed by a formal white paper soon, if her administration lasts that long—includes an integrated market for goods between Britain and the EU. Britain would adopt EU rules and legal jurisdiction over product-safety standards and agriculture, but it would theoretically be able to set its own tariff rates and negotiate trade deals with the rest of the world. Britain also would try to negotiate a separate deal on services.

Messrs. Davis and Johnson are right that this isn't much of a Brexit. It's not clear how quickly Britain would gain control over its own tariff rates in practice. Most modern trade deals focus on cutting regulatory barriers more than on tariff rates, yet Britain wouldn't be able to strike such a deal with anyone else if it is committed to imposing EU regulations. Brussels may not accept this proposal anyway, since EU leaders have resisted British attempts to "cherry-pick" areas of free trade.

If this is what Mrs. May wants, fervent Brexit advocates are right to resign. Yet for all its flaws, the May plan is born of the political reality that British voters remain ambivalent about Brexit because no one has offered a convincing vision of how an independent Britain can work outside the EU.

Brits have been shaken by announcements

The Tories have to decide if they'll accept May's 'soft' EU exit.

from Airbus, Jaguar Land Rover, Philips and other companies that they'll scale back investments in Britain absent an agreement replicating the current trading relationship with the EU. It's also clear that Britain will struggle to afford the social spending voters say they want—such as the extra £20 billion a year Mrs. May has promised for the National

Health Service—if economic growth slows from lower post-Brexit investment.

Some pro-Brexit politicians realize the only option is for Britain to follow the path of Singapore or Hong Kong, embracing major domestic economic reform, smaller government and tax cuts to boost competitiveness. But no one has told voters this must be part of the deal. That's why there has been constant pressure on Mrs. May from many Tory MPs to soften Brexit to preserve EU rules and protect the party from the political challenge of reform at home.

Mrs. May has tried to conciliate among the factions, and plenty of Tories have been happy to let her delay big decisions. The lesson is that a party can't govern if it doesn't believe in its own policies. Britain needs either a pro-Remain government committed to negotiating soft exit terms, or a staunchly pro-Brexit government committed to free trade and domestic reform to make it work.

Monday's resignations open a make-or-break period for Brexit and the politicians who support it. They might still think a hard exit with no trade deal will provide the reform impetus Britain needs, or that it's worth the economic costs in any case. If so, they should move to oust Mrs. May and see who else in their party or the country is willing to follow. If not, they'll have accepted the Prime Minister's terms—assuming, of course, that Brussels agrees.

Trump's nominee will be an intellectual leader on the bench.

LETTERS TO THE EDITOR

Correcting the Record on Judicial Activism

Daniel Henninger's otherwise excellent Thursday column came up short this week ("Trump Blows Away a Penumbra," July 5). His hope that President Trump's new Supreme Court pick will end "judicial overreach" is understandable, but the far larger problem, as always, is legislative and executive overreach, for which the court is the constitutional remedy.

To be sure, the Warren and Burger Courts often did overreach. But since those days, the debate among conservatives and libertarians has slowly shifted from judicial "constraint" to "engagement," aimed at checking lawless political activism (see my 1991 Wall Street Journal op-ed "Re-thinking Judicial Restraint").

To see why, look simply at *Griswold v. Connecticut*, the 1965 decision Mr. Henninger sites as the source of judicial overreaching. True, the court's resort to "penumbras" and "privacy" to explain why Connecticut's statute prohibiting the sale and use of contraceptives was unconstitutional strained credulity. A classic case of right result, wrong reasons, the court should have noted first that the state enacted that law under its basic police power—its power, mainly, to protect the rights of its citizens. The court should then have asked simply: Whose rights is this law protecting? Connecticut would have come up empty-handed. This was a pure "morals" statute, promoted by some, against the liberty of others.

Notice, there's no need here to speak of "privacy" or to discover rights. The burden is on the state to justify its act, failing which there's a right, by implication, to sell and use contraceptives. Nor does the holding

in *Roe v. Wade* follow, because there the police power may very well be protecting the rights of unborn children. That is a decision properly left to states.

But beyond the constitutional infirmities with Mr. Henninger's argument is a practical problem. What Senate moderate would vote for a nominee who believes that states have the kind of unbridled power that was at issue in *Griswold*—or in many decisions since, especially economic liberty cases where courts today are increasingly checking unconstitutional power? Proper judging means principled engagement, not judicial deference.

ROGER PILON
Cato Institute
Washington

Daniel Henninger's excellent column only hits the tip of the iceberg. The power of the court to review the law was assumed in *Marbury v. Madison* but never delegated by the people in the Constitution. Judicial power was set forth vaguely in Article III. But it was restricted by other provisions. Article I excludes the courts from legislating, and Article V prohibits the judiciary from participating in the process of changing the Constitution. Thus judge-made law is unconstitutional.

But for at least 50 years we have had a judiciary that treats the Constitution as an à la carte menu rather than a governing document. Using its power of interpretation, which it assumes to be unlimited, the Supreme Court picks and chooses which provisions it likes and which it will ignore, adding new items if it wishes.

JACK THEIS
Centennial, Colo.

With NATO, Put Fairness Before Friendship

"NATO Allies Hope for Harmony" (World News, July 5) describes a significant division between the Europeans and President Trump with respect to this week's NATO summit. While Europeans are focused on choreographing a "united message," as one official from a NATO nation said in the article, our president simply wants them to abide by their military-spending commitments.

How refreshing to have a president who is focused on substance, rather than lofty statements and agreements that provide little, if any, actual progress. It is common for liberal administrations and their diplomats to be fixated on agreements for their own sake, the pomp and circumstance, and the political benefits. For heaven's sake, the parties don't actually have to uphold their commitments; voters rarely know anyway.

Government Surveys Have Been Useless for My Firm

I could not agree more with the sentiment Peter Funt expressed in his July 3 op-ed: "If You Value My Opinion, Pay Me For It." My company receives six to eight demands to complete surveys each year from various government agencies. The most recent came in the form of a 20-page spreadsheet from the Commerce Department regarding "propulsion manufacturing." We don't manufacture any propulsion elements and so informed the Commerce Department. They insisted we complete the survey anyway, under penalty of law.

The Office of Management and Budget estimated it would take 14 hours to complete this survey. It took more than 50 hours, at a cost to us of about \$15,000. The high expense resulted from the survey's requirements to produce data in strange formats, all of which needed to be entered manually and concerned figures we normally do not collect. Our total costs this year for completing government surveys is estimated to be over \$100,000, for which we are reimbursed not one red cent.

To add insult to injury, the results of these surveys are generally not available to us, and they don't seem to serve any purpose. They do not result in our generating any new business, or reducing our regulatory burden.

Our ask is simple. We will complete surveys that are truly relevant to our business which will assist in generating new business or relieving our regulatory burden. It would be nice to answer questions that actually mattered.

MARTY DRESSER

Calabasas, Calif.

The Trouble With Grade Inflation Runs from A to D

"You Graduated Cum Laude? So Did Everyone Else" (U.S. News, July 3) exposes grade inflation at the top, but it undoubtedly exists at all levels. If many of the students receiving an A should have gotten a B, then many of those receiving a B should have gotten a C, etc. Many of those who passed should have failed.

I believe the problem started in the 1960s. I received a bachelor of science in mathematics from Ohio State University in 1961. In 90 years only two students had earned four years of straight A's in Ohio State's College of Liberal Arts.

My daughter received her degree from Ohio State in the fall quarter of 1985. She is smart, worked hard and selected her courses and professors with some care. She graduated with straight A's—and was one of 11 students with perfect academic records. Since most students are awarded their degrees in the spring quarter, at least 70 students probably graduated with straight A's in 1985. That is inflation: 70 per year, up from two every 90 years.

What are the real costs of grade inflation? Students deserving Latin honors and distinction do not receive a reward. They are no different than run-of-the-mill students. Students are not pushed toward excellence and quickly learn that they can get by with little effort. Many students are wasting their time and money in college, rather than attending vocational schools that would train them for real jobs. Taxpayers are funding the rush toward mediocrity and irrelevance.

GERALD J. RANKIN
Thornton, Pa.

Pepper ... And Salt

THE WALL STREET JOURNAL



"No, I don't think we need to throw a dinner party for the parole board."

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OPINION

A Champion of Constitutional Safeguards

By David B. Rivkin Jr.
And Andrew M. Grossman

Days before President Trump announced his choice of Judge Brett Kavanaugh for the Supreme Court, Senate Democrats had vowed to oppose any nominee. Backed by an activist-fueled propaganda machine, they now will unleash relentless personal attacks—on Judge Kavanaugh's Catholic faith, his "elitist" Yale degrees, his service in the George W. Bush administration.

Kavanaugh has a fine record as a judge. Senate Democrats will give him their worst anyway.

As with the attacks last year on Justice Neil Gorsuch, they should be unavailing. Over Judge Kavanaugh's 12 years on the U.S. Circuit Court of Appeals for the District of Columbia, he has developed an impressive record as a legal thinker and a champion of the Constitution's structural safeguards against overweening government.

Typical is a 2008 dissent in which Judge Kavanaugh concluded that the Public Company Accounting Oversight Board was unconstitutionally structured because it improperly insulated the agency from political accountability. The opinion was a tour

de force of historical exposition and originalist methodology—that is, interpreting the Constitution's text as it was originally understood. The Supreme Court ultimately agreed, adopting the reasoning of Judge Kavanaugh's dissent.

Yet he is equally wary of unbridled executive authority, as a 2013 case shows. When the Nuclear Regulatory Commission declined to proceed with licensing the proposed waste repository at Yucca Mountain, Nev., which the agency appeared to oppose on policy grounds, he wrote: "The President may not decline to follow a statutory mandate or prohibition simply because of policy objections."

In articles and speeches as well as formal opinions, Judge Kavanaugh has been a leading critic of *Chevron*-deference, the courts' practice of giving agencies free rein to interpret their own statutory authority. In a 2016 law-review article, he wrote that *Chevron* encourages the executive branch "to be extremely aggressive in seeking to squeeze its policy goals into ill-fitting statutory authorizations and restraints," cutting Congress out of the picture. "The American rule of law, as I see it, depends on neutral, impartial judges who say what the law is."

On that score, Judge Kavanaugh rivals the late Justice Antonin Scalia in his ability to make sense of Congress's often knotty statutory constructions. Judge Kavanaugh considers textualism to be an important restraint on judges that prevents them from imposing *their* policy



AFP/GETTY IMAGES

Judge Brett Kavanaugh and President Trump.

preferences. As he put it in that 2016 article: "When courts apply doctrines that allow them to rewrite the laws (in effect), they are encroaching on the legislature's Article I power."

That's why the Democrats' formulaic charges of partisanship won't stick. In case after case, Judge Kavanaugh sided with the Obama administration in the war on terror. He turned away a constitutional challenge to ObamaCare on jurisdictional grounds, while writing that the government's defenses of the law were "unprecedented" and without "principled limit."

Across three successive administrations, Judge Kavanaugh has frequently ruled against the government. According to Jennifer Mascott of Scalia Law School, he "has written 40 opinions

finding agency action to be unlawful and joined majority opinions reversing agency action in at least 35 additional cases." That's a muscular record on a court often criticized for deference to government.

Democrats may make an issue of a 1998 academic article in which Judge Kavanaugh—who early in his career worked in the Office of Independent Counsel during the Clinton administration—questioned whether the Constitution permits criminal prosecution of a sitting president. He didn't actually reach a conclusion on the question, but the Justice Department's Office of Legal Counsel did, holding that a sitting president cannot be indicted. Since that opinion is binding on special counsel Robert Mueller, there's no prospect

the issue will reach the Supreme Court.

Democrats will also roll out culture-war issues like abortion and same-sex marriage. There is nothing in Judge Kavanaugh's judicial or scholarly record to indicate how he would vote on any of those issues. Only one sitting justice, Clarence Thomas, has said he favors overturning *Roe v. Wade*, so the status quo on abortion seems likely to prevail for some time. As for same-sex marriage, there appears to be little appetite on the court to revisit it, and even less reason to believe that a case doing so is likely to arise, given its rapid public acceptance.

At any rate, it would be improper for Judge Kavanaugh to answer senators' questions about how he would vote on any particular issue. Since Justice Ruth Bader Ginsburg's appointment in 1993, her "Ginsburg Rule"—"no hints, no forecasts, no previews"—has stood. Judges do not decide abstract issues but concrete cases with specific facts, arguments, and governing law. Judges have a duty to decide cases as they arise, without pre-judgment. Like Justice Ginsburg, Judge Kavanaugh can and should be questioned on his record. And a fine record it is.

Messrs. Rivkin and Grossman practice appellate and constitutional law in Washington. Mr. Rivkin served at the Justice Department and the White House Counsel's Office. Mr. Grossman is an adjunct scholar at the Cato Institute.

Mitch McConnell Is the Master of Confirming Judges

By Fred Barnes

The ball is in Mitch McConnell's court again. He guided Neil Gorsuch to a seat on the Supreme Court with ease in 2017. He's a perfect 21 for 21 in confirming the federal appeals-court nominees of President Trump, with more to come this year. Given the thin margin he has to work with, this is impressive.

Mr. McConnell adopted as his top priority as Senate majority leader an ambitious effort to make the federal courts more conservative—from top to bottom. There's only one way to do this—fill every judicial vacancy with a conservative.

For Mr. McConnell, this is a war. Justice Gorsuch was D-Day. Judge Brett Kavanaugh is the slogan across France. Mr. McConnell is a general in a hurry to keep winning, since Republicans could lose the Senate majority in November.

With this nomination, Mr. McConnell's task has gotten more difficult than last year. Republicans had a 52-48 majority last year when they approved Justice Gorsuch unanimously. Now the majority is effectively 50-49, with a Democratic pickup in Alabama and John McCain's absence.

When Justice Gorsuch sailed through, Democrats and the left were reeling from Donald Trump's election. Their opposition was inept. The vaunted "resistance" to anything associated with Mr. Trump was pathetic. Now Democrats are committed to blocking Judge Kavanaugh, and they're serious. But they still have Chuck Schumer as their leader, and they still can't do it without Republican help.

Mr. McConnell is no Chuck Schumer. He doesn't try to make clever compromises that quickly fall apart, as Mr. Schumer did in the Gorsuch case. The Democrat wooed GOP Sens. Susan Collins of Maine and Lisa Murkowski of Alaska, both pro-choice and worried about *Roe v. Wade* being overturned, though the ruling has endured for 45 years.

All the senators had to do was vote to maintain the filibuster on Supreme Court nominations, and he'd let Justice Gorsuch slip through. After that, if Mr. Trump got a second nominee, one who might vote to overturn *Roe v. Wade*, Sens. Collins and Murkowski could join Democrats in filibustering the confirmation. But the deal was vague. "There was no deal that wasn't a bad deal," Mr. McConnell said.

Judge Gorsuch's record, which didn't reveal a yearning to kill *Roe*. After listening to Judge Gorsuch, the two senators were leaning in his favor. Mr. Schumer was too late.

A year later, Ms. Collins and Ms. Murkowski are back. Same issue. Democrats seem to think every GOP judicial nominee is hiding a passion for overturning *Roe*. In truth, some may be.

But it's awfully hard to prove it.

Mr. McConnell's strategy this time around is no different than it was with Justice Gorsuch: First, get all the Republicans on board. Unity is

Mr. McConnell is experienced in outmaneuvering Mr. Schumer. By the time the Democrat offered his deal, Mr. McConnell had recruited former Sen. Kelly Ayotte of New Hampshire as Judge Gorsuch's sherpa as he visited senators. Ms. Ayotte pointed Ms. Collins and Ms. Murkowski to

He outmaneuvered Chuck Schumer last year, making the path clearer for this year's high court nominee.

Judge Gorsuch's record, which didn't reveal a yearning to kill *Roe*. After listening to Judge Gorsuch, the two senators were leaning in his favor. Mr. Schumer was too late.

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Mr. McConnell's strategy this time around is no different than it was with Justice Gorsuch: First, get all the Republicans on board. Unity is

victory. He calls it "getting all my frogs in the wheelbarrow."

Should a Republican defect, that would give nervous red-state Democrats an excuse to vote no—that even Republicans are rejecting Judge Kavanaugh. Mr. McConnell would lose. But if GOP senators stick together, they won't need any Democratic cross-overs. They'll win. It's that simple.

Why is Mr. McConnell so successful in getting Republican judges confirmed? He's a big-picture guy. He plays a long game. He must have a home-state agenda for Kentucky, but you rarely hear of it. He's not out for himself.

As Republican leader, he has little interest in popularity. He's secretive and a self-described introvert. "He never tells me anything," a close Senate ally says. And as former chief of staff Brian McGuire wrote in Real Clear Politics, Mr. McConnell never pretends to be above politics or indifferent to re-election. We already know he's running in 2020.

"In a city where concealing ambition behind a cloak of righteousness is the norm, this refusal is one of his more underappreciated virtues," Mr. McGuire wrote. The majority leader's willingness to oppose popular issues

like the tobacco settlement and campaign-finance reform show he's no political weakling.

Mr. McConnell isn't particularly popular. But he's respected. He says the only real power he has as majority leader is control of the Senate floor. When Justice Antonin Scalia died in February 2016, Mr. McConnell said the Senate wouldn't take up a nomination in President Obama's last year. Democrats screamed, but neither Mr. McConnell nor Judiciary Committee Chairman Chuck Grassley flinched. The result: Justice Gorsuch.

Among Mr. McConnell's unusual traits are patience and a sense of when to call a vote. He's willing to delay a vote for months waiting for precisely the right moment. Last spring he twice canceled votes to confirm an appeals court nominee. When he felt the time had come, he held a quick vote. The judge was confirmed handily.

Mr. Trump and Judge Kavanaugh are fortunate it's Mr. McConnell whose job it is to fill Justice Anthony Kennedy's seat on the Supreme Court. No one is better at the game, now or probably ever.

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

The Economy Is Growing Faster Than the Government Says

By Jason Furman

If you're looking for the most accurate view of economic growth, you won't find it in the government's top-line statistics. Last month the Bureau of Economic Analysis revised its estimate for the first quarter of 2018; the BEA now says gross domestic product grew 2%, annualized, down from the previous figure of 2.2%. This dramatically understates the economy's actual performance. A better measure, factoring in statistics on incomes, shows growth steaming along at a much stronger 2.8%.

Why the difference? In short, because the data aren't perfect. Unlike the unemployment rate, which comes from a (relatively) straightforward survey, GDP is not measured directly. Instead, the BEA sums up economy-wide expenditures from dozens of data sources, covering consumption, investment, government spending, net exports and more.

Last month's figure was the BEA's

third estimate for the first quarter. Yet at this stage the statisticians have comprehensive data on only 38.5% of GDP. Most of the rest was inferred using direct or indirect indicators, such as by taking the number of housing starts as a proxy for dollars invested in new home construction. For 12% of GDP, the statisticians used "trend-based data," which essentially amounts to extrapolation and guess work. To take a couple of specific examples, the BEA had a reasonably accurate measure of cars bought in the first quarter, but it had to guess how much financial services were purchased.

Producing the most accurate statistics can be costly, complicated and fraught with these kinds of measurement problems. Despite the best efforts of the BEA's excellent civil servants, the underlying data are noisy and incomplete, meaning that revisions to GDP growth estimates can be large and often confusing. The average absolute revision from 1993 through 2016 was 1.3 percentage point.

Drawing on more data can cancel out some of this noise and produce a more accurate figure that requires smaller revisions. Specifically, the BEA separately gauges the size of the economy by adding up all the different sources of income, such as wages and profits. This figure is called gross domestic income, or GDI, and in the first quarter of 2018 it grew by an estimated 3.6%, annualized.

Ultimately, GDI should be identical to GDP, since all money spent is money earned. But in practice the published estimates differ because the data are subject to different errors and reflect different guesses. Research shows that a simple average of GDP and GDI is a nearly optimal way to combine the two sets of information. For the first quarter it averages to 2.8% growth. That is the best predictor of what the government will eventually estimate for GDP after several years of revisions.

The BEA's statisticians already report this number, which they call "average of GDP and GDI," but they

bury it, and the financial press and analysts usually ignore it. The BEA should immediately start reporting this figure as its headline growth estimate, because it is the most accurate way to measure the economy. Until it does, serious analysts can

The official top-line figure for the first quarter is 2%. A more accurate measure puts the rate at 2.8%.

help themselves by playing down the noisier GDP data and focusing on the average, which better captures the economic signal.

With more time and resources, the BEA should integrate data from expenditures and incomes together into a single unified estimate, as many countries, including the United Kingdom and Canada, already do. When the BEA is filling in the blanks for the missing data on financial services,

for example, it could choose numbers from both sources to create a combined best guess.

The additional accuracy would be beneficial for businesses and policy makers planning for the future. But accuracy becomes even more important when the economy may be entering a recession. Since estimating GDP involves extrapolating past performance, it overstates growth when things turn sharply downward. As the economy entered a tailspin at the end of 2008, the original report for the fourth quarter had GDP growth at minus 3.8%. That was eventually revised to minus 8.2%.

The BEA should fix the presentation of these data before the next major recession. An easy statistical change is all the Trump administration needs to MAGA: Measure America Growth Accurately.

Mr. Furman, a professor of practice at the Harvard Kennedy School, was chairman of the White House Council of Economic Advisers, 2013-17.

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seekers from Latin America is rising rapidly.) It is much harder for an Eritrean to do the same, most of all because there is no direct land route and furthermore the paucity of resources in Eritrea makes almost any kind of action harder to pull off. Eritreans do however request and sometimes receive asylum rights through the U.S. Embassy in Eritrea itself.

Asylum rights still could be kept for situations of special humanitarian, cultural, or political importance, such as the Holocaust, Soviet Jews, or the current situation in Syria. But ask yourself a simple question: when the genocide was going on in Rwanda, how many Rwandans did the U.S. grant asylum rights to? Does that not indicate something is broken about the current system?

To be clear, I do not wish to revoke

WORLD NEWS

Four More Boys Rescued From Thai Cave

Teams prepare for Tuesday rescue of five remaining people stranded underground

BY WILAWAN WATCHARASAKWET AND JAKE MAXWELL WATTS

MAE SAI, Thailand—A team of more than 100 divers rescued four more boys on Monday who were stranded in a flooded cave in northern Thailand, officials said, bringing the total saved to eight.

Four other boys and their 25-year-old coach await their turn to be guided on Tuesday through the winding passages and caverns of the Tham Luang cave, where they have been trapped since June 23.

In a daring race against time that has drawn worldwide attention, rescue teams have been trying to free the boys as seasonal rains threaten to flood the cave further.

The 12 players from the Wild Boars soccer team, ages 11 to 16, have been trapped inside with their coach for more than two weeks before the perilous rescue effort began Sunday following days of preparation. One former Thai Navy SEAL died last week while helping to place air tanks along the escape route.

The official coordinating the rescue, Narongsak Osotanakorn, said the eight rescued boys are safe and in a hospital in the nearby city of Chiang Rai. Some of them asked for a favorite local dish, spicy pork stir-fried with basil.

Officials haven't allowed the boys' parents and other



Rescuers approach the Tham Luang cave, where 12 boys and their soccer coach became trapped by rising rainwater on June 23. Eight have been brought out alive.

CHIANG RAI PRESS OFFICE/XINHUA/ZUMA PRESS

relatives to visit them because of a fear of infection. Mr. Narongsak said authorities are now considering allowing visits, although the parents may have to be walled off by a transparent screen.

Divers on Monday were encouraged by the previous day's rescue of the first four of the trapped boys. Monday's delicate operation began at 11 a.m. local time, Mr. Narongsak said,

and took two hours less than the first rescue. He said the rains that lashed the region on Sunday haven't yet worsened the flooding, as was expected. Rains then eased on Monday.

The grueling effort was a challenge even for the highly experienced cave divers involved.

The extraction required each of the boys to don breathing gear and be guided

through a twisting, partially submerged series of chambers, including one just 2 feet high. Two divers escorted each boy through the underwater portions of the cave.

Mr. Narongsak said rescue teams would replenish air and other supplies in the cave to prepare for an attempt to rescue the remaining people on Tuesday, a process expected to take up to 20 hours.

Specialist cave divers, including 18 foreigners, form the bulk of the diving team. The U.S. and countries in Europe and Asia have contributed to the rescue effort, which has captivated people from around the world.

The boys and their coach were trapped in the cave by flash floods after a post-match outing. They survived 10 days alone before being discovered.

Thailand's Prime Minister Prayuth Chan-ocha visited the cave to speak with rescuers late Monday, and later went to the hospital in Chiang Rai to see the boys, officials said.

They said Gen. Prayuth, who leads a military junta that seized power here four years ago, said the drama provided a moral lesson and that such an event "should never happen again."

WORLD WATCH

AFGHANISTAN

Pompeo Visits Kabul As Peace Hopes Rise

U.S. Secretary of State Mike Pompeo visited Kabul for meetings with President Ashraf Ghani and other Afghan officials, as the Trump administration seeks to fuel momentum toward talks with the Taliban following last month's cease-fire.

It is Mr. Pompeo's first official visit to Afghanistan as secretary of state.

Government and Taliban forces marked the Muslim observance of Eid al-Fitr last month with overlapping ceasefires that saw combatants on both sides embracing each other publicly and reveling in three days of relative peace in the Afghan war.

It was the first time in the 17-year conflict that the Taliban had declared a truce. An outpouring of goodwill has sparked hopes for talks between the two foes that might lead to a negotiated settlement of the war

—Craig Nelson

JAPAN

Deaths From Floods, Landslides Top 100

More than 100 people have died and scores are missing in western Japan as record rainfall in recent days triggered landslides and floods that severed power lines and roads, and brought activity to a halt in parts of a manufacturing region.

Shipments of parts and fresh produce slowed, forcing some car and electronics makers to stop production and prompting stores and restaurants to stay closed.

The country's meteorological agency said rain in some areas had reached record levels. Prime Minister Shinzo Abe canceled a trip to Europe and the Middle East to oversee recovery efforts.

—Mayumi Negishi

EUROPEAN CENTRAL BANK

Draghi Seeks Shared Responsibility in Crisis

European Central Bank President Mario Draghi urged eurozone governments to take further steps to pool responsibility for the bloc's financial system to guard against future crises, days after European leaders kicked back plans to strengthen the architecture of the currency union.

Speaking at a hearing in the European Parliament in Brussels, Mr. Draghi called for the creation of a fund to support eurozone countries during recessions, as well as a common bank deposit guarantee scheme.

—Tom Fairless

Reporters Face Myanmar Charges Over Probe

BY JON EMENT

A Myanmar judge formally charged two Reuters journalists who investigated a military massacre of the country's Rohingya ethnic minority with violating state-secrecy laws, adding to concerns about press freedom as the nation's democratic transition stumbles.

Lawyers for the two journalists argued that the judge should dismiss charges against them, as the state had failed to present compelling evidence of wrongdoing during months of pretrial hearings. Instead, the judge decided on Monday that there was enough evidence to formally charge Wa Lone and Kyaw Soe Oo with violations that carry a maximum sentence of 14 years.

Press advocates say the case has put a chill on journalism in Myanmar, as local journalists worry that deep reporting on military misbehavior could put them behind bars.

"Today's decision casts serious doubt on Myanmar's commitment to press freedom and the rule of law," Reuters Editor in Chief Stephen Adler said, calling the proceedings against the Myanmar nationals "protracted and baseless."

Western governments have criticized Myanmar for its handling of the case, arguing that the reporters are being



Detained Reuters journalists Wa Lone and Kyaw Soe Oo are escorted from a court in Yangon, Myanmar.

ANN WANG/REUTERS

punished for exposing a massacre in the village of Inn Din last year that prompted a rare admission of wrongdoing by Myanmar's military.

The prosecution alleges that the two journalists obtained secret documents from police officers in December. However, in April, Moe Yan Naing, a police captain called by the prosecution as a witness, admitted that a brigadier general had ordered police of-

ficers to meet the journalists and give them documents to entrap them. The prosecution tried to dismiss Mr. Moe Yan Naing's testimony, but the judge allowed it to remain on the record, prompting hopes that the judge would dismiss the case at the end of the pretrial hearings.

Instead, at the end of Monday's hearing, the two reporters were put in a police vehicle and returned to Myanmar's

Insein prison, where they have been held since they were first detained late last year.

After Rohingya militants attacked police stations in western Myanmar in August 2017, Myanmar's military executed a bloody purge of the country's Rohingya Muslim minority that sent around 700,000 Rohingya fleeing into neighboring Bangladesh, where they live in overcrowded and monsoon-flooded refugee camps.

A spokesman for Ms. Suu Kyi said he couldn't immediately comment on the case. Her government has the power to pardon the two journalists, or order the attorney-general to drop the charges. "This decision goes against the evidence, the law, and the principles of justice and freedom that Aung San Suu Kyi and her National League for Democracy once claimed to espouse," said Aaron Connally, director of the South East Project at the Lowy Institute in Sydney, in a reaction to the ruling.

Khin Maung Zaw, a lawyer for the defendants, told reporters, "We are trying our best and preparing for the worst."

—Myo Myo contributed to this article.

BY JAKE MAXWELL WATTS

A public feud between President Rodrigo Duterte and the Roman Catholic Church in the Philippines intensified as church leaders pushed back against criticism of priests and called for a national day of prayers and fasting.

The overwhelmingly Catholic country has been riveted in recent weeks by a clash between the popular president and a powerful institution that has sought to maintain its traditional moral authority while under a barrage of criticism.

Rights groups allege that many thousands of mostly poor people have been executed by police in more than two years and that Mr. Duterte has sheltered law enforcement from prosecution, a claim that officials deny.

The church has become one of the drug war's fiercest critics, using its pulpit to condemn the high number of killings and calling for restraint. Some church leaders have of-

fered sanctuary to drug suspects and witnesses to police shootings who are fearful for their lives.

That opposition has angered Mr. Duterte, who recently called God "stupid" for the concept of original sin, and on Saturday he said he would resign if anyone could prove that God exists.

Though long claiming to be Catholic himself, Mr. Duterte has frequently lambasted priests, calling them corrupt womanizers.

He also once claimed he was abused by a priest as a child, in a case that was never investigated.

The Catholic Bishops' Conference of the Philippines, the church's authority in the country, issued a stinging rebuke after a plenary meeting on Monday in Manila.

Though it didn't specifically name Mr. Duterte, it called for "God's mercy and justice on those who have blasphemed God's Holy Name, those who slander and bear false witness,

and those who commit murder or justify murder as a means for fighting criminality in our country."

The bishops called for a day of prayer and penance on July 16, followed by three days of fasting, prayer and almsgiving.

Several high-ranking priests have previously said Mr. Du-

erte's criticism of the church—and a broader culture of impunity in the country since he took office in mid-2016—had put priests' lives in danger. Three have been murdered in a little over six months.

A spokesman for Mr. Duterte said that the president takes note of the church's concerns, and that Mr. Duterte had promised not to make further statements about the church after a meeting with the conference head, Archbishop Romulo Geolina Valles, on Monday.

"We recognize and respect the principle of separation of the church and the state," it said, adding that the president's efforts to eliminate drug use in the Philippines "is our fight for the safety of all Filipino families and for their right to live in a peaceful society."

About 80% of the Philippines' 100 million people identify as Roman Catholic and are among the world's most devout, attending Mass regularly and turning to the church for moral and spiritual guidance.

Though the church remains a powerful institution, it has struggled in recent years to find common ground with congregations on issues including abortion and the death penalty, which Mr. Duterte champions.



Archbishop Valles, left, and President Duterte have engaged in a spat that has riveted the predominantly Catholic Philippines.

REY BANQUIET/PRESIDENTIAL PHOTOGRAPHERS DIVISION

BY JAKE MAXWELL WATTS

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—Tom Fairless

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, July 10, 2018 | B1

S&P 2784.17 ▲ 0.88% **S&P FIN** ▲ 2.32% **S&P IT** ▲ 0.82% **DJ TRANS** ▲ 2.04% **WSJ \$ IDX** ▲ 0.18% **LIBOR 3M** 2.333 **NIKKEI (Midday)** 22278.51 ▲ 1.03%

See more at WSJMarkets.com

Plastic Straws Bend to Criticism

Starbucks and Hyatt plan to phase out their use in response to environmental concerns

BY JULIE JARGON
AND KIMBERLY CHIN

Starbucks Corp. and Hyatt Hotels Corp. said on Monday they would phase out single-serve plastic straws and pledged to reduce packaging waste from their drinks and meals, joining other big companies in heeding customers'

environmental concerns. McDonald's Corp., meanwhile, is phasing out plastic straws in the U.K. and Ireland and testing alternatives made from other materials in the U.S. Burger King, a unit of **Restaurant Brands International** Inc., said it has committed to making all of its packaging in the U.K. recyclable by 2025.

Executives say they are responding to advocacy groups and customers who say the convenience of straws and other plastic packaging isn't worth the environmental damage they can do, particularly to the

world's oceans. Eight million metric tons of plastic enter the world's oceans every year, according to the Ocean Conservancy.

A social media movement to stop using plastic straws took off in 2015 when a YouTube video showing a sea turtle with a straw stuck in its nose went viral. Lawmakers have responded to the public outcry as well. Officials in the U.K. said earlier this year that they would ban the sale of single-use plastics, including straws, as early as next year. That has put pressure on multinational compa-

nies to make changes ahead of the ban.

"The first step as part of this commitment will be rolling out biodegradable drinking straws in September 2018," a Burger King spokesman said of the U.K. effort.

Seattle, where Starbucks is based, was the first U.S. city to ban the use of plastic straws, effective July 1. McDonald's said last week that it has been testing alternatives to the plastic straw that it hopes to eventually introduce at its 14,000 U.S. restaurants and globally.

Dunkin' Brands Group Inc.

said in February that it will replace foam cups with a double-walled paper model at all of its Dunkin' Donuts coffee shops by 2020. **Yum Brands** Inc., which owns KFC, Pizza Hut and Taco Bell, said it is working with suppliers on a number of paper-based packaging options.

Chicago-based Hyatt on Monday said that after Sept. 1, straws and picks will be available only by request at its more than 700 properties worldwide. "Eco-friendly alternatives" will be provided where available, Hyatt said.

Please turn to page B2

Trading Debut

Xiaomi's share-price performance Monday



Note: HK\$1 = \$0.13

Source: FactSet

THE WALL STREET JOURNAL.

Xiaomi's Lackluster IPO Sends Warning

BY DAN STRUMPF
AND JOANNE CHIU

HONG KONG—Chinese smartphone maker **Xiaomi** Corp. wants the world to believe it is the next big internet stock. But investors took a cautious view of that sales pitch, sending its shares moderately lower in their Monday trading debut.

The lackluster start came after Xiaomi priced its \$4.7 billion initial public offering at the low end of an expected range, yielding a valuation of \$54 billion.

If the shares perform poorly in the coming days and weeks, they could hurt the prospects of other technology companies that are preparing multibillion-dollar listings in Hong Kong.

Xiaomi shares fell 1.2% to close at HK\$16.80 (\$2.14) in their first day of trading. The stock fell as much as 5.9% intraday before recovering. The broader Hang Seng Index rose 1.3%.

Xiaomi, a maker of cheap yet stylish handsets, is one of China's best-known technology brands and the world's fourth-largest smartphone maker after **Samsung Electronics** Co., **Apple** Inc. and domestic rival **Huawei Technologies** Co. It also offers internet-connected gadgets including rice cookers and air purifiers, linking those devices—and their users—to software and services.

Yet prospective buyers were skeptical about the eight-year-old startup's attempt to position itself as an internet company, with a valuation to match. The final \$54 billion figure was well below not only early projections of \$100 billion.

Please turn to page B4

Rental Investors Gamble on Affluent Tenants

By RYAN DEZEMBER
AND LAURA KUSISTO

Wall Street is betting that more well-off Americans will want to be renters.

Financiers who loaded up on homes after the housing bust for pennies on the dollar are buying yet more—despite home prices in many markets being at all-time highs.

Their wager: High prices, higher mortgage rates and skimpy inventory are making homeownership harder. Well-to-do families who might have bought a single-family home in another era are willing to rent a house now, especially if it means access to a good school system.

The number of homes purchased by major investors in 2017 was at least 29,000, up 60% from the previous year, estimates **Amherst Capital Management** LLC, a real-estate investment firm.

That marked the first time since 2013—when investors like **Blackstone Group** LP's Stephen Schwarzman and Barry Sternlicht of **Starwood Capital Group** gobbled up foreclosed homes—that investors bought more houses year-over-year. Single-family homes have become far more attractive to investors than apartments, where a nationwide glut has driven down rental yields.

This year, investors have raised billions of dollars to purchase more homes. They have been particularly aggressive buyers in places like Atlanta, Phoenix, and other metro areas with good schools and faster-growing economies.

On Monday, the investment firm **Premium Partners** LLC said it had raised more than \$1 billion so that its Progress Residential could add to its 26,000 rental homes. Premium was founded by a former **Goldman Sachs Group** Inc. executive who helped oversee the bank's lucrative bet against the

Please turn to page B2



Fastest-growing markets for rental-home investments

Percentage increase in number of investor-owned single-family homes*	
Green Bay, Wis.	90.1%
Myrtle Beach, S.C.	46.7
Sevierville, Tenn.	46.5
Syracuse, N.Y.	43.3
Anchorage, Alaska	36.5
Charleston, W. Va.	35.3
Daphne, Ala.	34.8
Roanoke, Va.	34.4
Clarksville, Tenn.-Ky.	32.6
Savannah, Ga.	31.7

*For the 12 months ended March 2018. †Estimated, as of year-end 2017.

Sources: ATTOM Data Solutions (fastest-growing markets); Amherst Capital Management (number of single-family homes)

Metropolitan areas with the most single-family homes owned by institutional investors†

Atlanta	33,488 homes
Phoenix	13,209
Miami	12,962
Tampa, Fla.	12,156
Dallas	12,207
Charlotte, N.C.	11,809
Houston	10,482
Indianapolis	8,072
Orlando, Fla.	7,844
Chicago	7,745

THE WALL STREET JOURNAL.

HEARD ON THE STREET | By Dan Gallagher

Twitter's Wings Needed a Clip

Fluttering
Twitter's death turned out to be greatly exaggerated. So too, perhaps, were the hopes of its newfound life.

Twitter, like its main social-networking rival **Facebook**, has been cracking down on fake and suspicious accounts. The Washington Post reported late Friday that the company has accelerated its suspension of those types of accounts. That could lead to a decline in the number of monthly active users for the second quarter, results for which will be reported on July 27.

Twitter's share price fell nearly 9% Monday before Chief Financial Officer Ned Segal tweeted that most of suspended accounts don't show up as monthly active users. Shares closed the day down more than 5%.

A decline in users would be unwelcome for a company that appeared to be enjoying a solid recovery. Just a year ago, Twitter was in a deep

slump as both advertising revenues and user counts were falling. Both trends appeared to have reversed earlier this year, as the company added six million monthly active users in the first quarter and increased its advertising revenue by 21% year over year. That gave the already rising stock another strong boost. Twitter's share price had surged 53% from its first-quarter report to Friday's close and was up 94% for the year. The company was added to the S&P 500 last month and is one of the index's top performers.

Cleaning up its network is the right move for the business over the long term. But Twitter was already struggling with the perception that its audience may be peaking. The company's base of monthly active users has grown by percentages in the low single digits over the past two years—much slower than that of the much larger, and far more profitable, Facebook. That was anticipated to continue, as Wall Street had been expecting Twitter's user base to grow only 4% for the current year compared with 9% projected for Facebook—even with the latter's numerous controversies of late.

Against that, Twitter's surging stock price looked expensive, even considering the company's improving business trends. Monday's drop still leaves the stock trading at 133 times forward earnings—more than five times Facebook's multiple. Twitter has shown it doesn't need to become the next Facebook. Investors should stop trading like it will be.

INSIDE



BROTHERS' FIRING SPURS DISABILITY SUIT

WORKPLACE, B6



COPPER CLIMBS ON SECOND THOUGHTS

COMMODITIES, B11

Ex-Goldman Banker In Talks on 1MDB Plea

A former **Goldman Sachs Group** Inc. banker is in talks with U.S. prosecutors to potentially plead guilty to criminal charges stemming from an

By Justin Baer,
Bradley Hope
and Nicole Hong

alleged scheme to steal billions of dollars from a Malaysian state investment fund, people familiar with the matter said.

The talks bring the fast-moving investigation closer to Goldman, which raised billions for the Malaysian fund, 1Malaysia Development Bhd, and come after the arrest of Malaysia's former prime minister, who founded the fund and lost his re-election bid earlier this year.

The onetime Goldman partner and Southeast Asia chairman, Tim Leissner, who hasn't been charged, is seeking an agreement with prosecutors that would involve his cooperation with the government's criminal-fraud probe into 1MDB and Goldman, the people said.

One potential charge Mr. Leissner could ultimately plead guilty to would be a violation of the U.S. Foreign Corrupt Practices Act, which bans the use of bribes to foreign officials to get or keep business, according to some of the people familiar with the matter.

Prosecutors would have to corroborate any information he might provide and determine its usefulness to the overall investigation before agreeing to a plea, legal experts say.

Investigators have said 1MDB was used by former Prime Minister Najib Razak as a political slush fund and by associates of his to buy real estate, art and other luxuries from London to Beverly Hills, Calif. The U.S. Justice Department alleges in civil lawsuits that \$4.5 billion was taken from the fund.

Mr. Leissner, a German national married to an American fashion designer, was Goldman's top banker on the fund. In that role, he forged a close relationship with Jho Low, a Malaysian businessman who

Please turn to page B2

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.

A	iHeartMedia.....B2
Alphabet.....A3,A8,B12	Insight Venture
Amazon.com.....B12	Partners.....A8
American Homes 4 Rent	Invitation Homes.....B2
Amherst Capital Management.....B1	J - K
Asustek Computer.....B4	J.M. Smucker.....B3
B - C	Kroll Bond Rating Agency.....B2
Blackstone Group.....B1	L
Boeing.....B6	Liberty Media SiriusXM.....B2
Chevron.....B3	Lockheed Martin.....B6
China Tower.....B4	M
Dunkin' Brands Group B1	Meituan Dianping.....B4
Exxon Mobil.....B3	Microsoft.....B4,B12
F	Nissan Motor.....B3
Facebook.....A8,B1,B4	Pfizer.....B11
G - H	Pretium Resources.....B1
Genstar Capital.....A8	Q - R
Goldman Sachs Group	Quantum National Bank.....B2
.....A8,B1,B10	R
Grosvenor Capital Management.....A8	Restaurant Brands International.....B1
Huawei Technologies.....B1	Xiaomi.....B1
Hyatt Hotels.....B1	Yum! Brands.....B1

INDEX TO PEOPLE

A - B	H	P
Ardern, Jacinda.....B6	Heinz, Kenneth.....B10	Page, Larry.....A3
Ayson, Robert.....B6	Hillary, Chris.....B12	Peters, Winston.....B6
Azar, Alex.....B11	Hua, Chunying.....B6	Pugh, Tom.....B11
Bordia, Sandeep.....B2	J - K	
Brockman, Robert.....A8	Jones, Derek.....A8	Schools, Scott.....B4
C - F	Jun, Lei.....B4	Segal, Ned.....B1
Chew, Shou Zi.....B4	Kavanaugh, Jordan.....B2	Sheth, Brian.....A8
Chiavaroni, Steven.....B12	L	Smith, Robert.....A1
Cook, Tim.....A3	Lemkau, Gregg.....A8	Smucker, Mark.....B3
Feingold, Bill.....B10	Low, Jho.....B1	Sorrell, Martin.....B2
G	Lui, Arthur.....B4	Steil, Benn.....B10
Gagnon, Joseph.....B10	M	Sternlicht, Barry.....B1
Gibbs, Sonja.....B10	Malone, John.....B2	Tung, Hans.....B4
Grant, Mark.....B11	McNeilage, Bruce.....B2	Watson, John.....B3
Guangshao, Tu.....B10	Mulholland, Dan.....B11	
		T - W
		Tung, Hans.....B4
		Watson, John.....B3

Liberty Keeps Eye on iHeart

By SOMA BISWAS

John Malone's **Liberty Media** Corp., which last month officially abandoned a plan to buy a stake in bankrupt **iHeartMedia Inc.**, continues to express interest in the nation's largest radio broadcaster, according to people familiar with the matter.

Liberty, which owns a controlling interest in satellite-radio-broadcasting company **Sirius XM**, is working on revamping its initial offer, one of the people said. The media company had offered to pay about \$1.2 billion for a 40% stake in **iHeartMedia** before withdrawing its bid last month.

Liberty's interest in **iHeartMedia** sets up a potential bidding battle with California-based private-equity firm **Silver Lake**, the person said.

Silver Lake, which has made an offer for a 20% stake in **iHeart**, has been in talks with the radio-station operator and its creditors about a potential deal, the person said.

Talks to sell a stake in **iHeartMedia** are still in early stages, the person said, and no deal is expected until closer to confirmation of **iHeart's** reorganization plan.

Spokeswomen for Liberty, Silver Lake and **iHeartMedia** declined to comment.

nese, that it will use to build thousands of rental homes in the Southeast. Toronto's **Tricon Capital Group Inc.** said it is teaming with a U.S. pension fund and a sovereign-wealth fund to enlarge its home-purchasing program over the next three years by about \$2 billion, enough for perhaps 12,000 houses.

"We're seeing a wider variety of investors coming into this asset class: sovereign-wealth funds, insurance companies, hedge funds, pensions, asset managers," said Sandeep Bordia, Amherst's head of Research and Analytics.

Managing far-flung clusters of homes—much harder than running an apartment building—has long been a hurdle for investors. But analysts and rental executives say investors are gaining confidence it can be done profitably. Also, wealthier tenants in the single-family-home market typically have children and need more bedrooms than most apartments offer. They're also willing to accept rent increases to stay in good school districts.

Plastic Straws Get Dumped

Continued from page B1

Some manufacturers could benefit from new demand for making some of the 500 million drinking straws used in the U.S. every day out of something other than plastic, said Tony Uphoff, president and CEO of Thomas, a data company for industrial manufacturers.

Starbucks is one of the biggest and well-known companies to make such a move. It said

Monday that it plans to phase out single-use plastic straws from its more than 28,000 company-operated and licensed stores by 2020.

The coffee giant said it would switch to a strawless lid or straws made from a material other than plastic. It said it expects a specially designed strawless lid with a wider mouth will become the standard for serving its iced coffee, tea and espresso beverages.

The switch came in response to requests from both customers and store employees, the company said, and became more urgent as cold drinks—typically slurped through straws—surged in popularity. Cold beverages comprised more

than 50% of Starbucks's sales last year, up from 37% five years ago. Starbucks said the shift will eliminate more than a billion straws served at its stores annually.

Starbucks already uses its strawless lid in more than 8,000 stores in the U.S. and Canada.

The company is testing the lid on Starbucks Draft Nitro beverages in China, Japan, Singapore, Thailand and Vietnam as well.

Chief Executive Kevin Johnson called getting rid of plastic straws a milestone for Starbucks's aspirations to deliver its food and beverages "in more sustainable ways."

As You Sow, a nonprofit that advocates for corporate social responsibility, requested in a

Chinese clients. "They get that this is a linchpin of the American economy," he said.

Invitation Homes, the industry's 83,000-home heavyweight created by the combination of Messrs. Schwarzman's and Sternlicht's rental ventures, last month sold the largest ever rent-backed bond. The houses that **Invitation** borrowed \$1.3

billion against were valued at 26% more than when they were used as collateral in earlier bond deals, according to **Kroll Bond Rating Agency**.

American Homes 4 Rent, the country's second-largest single-family rental owner, has been adding houses with proceeds from \$500 million of unsecured debt the Agoura Hills, Calif. company sold in January.

Bruce McNeilage, who sold 42 houses in suburban Nashville to **American Homes** in 2015, has since flipped another 400 or so in middle Tennessee and around Atlanta to larger landlords. He's building dozens of houses in both regions and buying in the Carolinas, some to sell and some to rent out himself.

Mr. McNeilage had planned to slow down, but local lenders offered financing that was too favorable to pass up.

Quantum National Bank, for instance, recently sent Atlanta-area landlords and flippers a memo advertising \$10 million that it hoped to lend at promotional rates against rental homes, in chunks ranging from \$150,000 to \$1.5 million.

"Since we suspended Mr. Leissner, we have discovered that certain activities he undertook were deliberately hidden from the firm, which we brought to the attention of authorities," a Goldman spokesman said. "We continue to cooperate with the relevant authorities."

A lawyer for Mr. Leissner declined to comment on the bank's statement.

A spokesman for the U.S. Attorney's Office in Brooklyn and a spokeswoman for the Justice Department declined to comment.

U.S. investigators have sought to determine whether Goldman had reason to suspect that money it helped 1MDB raise was misused and, if so, whether the bank was obligated to report any concerns to authorities, the Journal has reported. The Federal Reserve, Securities and Exchange Commission and New York state's Department of Financial Services also are examining some of the bank's actions, as are Singapore authorities.

Mr. Low hasn't been charged and has denied any wrongdoing. Mr. Low and his lawyers declined to comment.

The U.S. and Malaysia are both investigating Mr. Low, The Wall Street Journal has reported, but it is unclear if he will be charged or which country's authorities might do so.

Goldman has said it did nothing wrong and had no

way of knowing there might be fraud surrounding 1MDB. The bank has said its main role was raising money it thought would be used for the stated purposes. Goldman had repeatedly denied Mr. Low's request to open personal accounts at the firm.

Still, no one flagged the 1MDB transactions to regulators, the Journal has reported. "We have found no evidence showing any involvement by Jho Low in the 1MDB bond transactions," the firm has said previously.

Mr. Leissner met Mr. Low in 2009. That year, Goldman became an adviser to the oil wealth fund. The fund evolved into 1MDB when the prime minister gave it the broader goal of spurring economic development.

Mr. Leissner was suspended from Goldman in early 2016 and later quit the firm after it discovered he had written an unauthorized letter to a Luxembourg bank vouching for Mr. Low. The letter said Goldman had done due diligence on Mr. Low and found no issues.

Rebecca Davis O'Brien contributed to this article.

BUSINESS & FINANCE

Sorrell Outbids WPP for Agency

By NICK KOSTOV

Martin Sorrell's new marketing venture is expected to acquire a Netherlands-based digital production agency, according to people familiar with the matter, topping a rival bid from the **WPP PLC**, the advertising giant he spent decades building.

Mr. Sorrell's new venture, which he plans to call S4 Capital, will pay around €300 million (\$352 million) for MediaMonks in cash and shares, two people familiar with the matter said, adding that the deal's announcement is slated for Tuesday.

Mr. Sorrell hasn't lost his appetite for acquisitions, especially if that means dueling with his former employer over prize assets. In 1985, Mr. Sorrell took a shell company

called Wire & Plastic Products and used it to make a string of acquisitions, eventually building the world's largest ad group with a market capitalization of more than £15 billion (\$19.9 billion).

In April, Mr. Sorrell resigned as chief executive of WPP after The Wall Street Journal reported that the company's board was looking into an allegation of improper per-

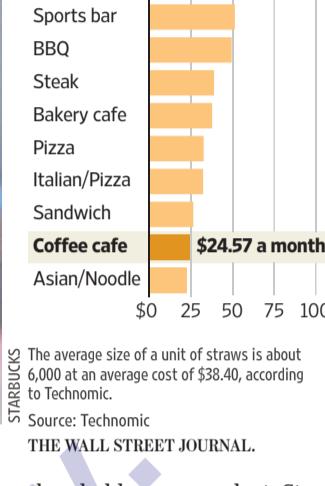
sonal behavior and whether Mr. Sorrell had misused company assets. Mr. Sorrell rejected the allegation "unreservedly" at that time.

A deal for MediaMonks would mark Mr. Sorrell's first acquisition since resigning from WPP.

MediaMonks produces games, films and websites. It employs more than 750 people.

Straw Poll

Average monthly spending on straws by selected restaurant type



The average size of a unit of straws is about 6,000 at an average cost of \$38.40, according to Technomic.

Source: Technomic

THE WALL STREET JOURNAL.

Starbucks already uses its strawless lid in more than 8,000 stores in the U.S. and Canada.

Investors Raise Bets On Rentals

Continued from page B1

housing market a decade ago.

Cash to acquire and renovate homes has become so abundant lately that some rental investors can't spend it fast enough. Without enough homes to buy, some investors are now building their own in popular residential markets like Miami and Nashville, Tenn.—upending a traditional pattern of Americans buying starter homes and moving up.

"The American dream no longer includes homeownership," said Jordan Kavanaugh, chief executive of **Transcendent Investment Management LLC**, a south Florida firm that has been a big acquirer of rental homes.

Transcendent says it has secured more than \$250 million, mostly from wealthy Chi-

nese, that it will use to build thousands of rental homes in the Southeast. Toronto's **Tricon Capital Group Inc.** said it is teaming with a U.S. pension fund and a sovereign-wealth fund to enlarge its home-purchasing program over the next three years by about \$2 billion, enough for perhaps 12,000 houses.

"We're seeing a wider variety of investors coming into this asset class: sovereign-wealth funds, insurance companies, hedge funds, pensions, asset managers," said Sandeep Bordia, Amherst's head of Research and Analytics.

Managing far-flung clusters of homes—much harder than running an apartment building—has long been a hurdle for investors. But analysts and rental executives say investors are gaining confidence it can be done profitably. Also, wealthier tenants in the single-family-home market typically have children and need more bedrooms than most apartments offer. They're also willing to accept rent increases to stay in good school districts.

These investors' war chests have been swelled by rising home prices, which give them more valuable collateral. Transcendent's fund will add about \$750 million of debt on top of investors' \$250 million or so, giving the firm spending power of about \$1 billion over the next three years. Mr. Kavanaugh expects to develop as many as 3,000 homes for his predominantly

Chinese clients. "They get that this is a linchpin of the American economy," he said.

Invitation Homes, the industry's 83,000-home heavyweight created by the combination of Messrs. Schwarzman's and Sternlicht's rental ventures, last month sold the largest ever rent-backed bond. The houses that **Invitation** borrowed \$1.3

billion against were valued at 26% more than when they were used as collateral in earlier bond deals, according to **Kroll Bond Rating Agency**.

American Homes 4 Rent, the country's second-largest single-family rental owner, has been adding houses with proceeds from \$500 million of unsecured debt the Agoura Hills, Calif. company sold in January.

Bruce McNeilage, who sold 42 houses in suburban Nashville to **American Homes** in 2015, has since flipped another 400 or so in middle Tennessee and around Atlanta to larger landlords. He's building dozens of houses in both regions and buying in the Carolinas, some to sell and some to rent out himself.

Mr. McNeilage had planned to slow down, but local lenders offered financing that was too favorable to pass up.

Quantum National Bank, for instance, recently sent Atlanta-area landlords and flippers a memo advertising \$10 million that it hoped to lend at promotional rates against rental homes, in chunks ranging from \$150,000 to \$1.5 million.

"The American dream no longer includes homeownership," says Transcendent's Jordan Kavanaugh.

Continued from page B1

prosecutors allege is the mastermind of the purported fraud, which would be one of the biggest in history.

Prosecutors from the U.S. Attorney's Office in Brooklyn also are investigating whether Goldman, which earned nearly \$600 million from its role in arranging a series of bond sales for 1MDB, violated any laws, some of the people said.

Billions of dollars raised through the bond offerings were almost immediately routed to bank accounts connected to figures in the probe, including Messrs. Low and Najib, investigators have said.

Mr. Low hasn't been charged and has denied any wrongdoing. Mr. Low and his lawyers declined to comment.

BUSINESS NEWS

Smucker Is Selling U.S. Baking Brands

BY ANNIE GASPARRO

J.M. Smucker Co. is selling its U.S. baking business to a private-equity firm for \$375 million, including debt, mirroring moves by other food companies to shed decades-old brands whose sales are in decline because of changing consumer tastes.

Smucker said Monday that Greenwich, Conn.-based Brynwood Partners would buy Funfetti and Pillsbury baking mixes and Hungry Jack pancakes, among other brands. Smucker put the baking business, which generated 5% of its revenues, up for sale in April.

While the fluffy, white Pillsbury's Doughboy wearing a chef's hat charmed Americans into buying the brand for decades after his 1965 debut, his effectiveness has waned.

Mark Smucker, chief executive of the Orrville, Ohio, company, said in February that he hadn't invested much in Pillsbury over the prior year because it would have hurt profit. "We consciously chose not to go deep," he said on an

earnings call.

Smucker has owned the business since 2004, having bought it for \$840 million, including debt. Then called International Multifoods Corp., the baking business was a collection of brands including Pillsbury dry mixes and flour, and a canned-milk line that Smucker divested already.

Like many of its peers, Smucker is investing in faster-growing businesses like coffee and pet food while disposing of brands that were dragging down sales. It is trying to give its Folgers coffee brand a higher-end makeover and said in April that it would buy pet-food maker Ainsworth Pet Nutrition LLC for \$1.7 billion.

Other food makers are also selling off older brands that are hindering their earnings potential. General Mills Inc. sold its Green Giant frozen-vegetable line in 2015 and Nestlé SA sold U.S. candy brands including Butterfinger and Baby Ruth this year.

For Smucker, the baking business entered a protracted decline after several years of growth as consumers started buying freshly baked goods and leaving cake-mix brands on the shelf.

Competition also came from Pinnacle Foods Inc., which introduced Duncan Hines single-serve microwavable cake mixes that have eaten into Pillsbury's market share. The brand's sales volumes have declined for at least the past six years, according to company filings.

Brynwood Chief Executive Henk Hartong said he sees potential especially to expand sales of Funfetti. The multicolored cake mix had about \$50 million in sales in fiscal 2018. Mr. Hartong thinks he can apply the brand to other products like snack cakes and ice cream, similar to the resurgence private-equity owners have brought to Twinkies recently.



More than 1,000 cars in Japan were affected, but the company said no recall is needed because the vehicles met government standards.

Nissan Flags Flawed Data

BY ALASTAIR GALE

TOKYO—Staff at some of **Nissan Motor** Co.'s Japan plants falsified auto-emissions and fuel-economy data, the company said Monday, in what is the latest data-faking incident among Japanese manufacturers.

It is also the second compliance scandal at Nissan in recent months after it admitted to faults in vehicle inspection procedures.

Staff at four Nissan plants altered emissions and fuel-economy data for 913 cars tested as far back as 2013, the company said. More than a dozen vehicle models for the Japanese market were affected.

An internal review of vehicle testing also found other problems such as erroneous calibration of testing equipment.

Combined, bad testing and rewritten data affected a total of more than 1,000 cars.

Nissan said it found the problems during compliance checks at its plants after the discovery of flawed vehicle inspections last year. Other than

one model still under investigation, Nissan said all of the affected vehicles met Japanese auto standards. The data alterations were made by staff to meet Nissan's own stricter internal standards, it said.

"A full and comprehensive investigation of the facts...including the causes and background of the misconduct, is under way," Nissan said.

A Nissan spokesman said the affected cars wouldn't be recalled because they all met Japan auto standards.

Nissan's stock fell 4.6% in Tokyo after the company said it would make an announcement about vehicle emissions, which came after the market closed.

The Transport Ministry ordered Nissan to fully investigate the problem and, within a month, come up with measures to prevent a recurrence.

Late last year, Nissan said unauthorized workers at some plants in Japan had performed parts of final inspections—including confirming that the brakes and lights work—and inspection documents were then falsely stamped with autho-

rized inspectors' seals, equivalent to a signature in Japan.

Nissan recalled more than one million cars in Japan for re-inspection in that case.

In the past year or so, a string of Japanese companies have admitted to manipulating

ing on factory workers to figure out the details. As a result, workers cut corners to meet those targets and then hid the evidence, the report said.

Nissan's announcement Monday also marks the latest in a series of emissions-testing scandals to rock the broader auto industry in recent years.

Volkswagen AG has acknowledged rigging nearly 11 million diesel vehicles world-wide to cheat on emissions tests. The company agreed to compensate owners, buying back or fixing the diesel vehicles equipped with illegal software that helped it pass government emissions tests but then pollute above allowable levels.

The U.S. Justice Department in 2017 sued Fiat Chrysler Automobiles NV, accusing the auto maker of using illegal software on about 104,000 Jeep Grand Cherokee sport-utility vehicles and Ram pickups to help the diesel-powered vehicles cheat on government emission tests. Fiat Chrysler has denied the allegations.

—Chieko Tsuneoka contributed to this article.

Going Stale

Pillsbury's baking mixes have a smaller share of that market and falling sales.

U.S. market share in 2017

Betty Crocker	21%
Duncan Hines	18%
Pillsbury	10%

Sales growth in the U.S.



Source: Euromonitor

THE WALL STREET JOURNAL.

Chevron Boss, Not Exxon's, Is Top-Paid Energy Chief

BY PATRICK THOMAS

Recently retired John Watson of the oil giant **Chevron** Corp. topped the list of highest-paid energy bosses in the S&P 500, taking home more in 2017 than his counterpart at **Exxon Mobil** Corp.

Mr. Watson, 61 years old, received \$24.8 million in 2017, compared with the \$17.5 million that first-year Exxon chief Darren Woods was paid last year, according to a Wall Street Journal analysis of pay data from MyLogIQ LLC. Mr. Woods took over on Jan. 1 after Rex Tillerson left Exxon to join the Trump administration.

It was the first time since Mr. Watson took over as CEO in 2010 that he outearned Exxon's leader. Before Mr. Watson's tenure, Chevron's CEO sometimes outearned Exxon's, even though Exxon is larger in terms of revenue and market capitalization.

After 37 years at Chevron, Mr. Watson retired and was replaced as CEO in February by Michael Wirth, who oversaw the company's network of refining and pipeline assets.

The majority of Mr. Watson's pay was linked to performance, a Chevron spokesman said. "Moreover, during John's tenure, Chevron's stock outperformed its peer companies by a wide margin." In 2016, only 54% of stockholders supported Mr. Watson's pay, but 93% of stockholders supported it in 2017 after his compensation was changed to be more tied to stock awards and to rely less on option awards, according to regulatory filings. His total compensation in 2017 was about the same as it was in 2016.

Chevron posted a shareholder return of 10.6% for 2017, compared with the median -3.3% for the S&P 500 energy sector. Exxon's shareholder return was -3.8% last year. Total return reflects share price appreciation and dividends.

The median pay for an energy sector CEO in the S&P 500 was \$12.7 million last year, ac-



Recently retired John Watson of Chevron was the highest-paid energy boss in the S&P 500, according to a WSJ analysis.

Highest-Paid Energy Sector CEOs

CEO/COMPANY	TOTAL PAY, IN MILLIONS	SHAREHOLDER RETURN
John Watson Chevron	\$24.8 million	▲10.6%
Greg Garland Phillips 66	23.7	▲20.9
Jeffrey Miller Halliburton	23.1	▼8.3
Joseph Gorder Valero Energy	22.5	▲40.0
Ryan Lance ConocoPhillips	21.8	▲12.0
Paal Kibsgaard Schlumberger	20.8	▼17.5
Gregory Goff Andeavor	19.9	▲34.0
Gary Heminger Marathon Petroleum	19.7	▲34.8
Darren Woods Exxon Mobil	17.5	▼3.8
R.A. Walker Anadarko Petroleum	17.0	▼22.8

Notes: Industry groups defined by Standard & Poor's. Shareholder return reflects 1-year total shareholder return through the month-end closest to each company's fiscal-year end.

Sources: MyLogIQ LLC (pay); Institutional Shareholder Services (performance)

THE WALL STREET JOURNAL.

cording to the Journal analysis.

Four of the eight highest-paid CEOs of the 28 companies in the S&P 500 energy sector ran refining and marketing companies. Topping that group was Greg Garland, CEO of Phillips 66, who received \$23.7 million last year. Phillips 66 posted a 20.9% shareholder return in 2017.

Despite surging crude oil prices, nine of the 13 explora-

tion and production companies in the group had negative shareholder returns. Those 13 companies had a median CEO compensation of \$12.2 million.

The Journal analysis encompassed S&P 500 energy companies and excluded CEOs who changed jobs during the year or served less than a full year.

—Theo Francis contributed to this article.

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TECHNOLOGY

Tesla Lifts Prices in China

By TREFOR MOSS

SHANGHAI—Tesla buyers in China are among the first consumers to feel the pinch from the U.S.-China trade dispute.

Price listings on Tesla Inc.'s Chinese website increased by nearly 20% over the weekend. It came after the U.S. and China on Friday imposed tit-for-tat tariffs on \$34 billion of each other's goods, which affected U.S.-built cars exported to China including Teslas.

The Silicon Valley electric car maker had cut prices by about 6% after the Chinese government reduced its tariffs on imported cars to 15% from 25% on July 1. But that cut proved short-lived. The measures imposed Friday raised

the tariff on Tesla to 40%.

A basic Model S sedan now costs roughly \$128,400, up from \$107,300 last week, while the price of a Model X sport-utility vehicle rose to \$140,100 from \$117,100.

A Tesla dealer in Beijing said there were still some cars in stock with lower price tags that were delivered before the new tariffs were imposed, but that inventory was very low.

Tesla plans to build a plant in Shanghai, but for now it produces vehicles only in the U.S. Last year, it sold about 17,000 cars in China, its second-biggest market globally, generating more than \$2 billion in revenue.

Unlike most auto makers, Tesla sells its cars through

company-owned stores instead of franchised dealerships, allowing it to set prices. It has 30 stores in China, according to its website.

The tariffs the U.S. and China imposed on each other present companies with a dilemma: Risk a loss by absorbing the cost or risk market share by passing the tariff increase on to consumers. Beijing has looked for ways to shield its companies and consumers, for example by trying to direct purchases of soybeans to Brazil and other suppliers.

China's Commerce Ministry said Monday it would use the added revenue from the increased tariffs to provide relief for companies and workers. Also Monday, the executive of-

fice of the State Council, China's cabinet, issued a notice calling for an increase in imports while stabilizing exports to promote more balanced trade, the state-run Xinhua News Agency reported.

Tesla isn't the only auto maker that builds in the U.S. and ships to China: BMW AG, Daimler AG and Ford Motor Co. all sell U.S. imports in significant volume here.

Last week, Ford said it has no current plans to raise retail prices on its China imports in response to the tariff hike.

Daimler said it didn't plan to pass the entire cost of the tariff rise onto its customers.

—Chunying Zhang
and Shan Li
contributed to this article.

Microsoft Sells Cheaper Surface

By JAY GREENE

Microsoft Corp. is cutting prices on its Surface devices, introducing a \$399 tablet to compete with **Apple** Inc.'s least-expensive iPads.

The new 10-inch Surface Go, which ships Aug. 2 in the U.S. and two dozen other markets, is the least costly among the five Surface devices that Microsoft makes. The Surface Go is aimed at the same market as Apple's 9.7-inch iPad, which starts at \$329.

Microsoft's Surface devices have been showcases—computers made with premium materials that have sleek designs intended to highlight the capabilities of the Windows operating system and spark creativity among its hardware partners.

Only a few of those partners, like **Asustek Computer** Inc., offer designs similar to what Microsoft is introducing.

The Surface portfolio has produced uneven results for Microsoft, though in the past few quarters the devices have sold well. In the three months ended March 31, Surface generated \$1.09 billion in sales, up 32% from a year earlier.

Tablet shipments worldwide fell 11.7% in the first quar-

ter, according to International Data Corp., a market-research firm. One bright spot was shipments of tablets with detachable keyboards, such as the Surface, which grew by 2.9%.

Surface Go devices purchased at retail will run Windows 10 in "S mode," a variant of the operating system that the company introduced last year.

Windows S only permits users to run apps obtained through Microsoft's online Windows Store. The idea is to make the devices more secure by limiting applications to those Microsoft has verified. But some popular apps, like Google's Chrome browser, aren't available.

Microsoft will let customers switch, at no cost, to the regular version of Windows 10.

The company is also offering a Surface Go that runs Windows 10 Pro, a version of the operating system that business customers use for its management features, for \$449. Customers can pay more to bump up storage and memory on both versions. And Microsoft will sell two versions of a cover that includes a keyboard for an additional \$99 to \$129.

Uber Brings Aboard A Top DOJ Official

By GREG BENINGER AND SADIE GURMAN

Uber Technologies Inc. has tapped a former top official at the U.S. Justice Department to be its first chief compliance officer, as the ride-hailing giant seeks to move past a series of regulatory problems and other controversies ahead of a highly anticipated initial public offering next year.

Uber is set to announce to staff on Tuesday the hiring of Scott Schools, who stepped down last week as the Justice Department's highest-ranking career official and a close adviser to Deputy Attorney General Rod Rosenstein.

Mr. Schools, 56 years old, said in an interview that Uber began courting him in February. He is among a spate of high-level hirings since Chief Executive Dara Khosrowshahi joined Uber last September, including operations chief Barney Harford and general counsel Tony West, a former high-ranking Obama Justice Department official, to whom Mr. Schools will report.

Mr. Schools leaves an agency that has been in turmoil to join a startup that has been one of Silicon Valley's

most embattled companies. Uber is the subject of at least five federal investigations, looking into issues including its pricing practices, accusations of bribery by Uber executives abroad and the company's use of software designed to evade local officials tracking its operations. It also is contending with lingering questions about past sexual-harassment allegations, and federal investigators probing the safety of its self-driving-vehicle program after a fatal accident earlier this year.

Uber has said it is cooperating with traffic-safety investigators and has shut down testing of the vehicles on public roads until the reviews are complete.

Mr. Schools said he wasn't involved in any Justice Department investigations into Uber, and would recuse himself if necessary.

Mr. Schools leaves a Justice Department that lacks permanent politically appointed leaders for many of its most important divisions. The department also has been a frequent target of attacks by President Donald Trump for what he claims are its shortcomings.



Lei Jun, chairman and CEO of Xiaomi, striking a gong Monday to celebrate the company's listing on the Hong Kong Stock Exchange. ANTHONY KWAN/BLOOMBERG NEWS

Xiaomi's Debut Is Lackluster

Continued from page B1
lion, but of several analysts' estimates of \$65 billion to \$85 billion.

"Hong Kong investors have never seen something like this before," said Hans Tung, managing partner at GGV Capital and an early Xiaomi backer. He said the local market needed "time to get used to the story, just like U.S. investors took time to get used to Facebook."

Coming listings include mobile-infrastructure giant **China Tower** Corp., which could raise as much as \$10 billion, and local-services specialist **Meituan Dianping**.

The share sale came at a challenging time for Chinese stocks, given the escalating trade conflict with the U.S. Hong Kong's benchmark index is down more than 10% from a January peak.

Xiaomi founder and Chief Executive Lei Jun nodded to those difficulties. "Although the macroeconomic conditions are far from ideal, we believe a great company can still rise to the challenge and distinguish itself," he said.

Mr. Lei hopes the IPO can fuel more international expansion

after previous pushes into India, Southeast Asia and Europe. Eventually, it would like to sell phones in the U.S.

Despite the hiccups, Xiaomi's IPO is a milestone for a company that looked like an also-ran less than two years ago, following buggy product releases that cost it market share to homegrown rivals such as Oppo and Vivo. The turnaround stems from India, where it is the top smartphone vendor, and from a shift from online-only sales to brick-and-mortar stores.

Xiaomi's popular gadgets have earned it hordes of fans and executives hope, a base of retail investors such as Hong Kong-based Arthur Lui. Mr. Lui bought some Xiaomi stock in

the gray market on Friday, sold at a profit on Monday and is now trading some derivatives based on its shares, he said.

Xiaomi is "more than just a handset maker," Mr. Lui said. "I don't want to miss any chance in case the sentiment in the tech sector improves anytime soon."

The company is the first to list in Hong Kong with supervoting shares under new rules implemented by Hong Kong Exchanges and Clearing Ltd. It has postponed plans to list in mainland China under a pilot program, and Chief Financial Officer Shou Zi Chew said on Monday that it would be launched "at an appropriate time."

—Stella Yifan Xie contributed to this article.

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BUSINESS & FINANCE

Dismissal of Brothers Prompts U.S. Suit

Employer feared health costs related to siblings' blood disorder, agency claims

BY LAUREN WEBER

Five years ago, Anthony, Drew and Raymond West were called into their supervisor's office and let go from their jobs performing heavy-duty maintenance work at an oil refinery in Beaumont, Texas.

"We kind of knew it was gonna happen, but then again we were all shocked," said Raymond West, age 26, the youngest of the brothers.

The Wests were employed for a contract-worker firm, Signature Industrial Services LLC, and were contracted to do work for Exxon Mobil Corp. Their Signature supervisor had been instructed to let them go because of their medical condition, hemophilia A, according to a lawsuit filed in February by the Equal Employment Opportunity Commission that charged Signature with violating the Americans with Disabilities Act.

Contracting firms like Sig-

nature deliver flexibility and cost savings to companies that don't want to take on the long-term liabilities of permanent employees. Contracting firms supply extra workers when business demand increases; those same people may be dropped quickly when demand slumps. The firms compete to win contracts from price-conscious corporate clients.

Big companies are accustomed to absorbing costs such as rising health insurance premiums, which they spread across a large workforce. But experts say that, as large firms outsource work to small companies that often operate with thin margins, there is little capacity for those smaller firms to soak up the costs.

Signature said in a filed response to the suit that the brothers were let go for non-medical reasons as part of a larger "reduction in force." The company didn't provide details about a broader layoff in the documents. "Signature Industrial Services is committed to providing equal employment opportunities for all workers," the company's attorney said in a statement. Exxon declined to comment.



From left, Drew, Raymond and Anthony West are the subject of a suit based on federal disability law.

on the case.

On Monday, the brothers, the EEOC and Signature were scheduled to gather for a mediation session.

Contracting firms in the oil-and-gas industry "are under constant pressure to get their

prices down, and the easiest way is to look for ways to cut material and labor costs," said Andrew Thomas, a former oil and gas lawyer who now runs the Energy Policy Center at Cleveland State University. Signature's owners learned

in June 2012, when their prior health insurance contract was expiring, that their payments could rise steeply due to the Wests' hemophilia, according to the EEOC's complaint. Signature executives asked David White, Signature's project manager at the refinery, to let the brothers go and he refused, the agency alleged.

"You don't let somebody go because of insurance purposes or high risk or anything else. I don't believe in that. It's not right," Mr. White said in an interview. He said that Signature managers told him to lay off the West brothers because of their impact on the company's premiums, and added that the West brothers were "good workers, no doubt, very good workers."

After Mr. White left the company, Signature executives ordered the Wests' direct supervisor to let the brothers go,

according to the EEOC complaint. Told he would lose his job if he defied the order, that manager complied in July 2013, the complaint said.

"It's never kept me from doing any of my jobs," Anthony West said of his hemophilia, a gene mutation that makes it difficult for blood to clot, causing people with slight injuries to bleed profusely. Mr. West, age 33, had received a promotion a few months earlier. "I thought I was safe," he said.

The energy sector relies heavily on contract workers, with about 47% of labor spending paid to an outside workforce, according to a recent report from SAP Fieldglass, which makes software that tracks clients' use of external workers. Around the time the Wests were let go, Exxon had more than 1,000 contractors working alongside 2,000 direct employees, according to a press report from 2013. Over the last 20 years, Exxon's workforce has shrunk by almost 40%, from 114,900 in 1997 to 69,600 in 2017.

After they were let go, the West brothers looked for other work. For two years, Anthony took short-term stints with other contract-services firms, but the work was often far from home and kept him away from his wife and three children for long stretches, he says. Now he works in operations for Exxon as a direct employee.

Today, Raymond West makes chemicals as a process operator for a specialty chemical maker. Drew West is a boilermaker and pipe fitter for a contracting firm in Dayton, Texas.

"Everyone is entitled to work," Anthony said. "It just hurt knowing I was let go because of a blood condition I had since I was born."

New Zealand to Buy Boeing Patrol Aircraft

By ROB TAYLOR

New Zealand said it would buy four Boeing Co. antisubmarine aircraft, marking the country's biggest military purchase in decades, as it seeks to counter a Chinese buildup in the Pacific that has worried the U.S. and its allies.

New Zealand's government on Monday approved the \$1.5 billion purchase of the P-8A Poseidon, which are used by the U.S. and its military allies including the U.K., Australia and South Korea.

"We are stepping up and being responsible in the Pacific," said Winston Peters, who is acting prime minister while Jacinda Ardern is on parental leave. Beijing has previously accused Mr. Peters, the populist leader of New Zealand First, a minor party in Ms. Ardern's center-left government, of being "anti-Chinese."

Chinese Foreign Ministry spokeswoman Hua Chunying said Monday that China's development "poses no threat to any country."

"In fact, we have created great opportunities for other countries," she said, adding that "disputes should be peacefully resolved through negotiation by the concerned parties, and we hope the New Zealand side will do more to help with our mutual trust."

New Zealand's deal announcement comes just days after the small island nation unveiled a new defense blueprint warning that an "increasingly confident" Beijing is testing international rules and stability in "newly potent ways." Ms. Hua said China affirms "some reasonable parts of that document, though we also express our concern with other parts of it."

New Zealand scrapped its combat air force about 15 years ago to save money. The P-8 deal comes as a more assertive China expands its military, diplomatic and economic reach across an arc stretching from Africa through the Indian Ocean to the Pacific.

New Zealand's position had firmed up. It's more willing to say things about China that are a bit critical," Prof. Ayson said.

"If New Zealand, like Australia, feels that the maritime and strategic environment is deteriorating...then you need the P-8 to show New Zealand is willing to deploy [its military] in and beyond the Pacific," he said.

—Eva Dou

contributed to this article.

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CLASS ACTION

NOTICE OF CLASS ACTION SETTLEMENT
SUPERIOR COURT OF CALIFORNIA, COUNTY OF LOS ANGELES

McWilliams v. City of Long Beach, Los Angeles Superior Court Case No. BC361469

YOU MAY BE ENTITLED TO A REFUND OF TELEPHONE TAX

If you paid for telephone service between August 11, 2005 and December 19, 2008, and you had a billing or service address within the City of Long Beach, CA you may be eligible to receive a refund of telephone tax.

WHO IS ENTITLED TO PAYMENT?

You must submit a valid claim by September 15, 2018 to receive payment. If you paid for landline telephone service with a service address in the City of Long Beach, CA, or if you paid for a mobile/cellular telephone account* with a billing address in the City of Long Beach, CA (*does not include pre-paid mobile service), at any time from August 11, 2005 through December 19, 2008, you are entitled to claim a cash refund for the utility users' tax ("UUT") collected on your phone bills.

To submit a Claim Form, visit the settlement website at www.LBTaxRefund.com or contact the Claims Administrator at (833) 380-5573 to request one be mailed to you.

YOUR OPTIONS

You may take any of the following actions:

If you:	Then:
Complete and Submit a valid Claim Form by the DEADLINE: September 15, 2018	You will receive a cash payment. You can claim a standard refund amount without submitting documentation. The standard amounts are: \$27.50 for residential landline, \$46 for mobile, and \$46 for business landline. You can also claim a higher amount, up to 100% of the UUT paid, by submitting documentation. See www.LBTaxRefund.com for more information.
Do Nothing	You do not receive any money from the lawsuit, any claim you have for a refund will be released, and you will no longer have such a claim.
Exclude Yourself by the DEADLINE: October 15, 2018	Get out of the lawsuit. Get no payment. Keep your right to sue separately with your own lawyer.
Object DEADLINE: September 28, 2018	Write to the Court about why you do not like the settlement.
Go To A Court Hearing	Ask to speak to the Court about the fairness of the settlement. You do not have to attend the hearing to receive payment. The Final Approval Hearing is on October 29, 2018 at 9:00 a.m. in Department 17, Los Angeles Superior Court, 312 North Spring Street, Los Angeles, California 90012

WHAT IS THIS LAWSUIT ABOUT?

This class action lawsuit was filed by a Long Beach resident seeking refunds of telephone taxes paid to the City of Long Beach, CA for telephone services utilized between August 11, 2005 and December 19, 2008. The City denied any wrongdoing and still denies any liability in this case. However, the parties have agreed to a settlement that provides for telephone tax refunds to eligible claimants.

EXCLUDING YOURSELF

If you don't want a payment from the settlement, and you want to keep the right to sue the City of Long Beach on your own over the UUT, then you must exclude yourself from the settlement. To do that, you must submit online at www.LBTaxRefund.com or send in the mail a letter by October 15, 2018 saying that you want to be excluded from the settlement to: McWilliams v. City of Long Beach, c/o JND Legal Administration, P.O. Box 91304, Seattle, WA 98111. If you ask to be excluded, you cannot object to the settlement and cannot receive payment. You will not be bound by anything that happens in this lawsuit.

OBJECTING TO THE SETTLEMENT

You can tell the Court that you don't agree with the settlement or some part of it. You may only object if you are a Class Member and you do not exclude yourself from the settlement. You can object yourself or hire a lawyer at your own expense. The Court will consider your objection. Your objection must be in writing, and should include your name, address, telephone number, signature, and the reasons you object. You must also provide evidence of membership in the Class, such as a copy of a phone bill from the Class Period. If your objection is mailed in time, you do not have to attend the fairness hearing described above. You must mail your written objection so that it is received on or before September 28, 2018 to: McWilliams v. City of Long Beach, c/o JND Legal Administration, P.O. Box 91304, Seattle, WA 98111.

WHAT YOU ARE GIVING UP TO RECEIVE PAYMENT

In exchange for payment of the refund, you are agreeing not to sue the City for any claims that relate to this lawsuit or could have been brought in this lawsuit. Signing the Claim Form will prevent you from being able to sue the City of Long Beach for any disputes you may have over the UUT collected for telephone services utilized from August 11, 2005 to December 19, 2008.

THE LAWYERS REPRESENTING YOU

As a Class Member, you are represented by four law firms:

Daniel W. Krasner Rachele R. Rickett Marisa C. Livesay Wolf Haldenstein Adler Freeman & Herz LLP 750 B Street, Suite 2770 San Diego, CA 92101	Nicholas E. Chimicles Timothy N. Mathews Chimicles & Kellis LLP One Haverford Centre 361 W. Lancaster Ave. Haverford, PA 19041	Jonathan W. Cuneo William Anderson Cuneo Gilbert & LaDuc, LLP 4725 Wisconsin Ave. NW, Suite 200 Washington, DC 20016	Jon Tostrud Tostrud Law Group, PC 1925 Century Park East, Suite 2125 Los Angeles, CA 90067
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This Publication Notice summarizes the proposed settlement. More details are in the Settlement Agreement. All court records in this litigation, including complete copies of the Settlement Agreement, may be examined during regular court hours at the office of the Clerk of the Court, 600 South Commonwealth Avenue, Los Angeles, CA 90005.

If you have questions about the settlement or this Notice, please contact the Claims Administrator at (833) 380-5573 or visit www.LBTaxRefund.com, or www.whafh.com or www.chimicles.com.

Do not contact the Court directly with any questions about the settlement.

Para recibir una notificación en español, llame al 833-380-5573 o visite nuestro sitio web, www.lbtaxrefund.com.

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DOW JONES



can track ships and submarines across vast areas of ocean, deploying missiles, depth charges and torpedoes from a rotary launcher to sink them if necessary. The four aircraft will begin operations in 2023.

Mr. Peters, who is also New Zealand's foreign minister, recently said the country needed to use "all the levers at its disposal to advance our national interests and protect our sovereignty" against a backdrop of rising U.S.-China tensions, the militarization of South China Sea atolls, and Beijing's growing Pacific sway.

Australia and New Zealand are negotiating a security pact with small South Pacific island nations as a counter to the

The antisubmarine planes represent its largest military purchase in decades.

growing influence of China and Russia over regional economies including Fiji and resource-rich Papua New Guinea. China, in particular, has been courting island governments through a mix of aid and infrastructure loans.

"Great power competition is back," Mr. Peters said last month. "This government is determined to have the tools to defend and advance New Zealand's interests."

Robert Ayson, an expert from New Zealand's Centre for Strategic Studies, said the choice of submarine hunting P-8s to replace a fleet of six 50-year-old Lockheed Martin Corp. P-3 Orions signals a fresh willingness to help maintain maritime security in the Pacific.

"New Zealand's position had firmed up. It's more willing to say things about China that are a bit critical," Prof. Ayson said.

"If New Zealand, like Australia, feels that the maritime and strategic environment is deteriorating...then you need the P-8 to show New Zealand is willing to deploy [its military] in and beyond the Pacific," he said.

—Eva Dou

contributed to this article.

MARKETS DIGEST

EQUITIES

Dow Jones Industrial Average

24776.59 ▲ 320.11, or 1.31%
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 23.87 20.82
 P/E estimate * 16.05 18.24
 Dividend yield 2.17 2.33
 All-time high 26616.71, 01/26/18

Current divisor 0.14748071991788



Bars measure the point change from session's open
 Apr. May June July

*Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

S&P 500 Index

2784.17 ▲ 24.35, or 0.88%
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 24.15 23.77
 P/E estimate * 17.22 18.56
 Dividend yield 1.89 2.01
 All-time high 2872.87, 01/26/18

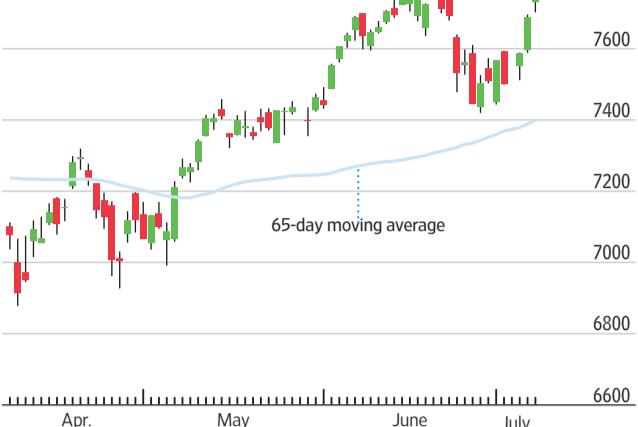


Apr. May June July

Nasdaq Composite Index

7756.20 ▲ 67.81, or 0.88%
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 25.75 25.49
 P/E estimate * 21.05 20.66
 Dividend yield 0.94 1.14
 All-time high: 7781.51, 06/20/18



Apr. May June July

Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.	
	Dow Jones	Industrial Average	Transportation Avg	Utility Average	Total Stock Market	Barron's 400	Nasdaq Composite	Nasdaq 100	MidCap 400	SmallCap 600	500 Index
24776.59	24796.52	24518.43	2784.17	2784.17	24.35	1.31	26616.71	21408.52	15.7	0.2	12.2
10687.66	10698.31	10505.93	213.73	213.73	2.04	2.04	11373.38	9021.12	10.5	0.7	9.9
706.93	729.25	704.53	-22.44	-3.08	-0.88	-0.88	774.47	647.90	0.8	-2.3	7.6
29041.31	29046.13	28893.59	249.22	0.87	0.87	0.87	29630.47	25030.26	15.5	4.9	10.6
761.78	761.81	756.48	8.01	1.06	1.06	1.06	761.78	629.56	18.0	7.2	10.8

Nasdaq Stock Market

Nasdaq Composite	7757.28	7702.06	7756.20	67.81	0.88	7781.51	6176.39	25.6	12.4	16.4
Nasdaq 100	7277.58	7221.32	7276.00	68.67	0.95	7280.70	5694.15	27.8	13.8	18.7

S&P

S&P 500 Index	2784.65	2768.51	2784.17	24.35	0.88	2872.87	2425.53	14.7	4.1	10.7
MidCap 400	2009.30	1995.30	2009.15	19.66	0.99	2009.15	1691.67	15.3	5.7	10.5
SmallCap 600	1057.42	1051.59	1057.32	7.38	0.70	1057.32	817.25	24.5	12.9	14.2

Other Indexes

Russell 2000	1704.84	1694.66	1704.60	10.55	0.62	1706.99	1356.90	21.0	11.0	11.4
NYSE Composite	12779.77	12712.33	12776.92	112.04	0.88	13637.02	11699.83	8.7	-0.2	6.1
Value Line	585.26	580.88	585.20	4.32	0.74	589.69	503.24	12.6	4.1	6.0
NYSE Arca Biotech	5045.24	4984.81	5026.28	18.22	0.36	5026.28	3787.17	30.9	19.0	6.9
NYSE Arca Pharma	546.24	543.28	543.67	1.05	0.19	593.12	514.66	2.5	-0.2	-2.1
KBW Bank	107.28	104.80	107.08	2.75	2.64	116.52	89.71	10.4	0.4	12.2
PHLX® Gold/Silver	84.79	83.28	83.28	-0.47	-0.56	93.26	76.42	4.2	-2.3	11.7
PHLX® Oil Service	158.75	155.49	158.06	3.81	2.47	170.18	117.79	22.8	5.7	-5.8
PHLX® Semiconductor	1360.57	1342.10	1358.03	8.84	0.66	1449.90	1060.02	27.3	8.4	28.1
Cboe Volatility	13.22	12.60	12.69	-0.68	-5.09	37.32	9.14	14.2	14.9	-14.0

\$ Nasdaq PHLX

Sources: SIX Financial Information; WSJ Market Data Group

Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 50,000 shares.

Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	% chg	After Hours	High	Low
iShares MSCI Emg Markets	EEM	12,400.6	44.18	-0.01	-0.02	44.22	44.13	
SPDR S&P 500	SPY	6,935.2	277.95	0.05	0.02	278.91	275.45	
Invesco QQQ Trust I	QQQ	5,125.9	177.23	0.04	0.02	177.36	175.50	
Ambev ADR	ABEV	4,809.2	4.68	0.01	0.21	4.68	4.64	

Company	Symbol	Volume (000)	Last	Net chg	% chg	High	Low
Finl Select Sector SPDR	XLF	3,746.6	27.28	...	unch.	27.30	27.21
KKR ClA	KKR	3,243.6	27.11	...	unch.	27.11	27.11
General Electric	GE	3,038.5	13.97	0.02	0.14	14.08	13.93
Office Depot	ODP	2,191.3	2.82	...	unch.	2.82	2.80

Percentage gainers...

Company	Symbol	Volume	Last	Net chg	% chg	High	Low
OncoCyte	OCX	13					

COMMODITIES

WSJ.com/commodities

Futures Contracts

Metal & Petroleum Futures

	Contract	Open	High	hi	lo	Low	Settle	Chg	Open	interest
Copper-High (CMX)	-25,000 lbs.; \$ per lb.	2,8390	2,8340	2,8390	2,8340	2,8390	2,8340	0.0260	3,366	
July	2,8495	2,8590	2,8495	2,8590	2,8495	2,8590	2,8495	0.0260	3,366	
Sept	2,8235	2,8770	2,8150	2,8500	2,8235	2,8500	2,8235	0.0260	145,506	
Gold (CMX)	-100 troy oz.; \$ per troy oz.	2,8150	2,8150	2,8150	2,8150	2,8150	2,8150	0.0260	145,506	
Aug	1255.70	1266.90	1255.70	1259.60	1255.70	1259.60	1255.70	3.80	312,777	
Oct	1261.60	1272.30	1261.60	1265.30	1261.60	1265.30	1261.60	3.90	21,047	
Dec	1268.00	1278.20	1267.70	1271.10	1268.00	1271.10	1268.00	3.90	128,754	
Feb'19	1274.30	1284.10	1274.30	1277.10	1274.30	1277.10	1274.30	3.90	18,544	
June	1286.20	1295.50	1286.20	1289.30	1286.20	1289.30	1286.20	4.00	5,087	
Dec	1303.50	1313.50	1303.50	1309.00	1303.50	1309.00	1303.50	4.20	3,908	
Palladium (NYM)	-50 troy oz.; \$ per troy oz.	2,8150	2,8150	2,8150	2,8150	2,8150	2,8150	0.0260	145,506	
Sept	948.50	962.80	947.70	954.70	948.50	954.70	948.50	7.10	20,135	
Dec	948.30	957.60	948.30	951.50	948.30	951.50	948.30	7.50	1,978	
Platinum (NYM)	-50 troy oz.; \$ per troy oz.	948.30	957.60	948.30	951.50	948.30	951.50	0.0260	145,506	
July	853.50	854.40	849.30	849.00	849.30	849.00	849.30	4.80	404	
Oct	846.90	862.10	846.40	853.50	846.90	853.50	846.90	4.90	79,104	
Silver (CMX)	-5,000 troy oz.; \$ per troy oz.	846.90	862.10	846.40	853.50	846.90	853.50	0.0260	145,506	
July	16.170	16.170	16.090	16.053	16.170	16.053	16.170	0.072	975	
Sept	16.065	16.260	16.055	16.139	16.065	16.139	16.065	0.070	158,215	
Crude Oil, Light Sweet (NYM)	-1,000 bbls.; \$ per bbl.	16.139	16.260	16.055	16.139	16.139	16.139	0.070	158,215	
Aug	73.96	74.28	72.99	73.85	0.05	371,200	73.96	74.28	72.99	
Sept	71.68	72.18	71.13	71.98	0.41	301,784	71.68	72.18	71.13	
Oct	69.30	70.06	69.02	69.85	0.71	211,762	69.30	70.06	69.02	
Dec	68.13	68.94	67.92	68.75	0.71	295,763	68.13	68.94	67.92	
June'19	65.80	66.46	65.55	66.17	0.58	151,688	65.80	66.46	65.55	
Dec	63.58	64.33	63.45	64.00	0.52	201,093	63.58	64.33	63.45	
NY Harbor ULSD (NYM)	-42,000 gal.; \$ per gal.	64.00	64.33	63.45	64.00	64.00	64.00	0.52	201,093	
Aug	2.1749	2.2084	2.1704	2.1957	0.0273	119,195	2.1749	2.2084	2.1704	
Sept	2.1805	2.2141	2.1762	2.2013	0.0262	90,369	2.1805	2.2141	2.1762	
Gasoline-NY RBOB (NYM)	-42,000 gal.; \$ per gal.	2.1805	2.2141	2.1762	2.2013	2.1805	2.2141	0.0262	90,369	
Aug	2.1144	2.1555	2.1066	2.1485	0.0400	119,110	2.1144	2.1555	2.1066	
Sept	2.0943	2.1325	2.0874	2.1264	0.0371	98,915	2.0943	2.1325	2.0874	
Natural Gas (NYM)	-10,000 MMBtu's; \$ per MMBtu.	2.0874	2.1325	2.0874	2.1264	2.0874	2.1325	0.0371	98,915	
Aug	2.836	2.865	2.817	2.828	-0.030	185,556	2.836	2.865	2.817	
Sept	2.807	2.833	2.788	2.796	-0.030	202,573	2.807	2.833	2.788	
Oct	2.815	2.839	2.797	2.805	-0.029	162,697	2.815	2.839	2.797	
Jan'19	3.047	3.072	3.038	3.047	-0.020	117,095	3.047	3.072	3.038	
March	2.922	2.943	2.909	2.920	-0.017	120,434	2.922	2.943	2.909	
April	2.643	2.664	2.636	2.647	-0.011	124,912	2.643	2.664	2.636	

Cash Prices | WSJ.com/commodities

These prices reflect buying and selling of a variety of actual or "physical" commodities in the marketplace—separate from the futures price on an exchange, which reflects what the commodity might be worth in future months.

Monday

Energy

Other metals

Metals

Fibers and Textiles

Grains and Feeds

Food

Fats and Oils

Bonds | WSJ.com/bonds

Tracking Bond Benchmarks

Return on investment and spreads over Treasuries and/or yields paid to investors compared with 52-week highs and lows for different types of bonds

Monday

Treasury Bonds (CBT)

Treasury Notes (CBT)

5 Yr. Treasury Notes (CBT)

2 Yr. Treasury Notes (CBT)

50 Day Federal Funds (CBT)

30 Day Federal Funds (CBT)

U.S. Corporate Indexes

U.S. Corporate Indexes

U.S. Agency

U.S. Agency

U.S. government rates

Discount

Federal funds

Prime rates

Policy Rates

Treasury bill auction

International rates

Commercial paper

Corporate bonds, Moody's seasoned

Corporate bonds, Moody's seasoned

State and local bonds

Eurodollars

Conventional mortgages

Treasury yields at constant maturities

Corporate bonds, Moody's seasoned

Corporate bonds, Moody's seasoned</div

BIGGEST 1,000 STOCKS

How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE American and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq BX (formerly Boston), Chicago Stock Exchange, Cboe, NYSE National and Nasdaq ISE. The list comprises the 1,000 largest companies based on market capitalization. Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume. Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Footnotes:

f-New 52-week high.
n-New 52-week low.
d-Indicates loss in the most recent four quarters.
fd-First day of trading.
h-Does not meet continued listing standards.
lf-Late filing.
q-Temporary exemption from Nasdaq requirements.
t-NYSE bankruptcy.
v-Trading halted on primary market.
w-In bankruptcy or receivership or being reorganized under the Bankruptcy Code, or securities assumed by such companies.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Monday, July 9, 2018

	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg				
A	B	C			AIG	AIG	55.56	1.19	BanColombia	CIB	49.40	-1.01	CesarsEnt	CZR	11.35	0.07	CyrusOne	CONE	61.44	-0.74	Fastenal	FAST	49.62	1.41	IQYI	IQ	31.82	1.90
ABB	ABB	21.90	0.35	AmericTower	AMT	142.18	-3.63	BankofAmerica	BAC	29.05	1.02	American	AMP	45.76	4.08	BankMontreal	BMO	78.34	0.91	FederalRealty	FRT	126.52	-0.37	IronMountain	IRM	36.50	0.61	
ADT	ADT	8.54	0.36	AmeriBancGrp	ABG	88.25	2.28	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankOzarks	OZRK	46.81	1.25	Ferrari	RACE	136.38	1.02	NRC Energy	NRG	36.57	-0.56	
AES	AES	12.63	-0.37	AmeriCable	AMC	19.47	1.31	BankPacCorp	BPC	41.55	-0.36	American	AMGN	194.17	3.37	BankRivW	CNI	84.15	-0.27	FltChryster	FBR	18.75	-0.05	NVR	NVR	306.70	49.96	
AFCap	AFC	43.36	-0.15	AmeriFamCorp	APH	89.37	1.18	Barclays	BCS	107.00	-1.25	American	AMR	27.00	-0.12	BankTech	DTC	66.77	-0.45	FDT Industrial	DCT	66.77	-0.45	NXP Semiconductors	NXPI	107.37	-0.10	
AGNC Inv	AGNC	19.00	-0.05	AnadarkoPetrol	APC	75.18	1.20	Barclays	BGS	107.00	-1.25	American	AMZN	194.37	1.25	Barclays	BMS	99.50	0.17	DCT Industrial	DCT	66.77	-0.45	NationalGrid	NGG	57.33	-1.26	
ANGI Homesvc	ANGI	16.44	-0.26	Analogy	ADI	97.18	-0.02	Barclays	BRC	107.00	-1.25	American	AMZN	194.37	1.25	Barclays	BMS	99.50	0.17	Fastenal	FAST	49.62	1.41	RockwellCollins	COL	136.28	0.92	
Ansystech	ANSYS	16.44	-0.26	Analogy	ADI	97.18	-0.02	Barclays	BRC	107.00	-1.25	American	AMZN	194.37	1.25	Barclays	BMS	99.50	0.17	Fastenal	FAST	49.62	1.41	RockwellCollins	COL	136.28	0.92	
ASML	ASML	199.11	-0.74	Andeavor	ANDV	135.63	2.64	BankNY	BKN	54.11	0.93	Andeavor	ANDV	135.63	2.64	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
AT&T	T	32.15	-0.03	AndeavorLog	ANDV	42.25	-0.03	BankNY	BKN	54.11	0.93	Andeavor	ANDV	135.63	2.64	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
AbbottLabs	ABT	62.48	-0.24	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
AbbVie	ABBV	97.04	-0.12	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
Abiomed	ABMD	408.46	-2.47	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
Accenture	ACN	161.13	-1.62	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
ActvionSoftware	ATVI	76.84	-0.25	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
AdobeSystems	ADBE	249.77	-1.58	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
Advantech	ADVAN	14.09	-0.35	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
AdvanceAutoParts	AAAP	140.95	-0.35	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
AdvanceAutoParts	AAAP	140.95	-0.35	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
Advantech	ADVAN	14.09	-0.35	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
Advantech	ADVAN	14.09	-0.35	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
Advantech	ADVAN	14.09	-0.35	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
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Advantech	ADVAN	14.09	-0.35	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
Advantech	ADVAN	14.09	-0.35	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
Advantech	ADVAN	14.09	-0.35	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN	54.11	0.93	FederalRealty	FRT	126.52	-0.37	RepublicServices	RSG	68.99	0.44	
Advantech	ADVAN	14.09	-0.35	API	API	103.81	-0.31	BankNY	BKN	54.11	0.93	Ametek	AME	73.03	1.14	BankNY	BKN</td											

BANKING & FINANCE

Emerging Markets Bolster Their Currencies

Central banks tap trillions of dollars in reserves to ease dollar's gains

BY CHELSEY DULANEY

Emerging-market central banks are tapping a roughly \$6 trillion stash of foreign-exchange reserves as they struggle to contain deepening currency declines.

Policy makers across the developing world built up foreign-reserve buffers over the past year, capitalizing on investor interest in higher-yielding emerging-market assets as optimism about global growth remained. In the first five months of 2018, the central banks added \$114 billion to their reserves, the fastest pace of accumulation since 2014, according to data released this past week by the Institute of International Finance.

That is beginning to reverse as emerging markets face a stronger dollar and escalating trade tensions that have pummeled their currencies, stocks and bonds. Emerging-market central banks used roughly \$57 billion in foreign reserves in June, which would rank as the largest monthly intervention since late 2016, according to preliminary forecasts from research firm Exante Data.

Reserves are just one tool central banks use to influence exchange rates, and analysts say it isn't always the most effective one. Policy makers also can adjust government borrowing costs—tightening or loosening the flow of money throughout the financial system—and enact regulations that keep money from leaving the country.

Still, the reserve stockpile, which remains near the highest level since 2015, suggests that emerging markets are better



Argentina blew through more than \$10 billion during April and May in a largely unsuccessful attempt to stop a dive in the peso.

positioned to handle the market volatility that has accompanied the rising dollar since mid-April. In the past, emerging-market economies short on foreign reserves have struggled to service dollar-denominated debts and contain inflation with a weakened currency.

A basket of emerging-market currencies tracked by MSCI Inc. has fallen 3% this year, pressured by the resurgent dollar, higher U.S. interest rates and trade tensions. The currencies of Argentina, Turkey and China have been hit especially hard, spurring those countries' policy makers into action.

After one of the yuan's worst months on record in June, China's central bank faces pressure to revive the kind of interventions that

helped it stem a decline in the yuan in 2015 and 2016.

In recent weeks, the People's Bank of China has pledged to keep the exchange rate stable while at least one state-owned bank has bought yuan to help support the currency, The Wall Street Journal reported. Those moves helped stabilize the yuan; it slipped 0.3% last week against the dollar after a 3.2% loss in June.

China's reserve stash played a key part in arresting a decline in the yuan after the central bank devalued the currency in 2015, economists say. Beijing blew through nearly \$1 trillion in reserves while it also tightened capital controls to keep citizens and companies from taking money out of the country.

China doesn't appear to be dipping into its foreign-exchange reserves just yet. Data released Monday showed the country's foreign-exchange reserves ticked up to \$3.11 trillion in June, a sign that the central bank did little last month to resist the yuan's decline, according to Pantheon Macroeconomics.

"China has more reserves than anyone in the world," said Joseph Gagnon, a senior fellow at the Peterson Institute for International Economics. "The question is, what do they want?"

Other central banks also have been using foreign-exchange reserves to help stabilize markets. Brazil has spent nearly \$44 billion on market intervention this year, according

to data from Exante. India has spent around \$17 billion.

Benn Steil, a senior fellow at the Council on Foreign Relations, said that the impact of those sales is often short-lived.

"Each central bank could sell dollars for local currency to push their currencies up, but only to the extent that they have sufficient dollar reserves," said Mr. Steil.

Brazil's currency, the real, was down nearly 14% on the year through Friday, while the Indian rupee was down 7.1%.

Argentina has proved an extreme example in the limits of currency reserves, which can also be used to cover the costs of things like debt repayment and imports. Argentina blew through more than \$10 billion in reserves in April and May, ac-

Cash Grab

Reserves accumulated by emerging markets

\$60 billion



Source: Institute of International Finance

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cording to IIF, in a largely unsuccessful attempt to stop a plunge in the peso.

Facing dwindling reserves and coming payments on dollar debt, the country in June secured a \$50 billion credit line from the International Monetary Fund. The peso has recovered nearly 4% this month but remains down 34% for the year.

Whether central banks will continue to deplete their currency reserves depends in part on the path of the dollar. The greenback rose 5% against a basket of peers tracked by The Wall Street Journal in the second quarter, its first gain in more than a year.

But some analysts believe the dollar's rally could soon unravel if U.S. growth slows and trade uncertainties deter some investors from U.S. markets. "A lot of this will depend on how emerging-market central banks view the trajectory for the dollar," said Sonja Gibbs, a senior director of global capital markets at IIF. "If you believe the dollar's recent strength is temporary, you may try to ride it out."

CIC Moves Ahead With U.S. Fund

BY LINGLING WEI

BEIJING—China's sovereign-wealth fund said the trade battle between the U.S. and China isn't derailing its plans to invest in American manufacturing, with the first round of funding for a dedicated multibillion-dollar venture close to completion.

China Investment Corp. and **Goldman Sachs Group** Inc. formed the fund to invest in U.S. industrial firms and other sectors in November, part of a number of deals Chinese and U.S. businesses announced during President Donald Trump's visit to Beijing. While some of those deals, such as Chinese purchases of U.S. natural gas, have been put on hold due to the trade tensions, CIC President Tu Guangshao said the fund's launch is moving forward.

"Preparations for the fund have been going smoothly," Mr. Tu said during a news conference Monday. "The first round of fundraising should be completed in the near term."

The China-U.S. Industrial Cooperation Fund, as it is called, is targeting as much as \$5 billion in capital. It is expected to have less than that amount after the initial round, Mr. Tu said. He added that the capital is coming from both Chinese and U.S. sources.

CIC and Goldman set up the fund as a way to show progress in a trade relationship that Mr. Trump has criticized as lopsided in China's favor.

Since its formation late last year, however, trade tensions between the world's two larg-



China Investment Corp. President Tu Guangshao said tariffs haven't stopped the fund's plans to invest in U.S. manufacturing.

est economies have escalated. Last week, the two countries each placed tariffs on \$34 billion of the other's exports—the heaviest exchange of fire in a trade battle that has been brewing for months.

Behind the U.S. tariffs is Mr. Trump's stepped-up effort to reduce the U.S.'s trade deficit with China, which came to \$375 billion last year, and to punish Beijing for what the U.S. says are pressure tactics on U.S. businesses to transfer technology to Chinese companies.

Beijing has denied the accusations of unfair trade practices, called for negotiations and pledged to match the U.S.'s tariff measures dollar for dollar.

At Monday's news briefing, held to present CIC's financial results for last year, Mr. Tu sounded a positive note about the outlook for the U.S.-China economic relationship. Despite frictions every now and then, Mr. Tu said, "nothing can stop" the economic ties between the two countries from deepening in the long run.

CIC, one of the world's largest sovereign-wealth funds, last year posted a nearly 17.6% return on its foreign assets, which totaled about \$320 billion. The record return was partly driven by strong equity markets in the U.S. and other developed nations.

Beijing formed CIC in 2007 to help diversify China's mammoth foreign-exchange re-

serves from U.S. Treasurys and into other asset classes such as stocks, corporate bonds and private equity. As of 2017, the fund had generated a net cumulative annualized return of 5.94%.

In recent years, CIC has been casting an eager eye at U.S. manufacturing, highways, rail lines and other projects, looking to generate steady, long-term returns for the fund. In return, CIC officials say the fund can serve as a stable source of long-term capital for U.S. projects.

CIC has complained about what it says is an unfair review process by the Committee on Foreign Investment in the U.S., an interagency group known as CFIUS, and called on U.S. authorities to improve the transparency of the reviews. Late last month, the Trump administration backed away from plans to create tough new restrictions on Chinese investments in the U.S. and U.S. technology exports to China. Instead, it said it will continue to rely on CFIUS, which screens foreign investments to see if they endanger national security.

Mr. Tu said worries about CIC's investments in the U.S. potentially endangering U.S.'s national security are "completely unnecessary," saying CIC is a long-term financial investor that has no intention of seeking control of U.S. industries or companies.

Meanwhile, as to what kinds of challenges the CIC-Goldman industrial fund would face once it starts investing, Mr. Tu said, "we'll wait and see."

Hedge Funds Trail Stocks in First Half

BY MENGQI SUN

Hedge funds have long touted their ability to do better when things turn volatile. But they lagged behind the S&P 500 for the first half of 2018 despite market swings tied to trade policy tensions and interest rate increases.

A widely followed hedge-fund index maintained by data research company HFR dropped .46% in June, pulling down the industry's gains for the first half of 2018. The index rose .81% in the first two

Funds have struggled amid uncertainty over tariffs and two interest-rate rises.

quarters, which is lower than the 2.65% return on the S&P 500, including dividends, over the same period.

The only large category of hedge funds that posted an increase in June were funds that seek to capitalize on mergers and acquisitions, according to the HFR figures. Those that specialized in stock picking and macroeconomic analysis posted declines.

Hedge funds typically bet on or against stocks, bonds or other securities, often using borrowed money and charging hefty fees—2% of assets under management and 20% of profits.

Many hedge funds dropped less than the overall market during the latest financial crisis and some even posted outsize gains. But since 2008, the funds have struggled to do better than low-cost, passive investment products.

Last year, hedge funds turned in their best performance in a rising market since 2013, with returns of 8.5%, according to HFR. The industry also attracted new capital.

This year, hedge funds have struggled at times amid market uncertainty surrounding the Trump administration's recent round of tariffs and two interest-rate increases. The industry was off to a good start at the beginning of the year, as the HFR index increased 2.31% in January, only to decline in both February and March.

The swings continued into the second quarter as the industry climbed back its gain in April and May with a slight fall in June. The index rose .86% in the second quarter.

Those that struggled the most during the first half were funds that tried to get ahead of political and other trends, or so-called macroeconomic funds. They dropped 1.81% through the first six months.

HFR President Kenneth Heinz said in a news release Monday that trade-centered macroeconomic events are likely to accelerate during the second half of 2018, "contributing to a fluid environment and increased opportunity" for certain funds.

Volatility Ignites Investor Interest in Convertible Bonds

BY ORLA McCAFFREY

The return of volatility to financial markets this year has fueled a frenzy around bonds that can convert to equity.

U.S. companies have sold \$28.4 billion of convertible debt this year, more than in any comparable period since before the financial crisis. Technology firms, longtime sellers of convertibles, account for more than half of issuance.

But convertibles are popular across all sorts of industries. Health-care companies have issued \$4.4 billion, utili-

ties and energy firms have sold \$2.7 billion and telecom companies have issued \$1.4 billion.

Convertibles typically offer a lower coupon than traditional bonds because they come with the right to convert the debt to equity if shares rise enough. The safety of bonds and the potential gains of stocks can be a good combination when markets are uncertain.

Many companies like convertibles because they can lower borrowing costs. While there is the risk of dilution to shareholders, rising rates

make that trade-off more palatable. Convertible deals offered an average coupon of 2.6% this year according to Dealogic, the lowest rate on record.

The largest exchange-traded fund tracking convertible bonds has returned 7.6% this year. That tops returns of minus 3% for investment-grade corporate bonds and narrowly positive returns for junk bonds, according to Bloomberg Barclays index data. The S&P 500 has climbed 4.1% in 2018.

But risks are growing for investors as the market heats

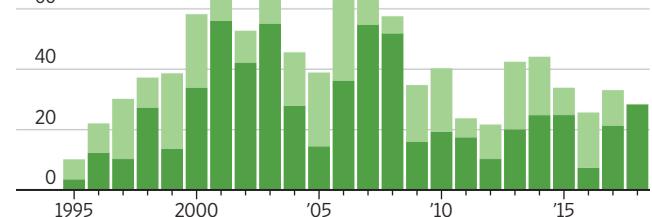
up and stocks sit near record highs. If fears about a recession grow or corporate earnings fall, share prices could tumble. That could put profitable debt-to-equity conversions out of reach, leaving holders with bonds that yield less than traditional debt.

"The closet is full of double-edged swords," said Bill Feingold, founder of Hillsides Advisors, a consulting and publishing firm focusing on convertibles. Convertibles are a "good middle ground" between debt and equity, he said, but they incorporate risks from both.

Making Converts

U.S. issuance of convertible bonds

\$100 billion



Source: Dealogic

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MARKETS

Pfizer Stock Falls After Trump Tweet

By JONATHAN D. ROCKOFF

Shares of Pfizer Inc. dipped after President Donald Trump on Monday tweeted criticism of the drug company's recent price increases, his latest salvo on a popular issue that his administration has so far failed to make much headway reversing.

The stock recovered some but not all of its losses after the plunge, and was trading slightly higher by the end of trading Monday compared with its close Friday.

The New York-based company faced criticism last week after raising the list prices of more than 40 prescription drugs, many of them generics. It was among just four drug companies that increased prices on their medicines a second time this year, according to Morgan Stanley.

"Pfizer & others should be ashamed that they have raised drug prices for no reason," Mr. Trump tweeted at 1:08 p.m.

Health and Human Services Secretary Alex Azar followed Mr. Trump's tweet with one of his own, saying drug-company price increases "will be remembered" for triggering changes to U.S. drug-pricing policy. "Change is coming to drug pricing, whether painful or not for drug companies," he wrote.

Pfizer reissued its statement from a week ago, saying it lifted the list prices on just 10% of its portfolio. The company added that the price increases don't reflect what most patients or insurance companies pay because the company offers rebates. Prices paid for Pfizer drugs didn't increase in the first quarter "due to the growing amount of rebates paid back to stakeholders in the biopharmaceutical supply chain."

Mr. Trump has periodically criticized high drug prices since his campaign. In May, the president proposed various initiatives to curb high drug prices. Later that month, he predicted "massive" drug-price cuts.

Drug companies breathed a sigh of relief after seeing the president's proposals because they didn't include measures such as allowing the importation of lower-cost medicines from Canada or giving the federal government the power to negotiate.

So far, the companies haven't cut prices either, though most have been limiting themselves to just one round of price increases this year. Branded drug prices are up 6.6% this year, compared with 6.5% for the same period last year, according to Morgan Stanley.

U.K. Cabinet Exits Weigh on Pound

Foreign secretary's resignation stokes fears of a push against May's Brexit plan

By GEORGI KANTCHEV

LONDON—The British pound fell Monday after a second prominent supporter of Britain's departure from the European Union quit Prime Minister Theresa May's government.

But investors appear unsure how to react, glad that two supporters of a "hard" Brexit have left Mrs. May's government but concerned that this could lead to a challenge to the prime minister.

The pound fell 0.2% to \$1.3256 and fell 0.3% against the euro after Boris Johnson resigned as foreign secretary. It had earlier gained after Da-

vid Davis, the minister in charge of Britain's negotiations to leave the EU, left the government.

Mr. Davis said he was quitting because he couldn't support a plan agreed upon by the cabinet on Friday which would lead to what critics have called a Brexit in name only. For some investors, his departure was good news given it suggested that this plan would be more likely to happen. Investors have hoped that the U.K. would retain strong links to its largest trading partner. But Mr. Johnson's exit stoked fears of a rebellion against Ms. May.

"It is binary," said Athanassios Vamvakidis, currency strategist at Bank of America Merrill Lynch. "If May survives and is able to replace the hard Brexiteers with new ministers more open to soft Brexit, it will be good for sterling. However, if she is forced out, political uncertainty will

Downturn

How many U.S. dollars one British pound buys



Note: All times Eastern

Source: FactSet

Yield on the U.K. 10-year government bond



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cording to Tradeweb.

The declines in the pound, though, were contained, a far cry from the plunges that sterling experienced after the 2016 Brexit vote.

The pound fell below \$1.20 in the months following the referendum.

In the past year, the pound has gained after the Bank of England raised interest rates and hinted at a further rise. But stalled negotiations between London and Brexit and murmurings of rebellion within the government have triggered bouts of volatility.

Analysts say the key issue for the currency is whether Mrs. May's government will be able to weather the storm of losing Messrs. Davis and Johnson in less than a day.

But outside of domestic threats, Ms. May must also get her plan to leave the EU by the bloc's other 27 members. Many analysts believe that would be a tall order.

"It's going to be very messy and some investors won't be wanting to be holding the pound until the uncertainty is resolved," said Viraj Patel, currency strategist at ING Bank.

Shipping Costs Rose Ahead of Tariff Start

Up, Up and Away

The Baltic Dry Index has risen lately as shippers ramped up activity before tariffs took effect Friday.



Source: Thomson Reuters

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By AMRITH RAMKUMAR

Trade fears have sent prices of commodities from copper to iron ore tumbling—just as it has become more expensive to ship them around the world.

While the China-U.S. trade spat has escalated, the Baltic Dry Index has surged nearly 50% since the end of May.

The gauge, which tracks the cost of shipping materials ranging from coal to grain, climbed seven days straight through Friday—the longest streak in more than two months—to its highest level of the year. It fell 0.8% on Monday.

Commodity prices have fallen largely on worries that tariffs will lower demand.



The Baltic Dry Index, which tracks the cost of shipping goods from coal to grain, has surged nearly 50% since the end of May.

Meanwhile, shippers have been ramping up activity before more levies take effect, analysts say.

They are trying to squeeze in business before tariffs potentially slow down commerce across the globe.

Duties announced by the U.S. and China on \$34 billion of exports took effect Friday.

"People were trying to get stuff out before the imposition of the tariffs," said Mark Grant, chief global strategist at B. Riley FBR.

"They were panicking."

Mr. Grant said he expects the index to fall now that the levies have gone into effect.

The volatile Baltic Dry gauge is seen by some as a leading barometer for global growth and production, so its recent rise contrasts with the declines hitting copper and other industrial commodities, which are also used by investors as indicators for the global economy's health.

Copper prices had their worst four-week stretch since 2011 through Friday, tumbling 15% after hitting a four-year high as investors focused on trade threats. On Monday, they added 0.9%.

Even with its recent rally, the index is well below recent peaks hit in 2013 and its 2008 all-time high.

Some analysts think investors speculating about trading activity and materials prices could also drag the measure down just as

quickly as it has risen in recent weeks.

Investors have said the synchronous growth story that buoyed markets has shifted, with momentum moving to the U.S. as data in Europe and emerging markets have weakened.

Mr. Grant cautions against focusing on the Baltic Dry Index as an indicator as the tariff battle plays out.

"They nullify it for the moment until we see what's going to happen," he said.

Oil Prices Up On Outage In Libya

By SARAH MCFARLANE

Oil prices rose on Monday, boosted by continuing supply issues in Libya.

Light, sweet crude for August delivery settled up 0.1% to \$73.85 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, rose 1.2% to \$78.07.

Unplanned supply outages in Libya and Canada are helping support the market with prices holding near more than three-year highs. Expectations that U.S. sanctions against Iran and the crisis in Venezuela could further deplete supplies were also bullish.

"In a worst-case scenario, you lose two million barrels a day from Iran and one million from Venezuela, totaling three million barrels a day, and suddenly the increases from OPEC aren't nearly enough to cover it," said Tom Pugh, commodities economist at consultancy Capital Economics.

Rising output from the Organization of the Petroleum Exporting Countries and Russia is offsetting the tighter supply outlook for now.

The number of rigs drilling for oil in the U.S. rose by 5 to 863—a proxy for activity in the sector—according to data published on Friday by Baker Hughes, General Electric Co.'s oil-field services firm.

Copper Prices Pick Up Strength After Recent Slide



Tepid supply and demand balances may limit the metal's recovery.

By DAVID HODARI AND IRA JOSEBASHVILI

Copper prices climbed Monday as investors second-guessed some of the industrial metal's heavy losses of recent weeks.

Copper for September delivery was up 0.9% to \$2.85 a pound.

Prices for copper, which is extensively used in manufacturing and construction, suffered their worst four-week stretch since 2011 through Friday, tumbling 15% after hitting a four-year high as investors focused on trade threats.

The WSJ Dollar Index hit its lowest level since mid-June before rallying later in the session.

A weaker dollar makes dollar-denominated commodities like metals less expensive for holders of other currencies.

Base-metals prices were pummeled over the past month by investor anxieties over the prospect of trade tensions between the U.S. and China.

The U.S. imposed a 25% tariff on \$34 billion in imports from China, and China retaliated in kind.

Copper prices are down almost 14% this year, falling alongside other industrial metals, but some think those sell-offs have been overdone.

"Direct trade hits to gross domestic product would likely cause limited impacts on copper demand unless the situation escalates to an all-out U.S.-versus-the-world trade war," ING strategists said in a note.

Gold for August delivery rose 0.3% to \$1,259.60 a troy ounce on the Comex division of the New York Mercantile Exchange.

Looming Auctions Put Pressure on Prices of Treasurys

By DANIEL KRUGER

as bond prices fall.

Yields rose as the U.S. ramps up its debt sales to help fund the \$1.5 trillion tax cut passed late last year. This week's note and bond auctions represent a 23% increase from the \$56 billion raised in the same series of offerings last year. Treasury note and bond sales increased 9.2% in the first half to \$1.1 trillion.

Most of the increase in auc-

tion sizes has come from the sales of shorter-term debt. The \$33 billion three-year note auction scheduled for Tuesday is \$9 billion more than last year's offering. That compares with \$2 billion increases for the 10- and 30-year securities. Some analysts and investors say this has contributed to the flattening of the yield curve, hovering Monday below 0.3 percentage point, near 11-year lows. The narrowing gap is a sign investors remain cautious about the outlook for economic growth.

AUCTION RESULTS

Here are the results of Monday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

13-WEEK AND 26-WEEK BILLS

	13-Week	26-Week
Applications	\$116,590,765,000	\$136,567,480,000
Bids	\$42,000,137,500	\$48,000,208,000
"noncomp"	\$752,242,400	\$867,558,000
"foreign noncomp"	\$595,000,000	\$0
Auction price (rate)	98.938333	99.508347
(2.100%)	(1.945%)	
Coupon equivalent	2.152%	1.982%
Bids at clearing yield accepted	62.35%	55.32%
Cusip number	912796Q51	912796N28

Both issues are dated July 12, 2018. The 13-week bills mature on Jan. 10, 2019; the 26-week bills mature on Oct. 11, 2018.

MARKETS

Blue Chips Record Best Day in a Month

BY AMRITH RAMKUMAR
AND BEN ST. CLAIR

The Dow Jones Industrial Average had its best day in a month Monday as investors focused on a strong jobs report from late last week and the coming earnings season, despite heightened trade tensions.

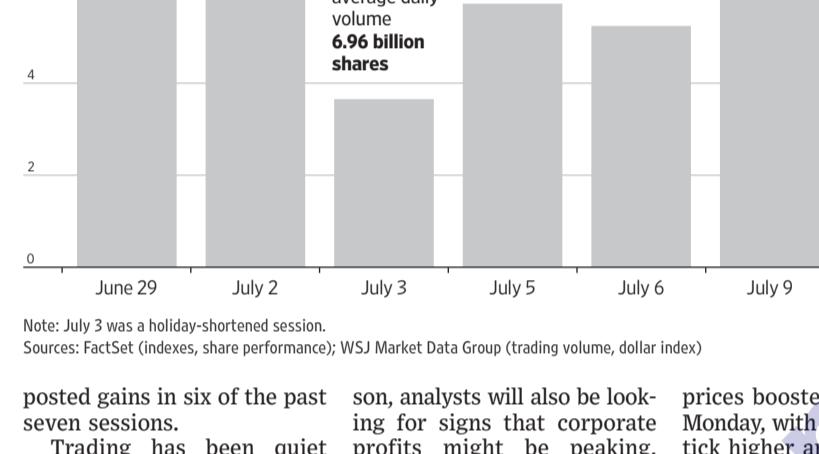
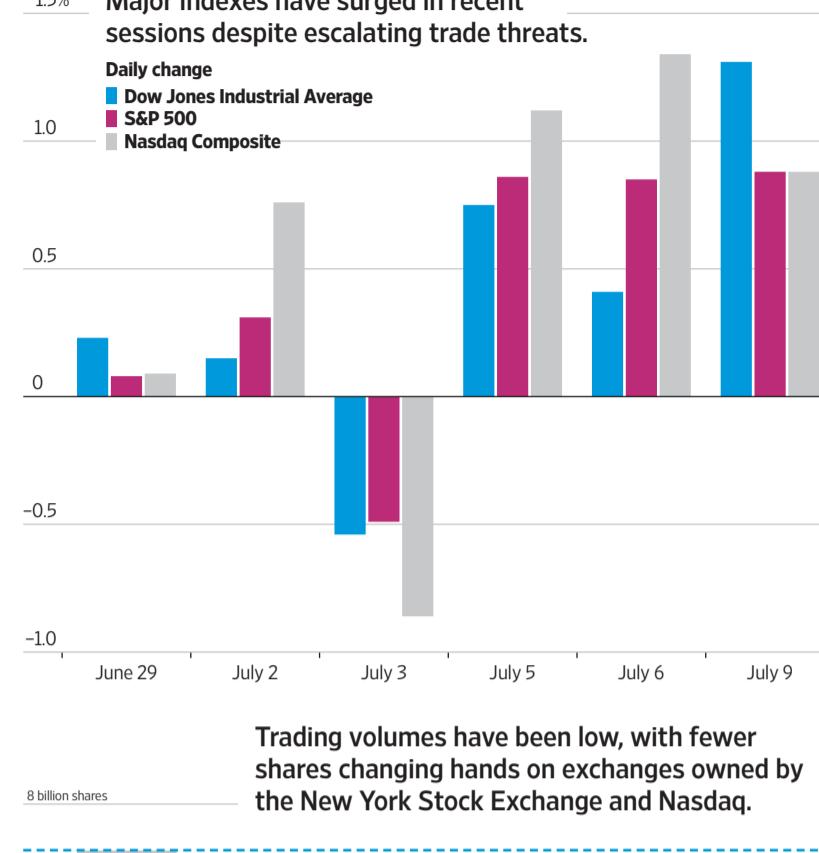
Recent tariffs have kept investors on edge, with the U.S. and China slapping levies on \$34 billion of each other's exports Friday. Some fear the protectionist trade policies will slow corporate activity and crimp global growth, hurting a range of assets from stocks to commodities.

Still, some analysts say they expect the countries to reach a compromise on trade, instead focusing on the latest economic and corporate earnings figures. Investors said Friday's monthly jobs report was a positive for stocks, as it showed strong hiring and contained gains in wage growth, indicating inflation is still in check.

Now, many are looking ahead to second-quarter earnings season, which begins in earnest Friday with results from some of the nation's largest banks, to see how the trade threat is affecting companies.

"It hasn't filtered through yet into areas that would make it an actual hard data issue," said Steven Chiavarone, assistant vice president and portfolio manager at Federated Investors Inc. "I don't think we're going to see it in the earnings numbers, but where we could see it is in some of the guidance and some of the commentary."

The Dow industrials climbed 320.11 points, or 1.3%, to 24776.59—its largest one-day climb since June 6. The S&P 500 rose 24.35 points, or 0.9%, to 2784.17, while the tech-heavy Nasdaq Composite added 67.81 points, or 0.9%, to 7756.20. All three indexes have



posted gains in six of the past seven sessions.

Trading has been quiet lately, with Friday the lowest-volume day for a full session this year on exchanges owned by the New York Stock Exchange and Nasdaq, and Monday's activity was below the average for the year.

In the coming earnings sea-

son, analysts will also be looking for signs that corporate profits might be peaking. Earnings at companies in the S&P 500 are expected to log an increase of 21% from a year earlier, according to Thomson Reuters I/B/E/S. That would be the second-best quarterly gain in more than seven years.

Increases in commodity

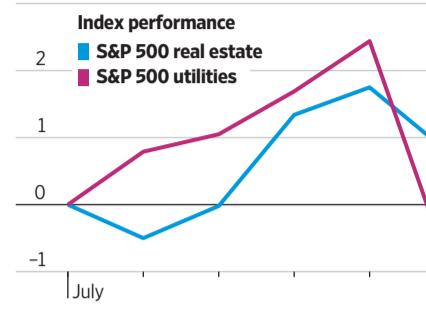
prices boosted major indexes Monday, with oil continuing to tick higher and metals prices rebounding following a recent slump.

A weaker dollar lifted materials in early trading by making them cheaper for overseas buyers. The WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies,

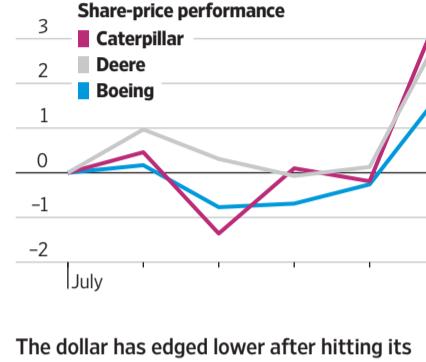
was up 0.2% after erasing early declines. The yield on the benchmark 10-year U.S. Treasury note edged up to 2.860% from 2.831%. Yields move inversely to prices.

Shares of financial firms rose alongside bond yields, as higher yields tend to boost lending profitability. The S&P 500 financials sector added 0.15%.

Sectors known as safer bond proxies erased some of their recent gains on Monday.



Trade-sensitive industrial stocks were among the S&P 500's best performers.



The dollar has edged lower after hitting its highest level in a year.



Graphic by Kiersten Schmidt/THE WALL STREET JOURNAL.

2.3%.

Industrial stocks, which have fallen in recent weeks on trade tensions, also were among the index's best performers.

The utility and real-estate sectors, known as bond proxies because of their relatively hefty dividends, slid. The utilities sector dropped 3.1%, its largest daily percentage decline since November 2016.

Attention is also expected to shift to this week's North Atlantic Treaty Organization summit, as relations between the U.S. and its European allies remain strained. President Donald Trump has taken aim at elements of the trans-Atlantic alliance he insists place unfair burdens on the U.S.

"I'd say there are very few companies that I'm aware of that benefit from a trade war," said Chris Hillary, chief executive and portfolio manager for Denver-based Roubaix Capital. Still, trade tensions have "played a minor role to date in our decision making," Mr. Hillary said of his fund, which holds just over \$110 million under management and invests in small and midcap U.S. stocks.

Investors have been piling into small-cap stocks with less foreign exposure recently. The S&P Small Cap 600 is up 13% on the year, while the S&P 500 is up 4.1%.

Elsewhere, the Stoxx Europe 600 climbed 0.6%, led by shares of technology companies. The British pound fell against the dollar after Foreign Secretary Boris Johnson became the second prominent supporter of Britain's departure from the European Union to quit Prime Minister Theresa May's government.

Earlier, a rout in Asian stocks paused. China's Shanghai Composite Index rose 2.5% and Japan's Nikkei 225 added 1.2%. Early Tuesday, the Shanghai benchmark was down 0.2% and the Nikkei was off 0.15%.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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Sonos Needs to Play Its Own Tune

OVERHEARD

Don't Fear Earnings Slowdown

Sound Out

Sonos device unit sales per fiscal year ended September



show that the maker of high-end wireless speakers still has a hand it can play. After being caught flat-footed by the surging popularity of Amazon Echo speakers in late 2015, Sonos shifted its approach. The company struck a deal to embed Amazon's Alexa voice technology into its own line of smart speakers, the first of which began shipping late last year.

That helped Sonos deliver

a 36% jump in device unit sales year over year for the fiscal first quarter ended in December, with revenue rising 26% to \$469 million. That is an encouraging sign, especially for devices that carry a rather high price tag. Sonos had an average selling price of \$236 for the trailing 12-month period—more than double the price of Amazon's main line of Echo speakers.

More Alexa-powered devices are coming from Sonos,

including the Beam soundbar announced last month. The company also says compatibility with Google's voice assistant is coming later this year, as will the ability to use Apple's Siri through the Airplay feature found on Apple's devices. Partnering with established voice platforms allows Sonos to focus on upselling the unparalleled quality of its speakers without forcing consumers off their platform of choice.

But Sonos still has to contend with the challenge of being predominantly a hardware company in a highly seasonal business. About 40% of its sales each year take place in the December quarter. And the company has recorded an operating loss for the past three fiscal years, due in part to the cost of changing its approach to incorporate voice-control platforms. So while Sonos has shown that it doesn't need to beat Big Tech at its own game, it now needs to show it can thrive on its own terms.

—Dan Gallagher

Managing one of the world's largest stock exchanges is hard enough. It is even worse if the job includes cheerleading your own market, too.

That task of geeing up Chinese stocks has now fallen to the Shanghai Stock Exchange itself. Over the weekend it posted a statement saying that stocks listed there offer excellent "investment value."

Its detailed pitch: Valuations for Shanghai stocks are close to their trough while profit growth in the first half, especially in the pharmaceuticals and chemicals sectors, should come in strong. The increasing amount of share buybacks is another vote of confidence, the exchange said.

Ever since the recent market plunge that sank Chinese stocks into a bear market, state-owned Chinese media have been putting out a constant stream of bullish punditry. It is still notable that an actual stock exchange has felt the need to join the cheerleading chorus.

Earnings growth probably wasn't as good in the second quarter as in the first. It could still be a lot better than investors expect.

Companies will begin reporting second-quarter results in the coming week. In any other quarter what they have to say would be a cause for celebration. Analysts expect earnings at companies in the S&P 500 will register an increase of 20.7% from a year earlier, according to Thomson Reuters I/B/E/S.

The hang-up for investors is that the first quarter's 26.6% was better, and will probably represent the peak of earnings growth for this profit cycle. Expectations that earnings will continue to slow throughout this year and next are part of why the stock market has struggled lately. But that shouldn't get in the way of the fact that second-quarter earnings reports may be substantially better than estimates.

Actual results are almost always better since analysts tend to set the bar a little low. One thing that is different now is that, while estimates tend to slip over the course of a quarter, in the second quarter they actually edged higher. That suggests that the news filtering out of companies is unusually good.

Another positive is that companies haven't been issuing nearly as many earnings warnings as is typical. The ratio of negative to positive earnings announcements is 1.4, which compares with an average of 2.8 since 1995.

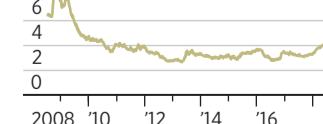
A myopic focus on second-quarter earnings isn't a good idea; they need to be taken in the context of what future profits growth might look like. That doesn't mean they won't be welcomed at the time.

—Justin Lahart

Corporate Bonds' Troubles Could Spill Over Into Stocks

Crossing the Line

Yield on U.S. investment-grade corporate bonds



returned minus 2.7% this year, underperforming Treasuries, which are down 0.9%.

The move isn't as dramatic as this year's blowup in Italian bonds, or steep

drops in emerging-market currencies. But it has shown little sign of reversing, even as more economically sensitive assets such as stocks and high-yield bonds have posted modest gains, shored up by the idea that U.S. growth is strong relative to the rest of the world.

The sell-off has taken the yield on corporate bonds above 4% for the first time since 2011. Company debt was previously buoyed by ultra-loose monetary policy. Now the Federal Reserve is raising interest rates and starting to wind down its balance sheet. This brings companies into greater competition for dollar funding,

especially with short-dated U.S. Treasury yields now at a 10-year high. Previously there was little alternative for yield-seeking investors but to buy riskier debt.

The corporate bond market is bigger and riskier than ever. The ICE BofAML index now contains more than \$6 trillion of bonds, more than double the amount 10 years ago. Nearly half of it is rated triple-B, the lowest investment-grade category.

Previous bouts of turmoil, such as when plunging oil prices and fears about global growth rocked markets in early 2016, lured investors into corporate bonds. Now investors seem suspicious of

buying the dip. The probability that U.S. investment-grade bond returns will beat Treasuries over the next 12 months is 47%, down from 61% a year ago, according to a survey of over 200 investors by Absolute Strategy Research. The same investors are still relatively bullish on earnings but seem to see more opportunity to benefit through stocks than bonds.

The end of easy money is slowly eroding a key support for company balance sheets. This, in turn, will eat away at their earnings and risk appetite. Stock investors shouldn't ignore the trouble brewing in corporate bond markets.

—Richard Barley