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What's News

Business & Finance

The EU hit Google with a record \$5 billion antitrust fine and ordered business changes, finding the company abused the dominance of its Android system. A1

◆ Papa John's founder, who was recently ousted as chairman, held talks to merge the pizza chain with Wendy's. A1

◆ Money flooding into and out of passive funds can have a very active effect on stock prices, new research says. B1

◆ AmEx raised its revenue forecast for the year, following a second consecutive quarter of strong results. B1

◆ Morgan Stanley posted a 39% rise in second-quarter profit, wrapping up earnings for major U.S. banks. B10

◆ IBM said it generated over half of its quarterly revenue from newer services such as cloud and AI. B4

◆ Facebook said it will start removing misinformation that could spark violence. B4

◆ UnitedHealth is among the suitors exploring an acquisition of Tenet's health-care-management unit. B3

◆ U.S. stocks rose, with the Dow gaining 79.40 points to 25199.29 and the S&P 500 edging up 6.07. B11

◆ Novartis said it won't raise its U.S. drug prices for the rest of 2018, days after Pfizer took a similar step. B3

◆ The Justice Department is seeking to fast-track its appeal of the decision allowing AT&T to buy Time Warner. B3

◆ Samsung is planning to introduce a foldable-screen smartphone next year. B4

World-Wide

◆ Trump stood by his threats to levy sweeping tariffs on auto imports as a way to extract concessions from trading partners, despite opposition from the industry and discontent in Congress with the proposal. A1

◆ The White House remained in damage-control mode amid continuing backlash over the president's remarks about Russian election meddling. A4

◆ A federal judge ordered the detention of a Russian gun-rights activist accused of conspiring to cultivate relationships in the U.S. to advance Moscow's agenda. A4

◆ The White House is reviewing a request by Putin to allow Russian investigators to question a number of Americans they say are implicated in criminal activity. A4

◆ New U.S. sanctions are delivering a shock to Iran even before they take effect, as foreign banks back off and firms wind down contracts. A7

◆ The U.S. has returned about two dozen suspected Islamic State fighters detained in Syria to their home countries. A9

◆ Ethiopian leader Ahmed is pushing a breakneck overhaul agenda that has created powerful enemies among the nation's elite. A9

◆ Authoritarian regimes in the Mideast are increasingly walling off their citizens from swaths of the internet. A9

◆ California reopened Highway 1 at Big Sur after a 2017 landslide blocked a stretch of the scenic route. A3

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EU Slaps \$5 Billion Fine on Google

Antitrust penalty is record as company is accused of abusing its clout in market

By SAM SCHECHNER
AND DOUGLAS MACMILLAN

The European Union hit Alphabet Inc.'s Google with a record \$5 billion antitrust fine and ordered changes that

could reshape the business model underlying its biggest growth engine: mobile phones.

In another rebuke to one of Silicon Valley's tech giants, the bloc's antitrust regulator found Wednesday that Google had abused the dominance of its Android operating system, which runs more than 80% of the world's smartphones, to promote and entrench the company's cash-cow search engine.

The fine, Europe's largest so far related to antitrust issues, is equivalent to about 40% of Google's 2017 net profit of \$12.62 billion. For cash-rich Alphabet, however, the financial penalty is potentially less onerous than the business changes Brussels has demanded, which could give players including smartphone makers and mobile carriers more leverage to extract payments from Google and its rivals.

The EU ordered Google to stop making phone manufacturers pre-install its search app and the Chrome web browser if they want to pre-install Google's Play store, which is the dominant way to download Android apps. The bloc also ordered Google to end restrictions that discourage manufacturers from selling devices that run unofficial versions of Android.

Google, which said it would

appeal the decision, has rejected the EU's contentions since the bloc issued formal charges over two years ago. Google said Android, which is free for manufacturers to use, has increased competition among smartphone makers, lowering prices for consumers. Google also said the allegation

Please turn to page A8

◆ Heard on the Street: Grip on search becomes costly..... B12



Thai Boys Recount Ordeal

During their first public appearance after being discharged from the hospital, the Wild Boars soccer players on Wednesday explained how they tried to dig their way out of a flooded cave system in Thailand. 'From now on, I will live my life carefully,' 14-year-old Adul Sam-on said. A8

Trump Pushes Auto Tariffs Despite Opposition

By CHESTER DAWSON
AND JOSH ZUMBRUN

President Donald Trump stood by his threats to levy sweeping tariffs on automobile imports as a way to extract concessions from trading partners, despite opposition from the industry and discontent in Congress with the proposal.

A bipartisan group of 149 House members also urged the president not to move forward with the tariffs. Auto unions were among the few industry players offering qualified sup-

port for the tariffs. Still, at a cabinet meeting on Wednesday, Mr. Trump threatened "tremendous retribution" against the European Union, specifically mentioning auto tariffs, if his meeting with EU officials next week doesn't yield what he considers a fair auto trade deal.

Mr. Trump is seeking to refocus attention on his trade agenda, while his administra-

Helsinki Hangover

Damage control over the Trump-Putin summit continues at the White House..... A4

tion at the same time is contending with criticism over his comments this week on alleged Russian interference in the 2016 election.

The issue of auto tariffs is the subject of a Commerce Department hearing on Thursday and is expected to be high on the agenda of the July 25 White House visit by European Commission President Jean-Claude Juncker.

Mr. Trump, a Republican, has repeatedly threatened tariffs on imported autos and auto parts if European leaders don't

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Wendy's, Papa John's Held Talks On Merger

Papa John's International Inc. founder and recently ousted Chairman John Schnatter held talks to merge the pizza company with Wendy's Co., people familiar with the matter said.

By Dana Mattioli,
Julie Jargon
and Cara Lombardo

The talks between Wendy's officials and Mr. Schnatter, who still sits on the board and owns 29% of Papa John's, were preliminary and began before he stepped down as chairman last week over the use of a racial slur, the people said. The talks, which Papa John's board was aware of, have cooled since the incident, one of the people said.

Shares in Papa John's rose 4% to close at \$53.60 after The Wall Street Journal reported on the talks. Wendy's shares advanced 2% to \$17.77.

Mr. Schnatter was pressured to resign as chairman after he used a racial slur during media training to prepare him for a return as brand spokesman following his withdrawal from ads in the wake of a dustup with the National Football League.

Mr. Schnatter had blamed the chain's sliding sales on declining television viewership of NFL games amid the controversy over players' national-anthem protests. The NFL incident prompted him to step down as CEO in December. The board doesn't have the authority to remove him as a director and it will be up to shareholders whether to re-elect him at the next annual meeting in May.

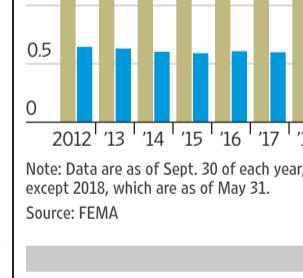
Mr. Schnatter has subsequently said he regretted giving

Homeowners Face New Storm

Underinsurance persists as hurricane season unfolds. A4

Many Floridians and Texans remain exposed to another natural disaster.

2.5 million flood insurance policies



Note: Data are as of Sept. 30 of each year, except 2018, which are as of May 31.

Source: FEMA

By STEPHANIE ARMOUR

Robert Kingsland will have to pay hundreds of dollars if he goes without insurance next year, even though Congress recently repealed the Affordable Care Act's penalty for not having coverage. That is because his home state of New Jersey just imposed a fine of its own for letting insurance lapse.

In California, Aaron Brown's small business association likely won't be able to provide the cheaper health policies promoted by the Trump administration. California banned the creation of many associations that offer such policies.

Across the country, the details vary but the story is the same. The Trump administra-

tion has been rolling back sections of the Obama-era health law piece by piece. And states are filling the void, either to buttress or countermand changes from Washington.

The result is that the country is increasingly returning to a pre-ACA landscape, where the coverage you get, especially for people without employer-provided insurance, is largely determined by where you live.

This is likely to be the driving dynamic of U.S. health care for years to come, as Republicans chip away at the ACA in the aftermath of a failed attempt to repeal it outright, spurring GOP-led states to do the same, while Democrats battle to preserve it in places where they can.

Please turn to page A10

Saudi Arabia's Women Are Driving, And They Want Muscle Cars

Dealers find tame models spurned;

'I love this car because of its roar!'

By MARGHERITA STANCATI

JEDDAH, Saudi Arabia—They rumble. They roar. And when a heel stamps on the gas pedal, they overtake.

Weeks after the government lifted its longstanding female-driving ban, Saudi women are embracing not only driving, but driving fast, and loudly.

"They don't expect to see me in this car," said Samia Weheba, 23 years old, as she zipped past taxis and sport-utility vehicles in her matte gray, 400-horsepower Audi RS3.

"It's such a guy's car, especially in this country."

Many auto showrooms, getting ready for the end of the

driving ban on June 24, hired saleswomen and rolled out vehicles they thought would appeal to women. They stocked affordable sedans and mini-SUVs, often in bright colors.

At super-luxury auto maker Rolls-Royce, vehicles customized for potential female clients included a cherry-red Dawn Drop-head Coupé. A classic Ghost model sedan was offered in rose quartz and sparkly black with a starlight ceiling.

At Audi, "We expected women to begin with small cars with small engines," said saleswoman Taghreed al-Shomrani in Jeddah. "But they are looking for big cars with

Please turn to page A10

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U.S. NEWS

CAPITAL ACCOUNT | By Greg Ip

Democrats Could Be Free Trade's Protector



In Tennessee's critical Senate race, it's the Democrat running as a free trader. Phil Bredesen, a former governor, poses in a whiskey distillery in a recent ad and slams President Donald Trump's tariffs: "They hurt our auto industry, our farmers and Tennessee exports like Jack Daniel's."

Since the 1940s, Republicans have branded themselves the party of free trade, while Democrats—especially rank and file officials and congressmen—have more often been the party of protection. Those labels need updating. Mr. Trump's imposition of tariffs on allies and adversaries alike is accelerating a migration of Democratic voters toward free trade and Republicans away from it. Among elected legislators, the median Republican is still pro-free trade and the median Democrat a skeptic, but those lines, too, are shifting.

That has potentially significant consequences if Democrats retake one or both chambers of Congress in this fall's midterm elections. They could become a counterweight to Mr. Trump's protectionist agenda.

The shift was on display last week, when the Senate voted on a proposal by Tennessee Republican Sen. Bob Corker to require Mr. Trump to consult Congress when invoking national security to impose tariffs, as he did with steel and aluminum. All Democrats voted in favor; only 78% of Republicans did.

In an interview, Mr. Corker said Republicans who voted no were worried about contradicting the president; theirs, he said, is still the party of free trade. But, he added, a lot of Republicans noticed that Mr. Bredesen, who is campaigning to replace the retiring Mr. Corker, is so forcefully backing trade.

"They're saying, 'Hey, this fellow is pretty smart, he's supporting free trade, he must know something politically.' This is an issue that cuts across political factions," he said.

Democrats historically opposed free trade because they relied heavily on union votes and power. But in the 2000s, blue-collar industrial-region workers began shifting to the Republican Party while college-educated urban and suburban voters increasingly voted Democratic.

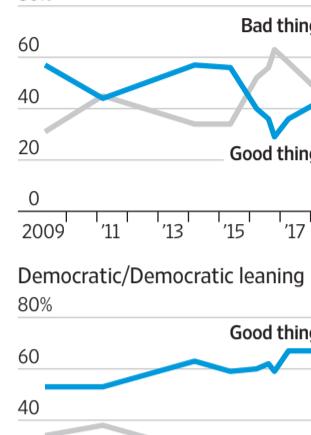
Today, 67% of voters who

Changing Positions

Democratic support for free trade has grown while Republican support has declined, but it's not a high priority for most voters.

Is free trade good or bad?

Republican/Republican leaning

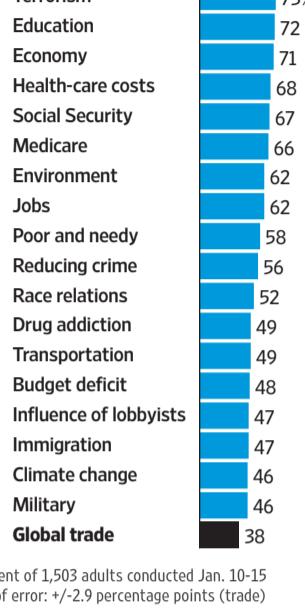


Source: Pew Research telephone polls, most recent of 1,503 adults conducted Jan. 10-15 (priorities) and April 25-May 1 (trade); margin of error: +/-2.9 percentage points (trade)

identify as Democrats or lean Democratic consider free trade a good thing, according to the Pew Research Center; just 43% of Republicans do.

Mark Muro of the Brookings Institution has found that coastal urban centers

Top priorities for Trump and Congress



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ues such as openness to trade, immigration and culture. For some, Mr. Trump's dislike of free trade only makes it more appealing.

Free trade has yet to convert the bulk of elected Democrats, especially those in traditional Rust Belt regions. Sen. Sherrod Brown (D., Ohio), a longtime skeptic of free trade, has allied himself with Mr. Trump on tariffs and stopped a tougher version of Mr. Corker's proposal from getting a vote. Conor Lamb wrested a Pittsburgh-area district away from Republicans in a special election in part by endorsing Mr. Trump's steel tariffs.

And the party's rising progressive left instinctively equates trade deals with giveaways to corporations and the rich. In 2016 Hillary Clinton recanted her support for the Trans-Pacific Partnership, an ambitious 12-nation trade pact, under pressure from Sen. Bernie Sanders (I., Vt.), a self-described democratic socialist.

So Democrats aren't going to make trade the centerpiece of their efforts to retake the House and perhaps the Senate this fall. Global trade ranks last among voters' priorities.

But Ed Gerwin, a trade ex-

pert at the Progressive Policy Institute, a think tank aligned with centrist Democrats, says trade is local and the fallout from Mr. Trump's tariffs has given Democrats opportunities they didn't have five years ago.

"If you are running in a farm district in California's central valley, Kansas or Nebraska or a suburban district like Houston or Dallas, this is a message that really resonates," he said.

The president's disdain for the World Trade Organization and longstanding trade pacts like the North American Free Trade Agreement and his willingness to treat adversaries like China and allies like Canada alike has alarmed even protectionist members of the Democratic caucus, like Texas Rep. Lloyd Doggett. "Terminating or repealing [Nafta] will have far-reaching consequences in Texas," he warned last fall.

All this means that a Democratic-controlled Congress, traditionally hostile territory for free-trade legislation, may be friendlier now. Democrats may see countering tariffs and protecting trade pacts as politically useful not for its own sake but as a way of constraining Mr. Trump.

New Citizens Pledge Allegiance in Boston



TAKING THE OATH: Stallone Laurel Dias, who serves in the U.S. Army, and others became Americans at a naturalization ceremony Wednesday.

Wendy's, Papa John's Held Talks

Continued from Page One
ing up the chairmanship and accused the board of failing to investigate the slur incident more thoroughly.

Papa John's is the world's third-largest pizza-delivery company behind Domino's Pizza Inc. and Pizza Hut, a unit of Yum Brands Inc., and had a market value of \$1.73 billion as of Wednesday's market close. It had revenue of \$1.78 billion last year.

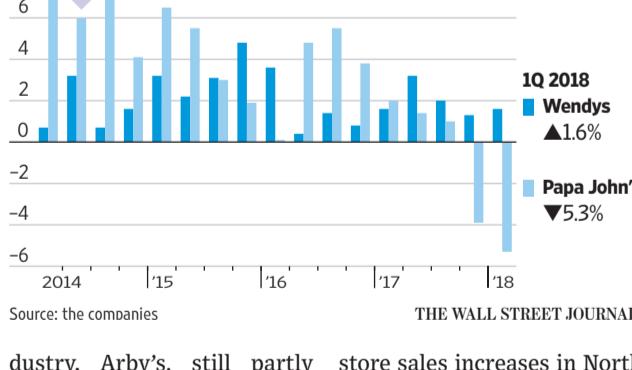
Same-store sales at Papa John's have been falling for several quarters as consumers have switched to less-expensive rivals. Domino's has posted strong growth as its various order-taking options—including via Twitter—have resonated with consumers.

That Wendy's would even consider a combination with Papa John's comes as somewhat of a surprise given that the hamburger chain had narrowed its focus in recent years. Wendy's, which once owned Tim Hortons, Baja Fresh and Arby's, now operates only its namesake burger chain. The world's third-largest hamburger chain, with a market value of \$4.25 billion, competes against McDonald's Corp. and Burger King, which is owned by Restaurant Brands International Inc.

Smaller restaurant companies have been bulking up in an increasingly competitive in-

Losing Appetite

Papa John's same-store sales in North America have fallen, while Wendy's sales have held up.



Source: the companies

THE WALL STREET JOURNAL.

industry. Arby's, still partly owned by Wendy's, recently merged with Buffalo Wild Wings to create a new company called Inspire Brands Inc. that intends to add more restaurant chains to its portfolio. Wendy's has reported 21 consecutive quarters of same-

store sales increases in North America and is in the process of modernizing its restaurants.

Activist hedge fund Trian Fund Management LP has about a 13% ownership stake in Wendy's, which was its first investment and one of its most profitable.

Trian first invested in a Wendy's predecessor in 2005, and Trian co-founder Nelson Peltz has been chairman of the board since 2007. The Wendy's board also includes Trian co-founder Peter May and Matthew Peltz, Mr. Peltz's son and a Trian partner. Another Trian co-founder, Ed Garden, was on the board from 2004 to 2015.

Trian, which is known for pushing companies to sell underperforming brands and focus on their best assets, orchestrated the 2008 merger between Wendy's and Arby's. By 2011, the combined company agreed to sell Arby's after its pricey roast beef sandwiches fell out of favor with consumers looking for better deals. Mr. Peltz said at the time Wendy's needed to focus on its core burger business.

Independent equity analyst Mark Kalinowski said Papa John's could be attractive to Wendy's because there are opportunities to gain share amid a fragmented pizza market.

CORRECTIONS & AMPLIFICATIONS

A photo of U.S. President Donald Trump and Russian President Vladimir Putin that appeared with the Capital Journal column on Tuesday was taken in Helsinki. The caption incorrectly said they were in Moscow.

The last World Cup final between teams from Western and Eastern Europe before Sunday's match was in 1954, when West Germany defeated Hungary. A

Review essay on Saturday about Eastern Europe incorrectly said a 1938 match between Italy and Hungary was the latest.

A chart showing Twitter's monthly active users per quarter that ran with a July 10 Heard on the Street column about the company was incorrectly labeled as monthly average users.

Tesla in late June built

about 5,000 Model 3 sedans in about a single week. A What's News item on July 2 incorrectly said the company built its 5,000th Model 3 sedan.

In late May, the Trump administration threatened to impose tariffs on \$150 billion of Chinese imports. A What's News item on June 4 about tariffs incorrectly said the tariffs totaled \$150 billion.

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

Powell Reaffirms Gradual Approach

Federal Reserve Chairman Jerome Powell reaffirmed the central bank's plans to gradually raise interest rates "for now" but warned of risks from an escalation of trade tensions.

During a second day of Capitol Hill testimony Wednesday, he also said officials would soon resume discussions that could determine when the Fed stops shrinking its holdings of \$4.3 trillion in bonds and other assets.

—Nick Timiraos

FEDERAL RESERVE

The White House budget office now estimates that the deficit will rise to nearly \$1.1 trillion, or 5.1% of gross domestic product, in the fiscal year that begins in October. That figure compares with \$984 billion projected in February's budget proposal.

The revisions, which went largely unnoticed when the White House submitted its annual update to Congress last week, reflect the cost of federal spending increases agreed to this year and higher interest payments.

The budget proposal released in February showed annual deficits totaling \$7.1 trillion over 10 years. The latest revisions increase these cumulative deficits by \$926 billion, to about \$8 trillion.

The report highlights the challenge the Trump administration faces in reducing deficits. Administration officials have said stronger economic growth would allow recent tax cuts to generate more revenue over the long run, offsetting initial declines in receipts from rate cuts.

The White House budget office now estimates that the deficit will rise to nearly \$1.1 trillion, or 5.1% of gross domestic product, in the fiscal year that begins in October. That figure compares with \$984 billion projected in February's budget proposal.

The U.S. ran a deficit of \$66 billion for the fiscal year that ended Sept. 30, 2017, or 3.4% of GDP.

—Nick Timiraos

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U.S. NEWS

FROM TOP: JOE JOHNSTON/THE TRIBUNE/AP; JOHN MADONNA CONSTRUCTION/CALTRANS/REUTERS



Highway 1 Is Open Again In Big Sur

BIG SUR, Calif.—Matt Romano, a golf assistant from Pacific Grove, Calif., waited in his 2003 Volvo Wednesday morning to be the first to cross onto a stretch of Highway 1 that had been closed for 14 months, hammering local businesses that rely on tourism.

"It feels great," said Mr. Romano, 45 years old, who planned to visit a favorite hiking trail that had been inaccessible after a mammoth landslide closed the road more than a year ago.

The more than two dozen motorists proceeded slowly, many honking their horns and flashing thumbs-up signs.

In early 2017, El Niño rains triggered mud and rock slides along other parts of the picturesque roadway that the California Department of Transportation, or Caltrans, thought it may not be able to repair.

A rebuilt section of Highway 1, top, in Big Sur, Calif., was reopened on Wednesday after 14 months. A landslide, seen above, had run over the scenic road in a spot about 150 miles south of San Francisco.

Initially, Caltrans estimated work wouldn't be completed until the fall. That was sobering news for merchants in and around Big Sur, whose revenues plunged as much as 90% after the closures.

The timetable for completion was eventually moved up, in

part because crews had more time to work during a relatively dry winter.

Farther south, the cities of San Simeon and Cambria—which serve as gateway communities to the Big Sur coast—have also been hard hit, said Mel McCulloch, president of the

Cambria Chamber of Commerce.

On Tuesday, when Mr. McCulloch announced to his board that Highway 1 was reopening, he said the conference room erupted in cheers and applause. "There are smiling faces all over town," he said.

—Jim Carlton

Court Upholds City's Beverage Tax

BY SCOTT CALVERT

The Pennsylvania Supreme Court upheld Philadelphia's beverage tax on Wednesday, a victory for Mayor Jim Kenney, who championed the levy as a way to raise millions of dollars for pre-K and community schools, parks, recreation centers and libraries.

In a 4-2 decision, with one justice not participating, the state's high court found that the city has the power to impose the 1.5-cent-an-ounce tax on sweetened drinks, which took effect in January 2017.

The closely watched decision is a setback for the soda industry, which has battled similar levies around the U.S. Last month the industry notched a win when California banned all local taxes on

groceries for 12 years.

A coalition of businesses, restaurants and retailers called Ax the Philly Bev Tax said it was disappointed by the ruling. "It is now up to our elected officials to listen to the concerns of their constituents and provide Philadelphians much needed relief by reversing this tax," it said. A spokesman for the coalition said members of the group were among the plaintiffs.

Mr. Kenney, a Democrat, said the ruling "offers renewed hope for tens of thousands of Philadelphia children and families who struggle for better lives in the face of rampant poverty." He said residents will benefit from "free, quality pre-K seats" as well as rebuilt parks, recreation centers, playgrounds and libraries.

Proponents of soda taxes

say sugary drinks contribute to obesity, diabetes and tooth decay and that the taxes can help reduce consumption. Mr. Kenney, though, has emphasized Philadelphia's tax as a way to generate revenue.

Opponents of Philadelphia's tax claimed it violates the Sterling Act, a Pennsylvania law that bars municipalities from taxing items already taxed by the state. The city argued, and the lower courts agreed, that Philadelphia taxes nonretail distribution transactions, as opposed to consumer retail sales, which are subject to state sales tax.

Chief Justice Thomas Saylor wrote in the majority opinion that the Sterling Act gives the city "a broad taxing power" to tax anything "the Commonwealth could, but does not presently, tax."

Justice David Wecht, in his dissent, said the soda tax "impermissibly imposes upon the state sales tax in violation of the Sterling Act."

"A rose by any other name smells just as sweet, and, whether styled a retail tax or a distribution tax, the levy here at bar, like the state sales tax, raises revenue specifically by burdening the proceeds from the retail sale of sugar-sweetened beverages," he wrote.

In addition to sodas, the tax applies to enhanced waters such as VitaminWater and sports drinks such as Gatorade. Also subject are juices that aren't 100% juice or have added sweeteners, along with cashew and almond milk. It also covers diet sodas and teas, as well as purportedly healthy drinks such as kombucha and coconut water.

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U.S. NEWS

Damage Control on Air Force One

Efforts to address presidential conduct in Helsinki dominated the flight back home

BY PETER NICHOLAS
AND MICHAEL C. BENDER

Flying home Monday after the summit with Russian President Vladimir Putin, President Donald Trump and his senior aides recognized that he had made a mistake that risked lasting damage and needed to be fixed quickly, people familiar with the matter said.

Playing on a loop on television was footage of the president standing next to Mr. Putin, casting doubt on the U.S. intelligence community's finding that Russia interfered in the 2016 election and aligning himself with Moscow's denial of any meddling.

Mr. Trump, aboard Air Force One, spoke to his staff about how best to correct what they knew was a miscue, and the discussions continued with staff meetings Tuesday morning in Washington. Aides considered various responses and passed them back and forth, culminating in Mr. Trump's afternoon announcement in the Cabinet Room that he had misspoken, a person familiar with the matter said.

What he meant to say, he told reporters, was: "I don't see any reason why it wouldn't be Russia" that had intruded in the U.S. election and not what he actually said: "I don't see any reason why it would be Russia."

The rare admission of error on Mr. Trump's part came after bipartisan criticism of his remarks, which some of his closest allies have said could weaken his presidency and



On Twitter, President Donald Trump defended his actions in Helsinki. Above, a cabinet meeting at the White House on Wednesday.

other Republicans feared would drive away voters in the November midterms.

It isn't clear whether Mr. Trump's statement will quell the backlash. The White House found itself under scrutiny again Wednesday when Mr. Trump, at a cabinet meeting, appeared to say that he didn't believe Russia was trying to influence this year's midterms.

After remarks to reporters at the White House later Wednesday, amid shouting as the press was being escorted out, Mr. Trump was asked whether he believes Russia is still targeting the U.S. He said: "Thank you very much. No."

His own top security advisers have described Russia's ef-

forts this year as "ongoing, pervasive efforts to undermine our democracy."

Later Wednesday, White House press secretary Sarah Sanders said Mr. Trump wasn't addressing the Russia question when he said "no." Rather, he was saying "no" to answering further questions, Ms. Sanders said.

Asked about criticism from Senate Democratic Leader Chuck Schumer that the president was being insincere about his position on Russia, Mr. Trump responded that, "We're doing very well—probably as well as anybody has ever done with Russia."

The focus on what the president did, or didn't say, has consumed much of the White

House since Mr. Trump returned to Washington on Monday, and has delayed some of the briefings for administration officials on the Putin summit, according to people familiar with the scheduling.

At the Defense Department, at least three aides who would be part of any policy change to come out of the private one-on-one meeting between Messrs. Trump and Putin said Tuesday they hadn't been briefed on the two hours the two leaders spent alone.

On the flight home from Helsinki, with Mr. Trump telling aides he wanted to come out with a new statement, John Bolton, his national security adviser, wrote up a list of points that needed to be made

quickly and passed them to White House aides, a person familiar with the matter said.

Bill Shine, the newly minted deputy chief of staff for communications and a former Fox News executive, voiced concern that the White House needed to provide a new TV image so that networks would stop broadcasting images of Mr. Trump's news conference in Helsinki, a person familiar with the matter said.

Mr. Trump would heed that advice, making a televised statement from the Cabinet Room during a meeting with lawmakers that was originally supposed to be closed to the press. Mr. Shine didn't respond to a request for comment.

U.S. Mulls Putin Call To Query Americans

BY VIVIAN SALAMA

WASHINGTON—The White House is reviewing a request by Russian President Vladimir Putin to allow Russian investigators to question a number of Americans they say are implicated in criminal activity, including a former U.S. ambassador, a spokeswoman said.

The White House decision to weigh the proposal rather than dismiss it outright prompted alarm among former diplomats and on Capitol Hill.

White House press secretary Sarah Sanders confirmed Wednesday that Mr. Putin and President Donald Trump discussed a desire by Russian authorities to question a number of U.S. citizens, including Michael McFaul, a former ambassador to Russia under President Barack Obama who now lectures at Stanford University.

Asked at Wednesday's daily briefing whether Mr. Trump was "open to having U.S. officials questioned by Russia" including Mr. McFaul, Ms. Sanders replied, "There was some conversation about it but there wasn't a commitment made on behalf of the United States."

As ambassador, Mr. McFaul was an architect of Mr. Obama's attempted reset with Moscow, but was sometimes critical of the Kremlin, a posture that brought intrusive Russian media scrutiny and official accusations that his mission was to undermine the country's leadership.

Mr. McFaul told The Wall Street Journal on Wednesday he was "deeply disappointed that the White House had the chance to denounce this crazy invented tale about U.S. government officials being somehow involved in breaking Russian laws and decided not to do so."

Other former U.S. officials also reacted with chagrin.

"Those who serve the U.S. government must know that they will not be put in jeopardy, or offered up as bargaining chips to authoritarian dictators," said Dan Shapiro, who was ambassador to Israel under the Obama administration. "President Trump, Secretary Pompeo, and the administration need to shut this travesty down immediately."

Democratic senators also pressed the White House to reject Mr. Putin's proposal.

"We're not turning @McFaul or any other American public servant over to Russia to be prosecuted for non-existent crimes," tweeted Sen. Mark Warner of Virginia, the top Democrat on the Senate Intelligence Committee. "The White House should make that clear immediately."

In a separate briefing Wednesday afternoon, State Department spokeswoman Heather Nauert was asked about Ms. Sanders's comments. She said she hadn't seen the remarks and couldn't address them, but dismissed as "absurd" the allegations that Russia was making about U.S. citizens.

Judge Orders Detention Of Russian Gun Activist

BY DEL QUENTIN WILBER
AND JULIE BYKOWICZ

A federal judge ordered the detention of a Russian gun-rights activist accused of conspiring to cultivate relationships in the U.S. with influential conservatives and gun-rights groups to advance Moscow's agenda.

Maria Butina, 29 years old and wearing a jail jumpsuit, sat quietly through a nearly two-hour bail hearing on Wednesday before U.S. Magistrate Judge Deborah Robinson, who ultimately sided with federal prosecutors and said she should be held without bond pending trial because she posed a flight risk.

In court papers filed Wednesday, Assistant U.S. Attorney Erik Kenerson said Ms. Butina presented "an extreme risk of flight" because of her close ties to the Russian government officials and oligarchs and her lack of legitimate relationships with U.S. citizens.

Ms. Butina "engaged in a yearslong conspiracy to work covertly in the U.S. as an unde-

clared agent of the Russian Federation to advance the interests of her home country," Mr. Kenerson wrote. "The plan was calculated, patient and directed."

Her attorney, Robert Driscoll, said Ms. Butina hadn't sought to leave the U.S. even after she gave extensive testi-

Prosecutors called the 29-year-old accused of being an agent of Moscow a flight risk.

mony to the Senate Intelligence Committee in April and her apartment was raided by agents from the Federal Bureau of Investigation that month.

Ms. Butina, who entered a not-guilty plea, is scheduled to next appear in court on July 24 before U.S. District Judge Tanya Chutkan for a status hearing.

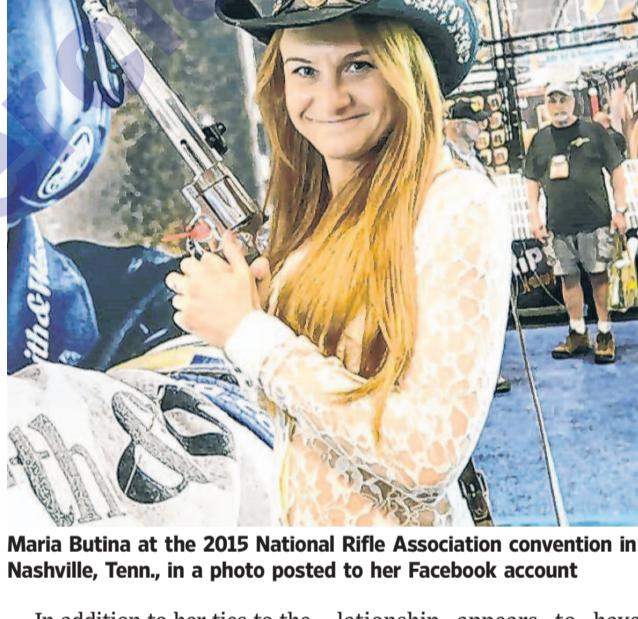
Ms. Butina was arrested over the weekend and charged in a criminal complaint. She was formally indicted Tuesday

on charges of conspiring to act as an agent of a foreign power. She faces up to 10 years in prison if convicted.

The Justice Department alleged in charging documents that Ms. Butina worked for an unnamed Russian official, who is identifiable as Alexander Torshin, the deputy governor of the country's central bank. He was placed under U.S. sanctions in April.

Mr. Kenerson added that Ms. Butina was "in contact with officials believed to be Russian intelligence operatives" during her time in the U.S. The FBI spotted her in March "sharing a private meal" with a Russian diplomat suspected of being a spy, prosecutors wrote.

Mr. Torshin considered Ms. Butina a secret agent, Mr. Kenerson wrote, saying he compared her in electronic messages to Anna Chapman, a Russian intelligence operative who gained notoriety when she and nine others were arrested in the U.S. in 2010 and accused of spying for the Kremlin. They were returned to Russia in a prisoner exchange.



Maria Butina at the 2015 National Rifle Association convention in Nashville, Tenn., in a photo posted to her Facebook account

In addition to her ties to the Russian intelligence agencies, Ms. Butina is "well-connected" to wealthy Russians, Mr. Kenerson wrote. He cited one with a net worth of \$1.2 billion who was referred in electronic communications as Ms. Butina's "funder," Mr. Kenerson wrote.

Ms. Butina also has no close ties to anyone in the U.S., Mr. Kenerson wrote. While she lived with a 56-year-old man, the prosecutor alleged, the re-

lationship appears to have been for show and "a necessary aspect of her activities."

That person is identifiable as conservative activist Paul Erickson. Alan Gottlieb, a gun-rights activist based near Seattle who knows them both, said Mr. Erickson has known Ms. Butina since at least 2013.

Mr. Erickson, whom public records show is 56 years old, hasn't responded to calls seeking comment.

Homeowners Are Underinsured as Hurricane Season Unfolds

BY NICOLE FRIEDMAN
AND LESLIE SCISM

Many U.S. homeowners are inadequately insured for natural-catastrophe damage ahead of the height of the Atlantic hurricane season.

Three major landfalling hurricanes in 2017—Harvey, Irma and Maria—revealed a widespread lack of full insurance coverage for homeowners in Texas, Florida, Puerto Rico and elsewhere. Those storms served as a wake-up call to some, but the underinsurance of Americans persists, according to regulators, trade groups and government data.

While most people have home insurance, many lack flood insurance, which is typically purchased from the U.S. government as a separate policy. Many homeowners also have home-insurance policy limits that are too low to cover the full cost of repairing or rebuilding their properties. "Many people thought that

they had a fully insured home or fully insured business" before last year's catastrophes, said Isaelia Pernas, executive director of Acodese, an industry group for insurers in Puerto Rico. "They discovered that there were some exclusions in their policies."

Javier Rivera Ríos, the territory's insurance commissioner, said a lot of the houses in Puerto Rico that suffered losses weren't insured at all, let alone with flood coverage.

Jeremy Gundling of Friendswood, Texas, didn't have flood insurance when his home filled with two feet of water during Harvey. His home insurance covered some wind damage to the house, but Mr. Gundling took out a loan to pay for most repairs.

When he decided to forgo flood insurance, he felt it was the right call based on recommendations from his real-estate and insurance agents.

"It was disheartening...to find out that I was severely un-

Costliest Disasters

Insured losses sustained by private insurers and government-sponsored programs

LOSSES	CATASTROPHIC EVENT
3Q 1992 \$31 billion	Hurricane Andrew
1Q 1994 30	Northridge, Calif., earthquake
3Q 2004 44	Hurricanes Ivan, Charley and Frances
3Q 2005 101	Hurricanes Katrina and Rita; Central Europe floods
2Q 2011 37	U.S. severe weather, drought; New Zealand earthquake
3Q 2011 62	Tohoku, Japan, earthquake, tsunami; New Zealand earthquake; Australia floods
4Q 2012 34	Superstorm Sandy
3Q 2017 88	Hurricanes Harvey, Irma and Maria

Sources: Aon; Wells Fargo Securities

THE WALL STREET JOURNAL

rose 2% between September 2017 and May 2018, to 1.7 million, according to government data. In Puerto Rico, the number of federal flood policies surged 77% over the period, to 9,199. In Texas, 17% more households and small businesses owned the policies, bringing the total to 702,800.

"We often see post-disaster increases in flood insurance policies in force, but unfortunately, it is not unusual to see some of these policies dropped when they come up for renewal," said David Maurstad, chief executive of the NFIP.

The Houston area was devastated by flooding after Harvey, and about 70% of the flood-related damage wasn't covered by insurance, according to analytics firm CoreLogic.

Insurers received 717,000 Harvey claims for damage to homes and vehicles as of Oct. 31, the most recent data available, according to the Texas Department of Insurance. About one-third were closed

with no payment, indicating the damage wasn't covered under the policy or the loss value was less than the deductible.

Insurers in Florida received nearly one million Irma claims as of June 12, and 91% had been closed, according to the state's Office of Insurance Regulation. More than one-third of those closed didn't entail payment.

Lisa Wansley, a realtor in Middleburg, Fla., said a home insurer offered \$800 to cover damage to her roof after taking into account her several-thousand-dollar deductible. "It costs more than that for a roof," she said. "This has just been a very frustrating battle."

Homeowners often fail to increase policy limits if they expand or upgrade their homes, regulators said. They also can find that their policy limits are insufficient after a disaster pushes up the cost of building materials and contractors.

—Coulter Jones contributed to this article.

We make prescription opioids. And we want to limit their use.

For more than 25 years, Purdue Pharma has developed opioid medications. While opioid analgesics may help patients with acute and chronic pain when other treatment options are inadequate, earlier this year we decided that our sales representatives will no longer promote opioids to prescribers.

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This approach includes supporting patient access to multi-modal pharmacologic and non-pharmacologic treatment options; ensuring opioids are only used when alternative treatment options are inadequate; and adopting public policies aimed at reducing addiction, abuse, diversion, and overdose related to opioids.

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To help reduce prescription drug abuse and diversion, we advocate that prescribers and pharmacists consult state Prescription Drug Monitoring Program (PDMP) databases before writing or dispensing any opioid prescription. Studies suggest that PDMPs can help reduce the number of prescriptions written for opioids and that PDMP use is associated with a reduction in pain medications received for nonmedical use from multiple doctors.^{1,2}

To support communities that have been affected by the crisis, we've provided funding to the National Sheriffs' Association to help law enforcement distribute the overdose rescue drug naloxone. In addition, we're helping to bring prescription abuse prevention education to high school students across the country.

America's opioid crisis is the result of multiple factors. We believe that all stakeholders — healthcare leaders, drug manufacturers, policymakers, and public health officials — need to come together to drive meaningful solutions forward. While no single intervention alone will solve this crisis, partnerships, determination, and innovative approaches are steps in the right direction.



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¹Bao Y, Pan Y, Taylor A. Prescription drug monitoring programs are associated with sustained reductions in opioid prescribing by physicians. *Health Affairs* [Project Hope]. 35(2016)1045–1051. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5336205/>.

²Ali MM, Dowd W, Classen T. Prescription drug monitoring programs, nonmedical use of prescription drugs, and heroin use: evidence from the National Survey of Drug Use and Health. *Addictive Behaviors*. 69(2017)65–77.

U.S. NEWS

Steel Tariffs Divide Minnesotans

By WILLIAM MAULDIN

VIRGINIA, Minn.—President Donald Trump's tariffs on steel imports marked a victory for the Mesabi Iron Range region of northern Minnesota, boosting the prospects of a Republican congressional candidate.

The region's mines are ramping up capacity to meet growing demand for ore in steel mills as far away as Lake Erie.

At the same time, Mr. Trump's tariffs—and the resulting retaliatory tariffs on U.S. exports by other countries—are creating concerns for Republican candidates in other districts, hurting farmers concentrated in the southern half of the state. The duties are also worrying Best Buy Co., Target Corp. and other politically connected businesses based around Minneapolis and St. Paul.

"Your Iron Range up north is pretty happy with the tariffs right now," said Republican Rep. Tom Emmer, whose district is in the center of the state, near Minneapolis. "Your ag folks are pretty nervous."

Minnesota is a major battleground in November's midterm elections, which will decide who controls Congress. The nonpartisan Cook Political Report identifies four Minnesota districts—two currently held by Republicans and two by Democrats—as toss-ups. One of those is the sprawling northern district that contains the Iron Range and the port city of Duluth,



Lou Weichseldorfer supervised the loading of a bulk carrier with iron ore in Duluth, Minn., last week.

from which ore is shipped to mills around the Great Lakes.

Democrats, some of whom support steel tariffs, are seeking to win a majority in the House of Representatives. But some GOP incumbents find themselves caught in the middle between the president's enthusiasm for tariffs, the traditional free-trade leaning of the party and the vocal demands of businesses and voters in their districts.

A boon to some, higher steel prices are worrying other businesses in Minnesota, including Midsota Manufacturing Inc., a custom builder of trailers that has asked farmers and other customers to pay surcharges as a result of higher steel prices.

"I've got to go to them and tell them you're going to have to pay another \$1,500 for this trailer," said Midsota co-owner Joel Bauer. He said he was previously "apolitical" but recently raised the issue with Mr. Emmer, his representative in the House.

Steel has been at the center of the administration's tariffs push, and most American steel begins with ore mined in the Iron Range, home of Iron Junction, Mountain Iron and other small towns long linked to mining. Mr. Trump traveled to the region last month to support Pete Stauber, a Republican former hockey player who local experts say has a good shot at replacing a retiring Democrat in the House.

Lourenco Goncalves, chief executive of iron-ore miner Cleveland-Cliffs Inc., said he "can't deny that it did help" when Mr. Trump rolled out broad tariffs on steel imports. Mr. Goncalves said the iron and steel industry can't compete against Chinese steel that benefits from subsidies, low wages for workers and low environmental standards.

In a measure of the region's improving fortunes, Cleveland-Cliffs sold iron-ore pellets at more than \$100 a ton in the first quarter, 32% more than a year earlier. Most Minnesotans link the reopening of mining operations to trade cases greenlighted near the end of the Obama administration, in addition to Mr.

Trump's broader steel tariffs.

"Tariffs can be effective, but you can't use a sledgehammer—you have to use a scalpel to make sure the American economy survives the surgery," said Michelle Lee, a Democrat running for a House seat.

Farther south, farmers are worrying less about the steel tariffs and more about Mr. Trump's broad trade campaign against China—and Beijing's retaliation against American crops and meat.

Soybean-and-corn farmer Keith Schrader said the escalation of the trade conflict with China in May depressed prices and soured this year's outlook at his 5,000-acre operation. Beijing recently imposed 25% tariffs on soybeans.

"When the trade stuff hit—boom—we went back to unprofitability," Mr. Schrader said. As a staunch Republican, he said he would probably still vote again for Rep. Jason Lewis, seen as one of the most vulnerable Republicans up for re-election this year.

Mr. Schrader said he has "run on periods of thin margins my whole life." Some of the big companies around Minneapolis aren't as philosophical about their bottom lines.

"We are deeply troubled by and strongly oppose any consideration to add tariffs or raise taxes on basic imported consumer goods," Mark Tritton, Target's chief merchandising officer, wrote in a letter to U.S. Trade Representative Robert Lighthizer in May.

Trump Eyes Uranium Imports

By HEIDI VOGT

WASHINGTON—The Commerce Department has opened an investigation into whether uranium imports threaten national security, a move that could lead to tariffs or other protections against foreign producers of the radioactive material.

Uranium is used in commercial reactors that power a significant portion of the country's electrical grid, as well as in nuclear weapons and Navy submarines and aircraft carriers. The government could impose tariffs or quotas if the investigation finds the U.S. too dependent on foreign countries for an essential material.

The U.S. military and nuclear infrastructure get 5% of their uranium domestically, down from 49% in 1987, according to a statement from Commerce Secretary Wilbur Ross Wednesday. He promised a "thorough, fair and transparent review."

The U.S. last year imported \$2.2 billion in uranium ore and other products. Canada was the largest source for civilian power plants in 2017, followed by Australia, Russia, Kazakhstan and Uzbekistan, according to the U.S. Energy Information Administration.

The Commerce Department opened the uranium investigation after a petition from two major U.S. uranium mining companies—UR-Energy Inc. and Energy Fuels Inc.

from Europe.

In his remarks, Mr. Trump also said he had a "good session" with Mexico on Nafta, which he has called unfair. He said that the U.S. may complete separate agreements with Mexico and Canada.

Auto makers building cars in the U.S. and employing tens of thousands of workers would be hit by higher costs if the tariffs were enacted, analysts and car makers said.

Toyota Motor Corp. said it opposes the tariffs, because even though it builds cars in the U.S., it uses foreign-sourced parts. For instance, about 30% of the parts used in a U.S.-built Toyota Camry come from outside the U.S. A tariff on those parts would increase the price of a Camry by \$1,800, the company said.

"Our viewpoint on a 25% tariff on automotive and automotive parts is that it is something that is misguided," said Brian Krinock, senior vice president, vehicle plants, for Toyota North America. "We believe in the end the consumer will end up having to pay the additional costs."

—Michael C. Bender contributed to this article.

President Pushes Auto Levies

Continued from Page One

make trade concessions. The threat also hangs over negotiations with Canada and Mexico over the North American Free Trade Agreement.

The Commerce Department hearings on Thursday are part of an investigation aimed at justifying the auto tariffs as necessary for U.S. national security. The administration, citing the rarely used 1962 Trade Expansion Act, also used the national-security justification earlier this year in imposing global tariffs on steel and aluminum imports.

If the plan is carried through, the tariffs on autos and auto parts would be Mr. Trump's biggest tariffs yet. In 2017, the U.S. imported \$176 billion worth of passenger cars, \$36 billion of trucks and \$147 billion of auto components, according to Commerce Department data. The admin-

istration has threatened tariffs of 20% to 25%. The invocation of national security has drawn objections from lawmakers. "We do not believe the imports of automobiles and automotive parts pose a national-security threat," the House members said in the joint letter sent Wednesday. "Rather, we believe the imposition of trade restrictions on these products could undermine our economic security," said the letter.

There has been growing discontent in the Senate, too. Sen. Lamar Alexander (R., Tenn.) said Wednesday: "These tariffs are dangerous. They are going to cost us jobs and lower our family incomes."

Mr. Alexander and Sen. Doug Jones (D., Ala.) said they would introduce legislation aimed at halting Mr. Trump's auto tariffs. Last week, the Senate voted 88-11 to give Congress a role in determining when tariffs are imposed on the basis of national security. The measure is considered largely symbolic because it contained no specifics.

Some support for the tariff proposals has come from union groups, which generally back



German cars ready for shipping at the Emden port earlier this year.

The Alliance of Automobile Manufacturers, which represents 12 of the largest auto manufacturers, warned the tariffs risk triggering a negative "domino effect" that would harm U.S. workers and the broader economy, according to prepared remarks shared ahead of the hearing.

The Commerce Department will make a determination on the security threat and what remedies should be proposed, a process that could take months.

The president's remarks Wednesday made it clear he sees the tariffs as a

tool in trade talks with Europe, Canada and Mexico. "If we don't negotiate something fair, then we have tremendous retribution, which we don't want to use," Mr. Trump said, adding: "Including cars, cars is the big one."

Mr. Trump has frequently cited the disparity between the 2.5% tariff that the U.S. charges for car imports and the 10% tariff imposed by the EU on imports there. Mr. Trump doesn't mention that the U.S. imposes a 25% tariff on imports of light trucks, compared with a 10% tariff

from Europe.

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—Michael C. Bender contributed to this article.

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WORLD NEWS

Sanctions Fears Upend Iran Businesses

Businesses struggle to find lenders willing to finance import deals; 'the situation is severe'

New U.S. sanctions are sending an economic shock through Iran even before they take effect.

*By Aresu Eqbali
in Tehran and Asa
Fitch in Dubai*

Since President Donald Trump withdrew the U.S. from the nuclear deal in May, Iran's manufacturers, Persian-rug exporters and shopkeepers have increasingly struggled to make transactions in dollars for imports of needed supplies. Foreign companies are winding down contracts and the threat of sanctions has scared away big foreign banks, many of which paid billions of dollars in fines to U.S. regulators for sanctions violations in the past five years.

Even when Iranian companies can finance an import deal, the weakness of Iran's currency, the rial—down 50% this year compared with the dollar—has made imports so expensive in the local currency that they are cutting production and canceling contracts.

"The situation is severe," said Georgik Daniali, an executive at Parsian High Voltage Substations Development Co., a Tehran company that imports parts for making electrical-grid infrastructure. He said his company is planning to lower output by 15% to 20% this year in anticipation of higher costs for imports.

The signs of strain demonstrate how the Islamic Republic is being pushed out of the global system of finance and trade even before new American sanctions kick in.

The sanctions take effect in two stages, first on Aug. 6 against Iran's trade in gold and precious metals, transactions



The trade centers in Tehran's Grand Bazaar closed their businesses over several days last month as thousands protested economic conditions.

Feeling the Squeeze

Iran's currency has lost about half its value against the dollar since January, and sanctions are expected to choke off economic growth.

Currency exchange rate

How many Iranian rials \$1 buys

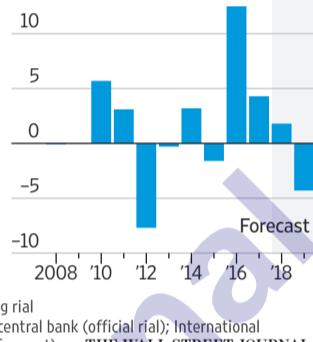


Note: Currency scale inverted to show weakening rial

Sources: Bonbast.com (free-market rial); Iran's central bank (official rial); International Monetary Fund (reported GDP); BMI Research (forecast)

Iran's GDP

Change from a year earlier



Forecast

THE WALL STREET JOURNAL.

sanctions are aimed at curbing the country's financial support for Lebanon's Hezbollah and other armed groups. U.S. officials have also for years used

Islamic Revolutionary Guard Corps, which controls a big chunk of the economy.

The atmosphere of uncertainty and the fall in the currency are affecting businesses

far beyond IRGC's control, forcing them to either adapt or shut down. The threat of sanctions is hitting the textile manufacturers, traders and industrial firms that rely on imported materials.

Vahid Hosseinzadeh, who produces fabrics at three plants near Tehran and the central Iranian city of Yazd, cut production to 20 metric tons this month from 30 metric tons last month. The rial's weakness has raised the cost of the imported thread that serves as his raw material.

"We still sell—maybe the market slows down, but we try to keep it up," he said. "We profit less, of course."

Iranian businesses that can replace imports with products sourced locally aren't celebrating. Many competitors are seeking out the same products, sending their prices higher.

While Iran's exporters benefit from a weaker currency, even they aren't happy. Razi Miri, managing director of Teh-

Tehran Works to Secure Lifelines For Its Economy

Iranian President Hassan Rouhani's government has tried to peg the currency exchange rate to the dollar and banned the import of over 1,300 products.

He is also pushing European allies to keep the nuclear deal alive by allowing Europe's central banks to open financial channels to Iran's central bank.

Tehran is also in talks with Chinese companies to ensure China will buy the oil that other nations won't, according to a senior U.S. government energy official. Iran's oil exports have fallen about 8% in the past two months as the Trump administration pressured allies to shun Iran's crude.

iran-based Rug Exports Co., said the falling rial allowed him to sell carpets abroad at lower prices and still make a profit. But the uncertain outlook for the rial makes it difficult to price his carpets because he receives payments in dollars and euros at least four months after a sale—over which time the currency could fluctuate wildly.

"We don't know what will happen in a month or in two weeks," he said.

The 90-year-old company has stopped production at factories in northwestern and central Iran after several years of difficulties and shut down its business in the U.S. this year, partly because Mr. Miri couldn't get a visa to oversee it amid a U.S. travel ban on people from Iran and several other Muslim countries.

Iranian carpets are among the goods subject to reimposed U.S. sanctions in August, which has only worsened the outlook. He laid off a number of his workers last week.

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WORLD NEWS

Boys Found Strength in Cave's Darkness

Terrified Thai soccer team followed coach's lead to endure ordeal for 17 days until rescue

MAE SAI, Thailand—For the first few days in the dark, panic reigned.

By Wilawan Watcharasakwet, Phred Dvorak and Warangkana Chomchuen

When the 12 boys of the Wild Boars soccer team in northern Thailand realized they were trapped in a flooded cave, they "lost their minds—out of control," crying day and night, one of the boys told his father. Another boy recalled teammates saying their stomachs were growling with hunger and that they wanted to go home and see their parents.

Around day three, their coach—the only adult with them—was able to start getting the frantic boys to sit quietly and focus on breathing and sleep.

It would be one more week before the 13 were found, on July 2. And it would be another week before they were rescued in one of the most extraordinary rescues the world has seen, involving thousands of divers, engineers, military and support staff.

A week after they were pulled out of the caves, the full story of how 12 Thai teenagers and their 25-year-old soccer coach stayed alive for 17 days far underground—around 10 of the days without food or any link with the outside—is finally starting to emerge.

Thai provincial officials hosted a press conference Wednesday night, which kicked off—literally—with the 13, in soccer uniforms, knocking around balls at the front of the room. The group, which had just been released from the hospital with clean bills of health, described their ordeal and answered questions submitted in advance and vetted by psychologists.

"This experience taught me we should plan carefully," said 14-year-old Adul Sam-on, in response to a question on what he had learned. "From now on, I will live my life carefully."

Thai authorities have been working hard to ensure the boys have a stress-free recuperation.



Coach Ekkapol Chantawong, above left, and his team pay tribute to Saman Gunan, who died during the rescue operation, seen below.



ROYAL THAI NAVY/AGENCE FRANCE PRESSE/GETTY IMAGES

The group was only told that one rescuer—former Thai navy SEAL Saman Gunan—had died while diving to place supplies in the flooded cave, on Saturday, the day of Mr. Saman's funeral.

This account of the Wild Boars' time underground is based on public statements by Thai authorities, the boys and their coach, as well as interviews with friends and family who visited the boys and the coach in the hospital, or heard accounts from visitors.

When the group cycled off for the outing at the Tham Lu-

ang caves on the afternoon of June 23, they planned to be gone for an hour. They set off carrying snacks and a little water, along with flashlights and cellphones, leaving their bikes at the cave entrance. There was no cell reception inside.

Some local residents cite stories of spirits living inside the massive Tham Luang cave system. But the boys' coach, Ekkapol Chantawong, had an adventurous streak and had been in the caves before, despite the danger of flooding during monsoon season, which can run from May through November.

Mr. Ekkapol and the boys decided to explore far inside, undeterred by some water at a junction where the main cave passage forks. Mr. Ekkapol on Wednesday said he had encountered water there on a previous trip and it hadn't been a problem.

This time, when the group tried to return, they found their way blocked by fast-rising water from a sudden downpour.

"Are we lost?" shouted 14-year-old Ekkarat Wongsookchan, known as Bew, Mr. Ekkapol recalled. "No," Mr. Ekkapol said he answered.

On the way, the team left marks on the cave walls to show where they had gone. Mr. Ekkapol told the boys the water might be lower in the morning.

Still, panic set in, with some boys crying, according to an account Bew gave his father, Adisak Wongsookchan, who was interviewed by The Wall Street Journal. Duangpetch Promthep, or Dom, the 14-year-old captain of the Wild Boars, told his parents he was cold, hungry and scared of the darkness, and that other boys wanted to go home, too, his grandmother said.

After a few days, Coach Ek calmed the boys and got them to listen, Bew told his father.

The group's primary concern was water. Coach Ek searched for floodwater that looked clear rather than muddy, testing it first to make sure it was safe. Drinking water helped ease the boys' hunger; otherwise they simply tried not to think about food.

Hoping to find a way out, the coach divided the boys

into two teams. One stayed put while the other dug a tunnel in a direction Mr. Ekkapol thought might lead to an escape. They got to around three yards before giving up.

Coach Ek also got teams of boys to survey their surroundings for possible exits. They erected barriers to keep water out of their living space.

"We didn't want to wait around until the authorities found us," Mr. Ekkapol told the press conference.

The group weighed pushing deeper into the cave, since one boy had heard talk of another exit reached from far inside. They opted not to risk it. Another flood that raised water further sent the group fleeing to even higher ground.

Much of the time, though, Coach Ek urged his charges to stay still and sleep to conserve energy, huddling together for warmth. He directed the teens to turn on only one flashlight at a time, to conserve energy.

Sometimes, Mr. Ekkapol, who had spent most of the past decade as a novice in a Buddhist monastery, led the boys in meditation. He told them someone would see the marks they had left, and come to rescue them.

On July 2, day 10 of their ordeal, while the Wild Boars were tunneling again on higher ground, they heard what they thought were voices, some distance away. They scrambled to look, and came face-to-face with two British cave experts who had been struggling for more than a week along with other divers to reach the boys.

Thai navy SEALs sent three members and a doctor to stay with the stranded team until they could be rescued. They brought medical supplies, foil blankets and nutritional gel packs. To keep the boys entertained, the SEALs organized a checkers championship.

When it came time to decide who to send out first, the SEALs turned to Coach Ek. Mr. Ekkapol decided that boys who lived farthest away from the caves should exit first, he said at the press conference.

Bew, who was in the second group of boys to be extracted, told his father that all he remembers was getting an injection before being taken into the water by divers. Thai authorities say the boys were given anxiety-reduction drugs. Bew said the next thing he remembered was being airlifted to the hospital in a helicopter.

ble only in Europe, will require changes in its relationship with global device makers that sell products on the continent. Google doesn't break out its EU revenue; in 2017 it brought in \$36.05 billion in revenue from Europe, Middle East and Africa, a third of its total, according to a securities filing.

The EU ruling could ultimately benefit smartphone users by helping mobile app makers compete with Google services by offering better features and lower prices, said John M. Simpson, privacy and technology project director at Consumer Watchdog, a Los Angeles-based nonprofit.

Supporters of Google, however, contend that the company may have less incentive to develop innovative Android products if it ends up making less money from mobile phones.

The fine is the latest in a series of decisions in which the EU has played the role of global tech regulator, moving with particular force against U.S. companies on issues ranging from competition to taxes to privacy.

The EU has also ordered the recovery of alleged unpaid taxes from Apple Inc. and Amazon.com Inc.

In May, the bloc began enforcing a strict new privacy law that imposes new requirements on companies such as Alphabet and Facebook Inc. that collect and use large amounts of personal data.

Wednesday's fine tops the EU's previous record penalty of €2.42 billion (\$2.82 billion) when the bloc last year ordered Google to stop using its search engine to favor its own product-advertising service over others. Google appealed that decision but was required to implement it at the same time.

Earlier this year, shopping rivals complained that Google's remedy has done little or nothing to improve the playing field. Google said it has followed the letter and the spirit of the EU decision.

EU Fines Google \$5 Billion

Continued from Page One
that it stymied competing apps is false because manufacturers typically install many rival apps on Android devices—and consumers can download others.

"Today's decision rejects the business model that supports Android, which has created more choice for everyone, not less," Sundar Pichai, Google's chief executive, wrote in a blog post following the decision.

Alphabet shares ended the day little changed at \$1,212.91.

The impact of any changes mandated by the EU decision on Google's ability to target ads to users—and to its profitability—is an open question. The two apps targeted in the EU decision, Google's search and its Chrome browser, are extremely popular in their own right. Consumers are likely to seek them out from an app store even if they weren't pre-installed on the phone, said Tarun Pathak, an analyst at research firm Counterpoint.

And while the EU ruling may have opened the door for device makers that want to charge Google to pre-install its search and browser apps, Google has its own leverage over manufacturers. The internet giant could counter by demanding payment for Android. Mark Mahaney, an analyst at RBC Capital Markets, has noted there aren't many competing options.

Google's investment in Android dates back to 2005, when Google paid \$50 million to acquire a small startup behind a new touch-screen operating system for phones. Google's wager was that providing a free Android operat-

Android Era

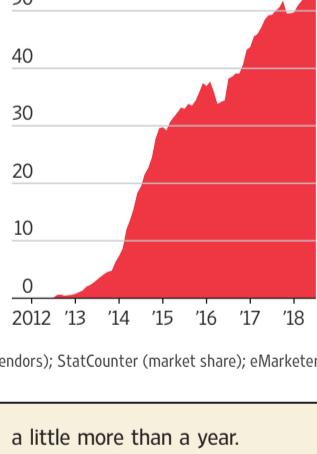
Google's mobile operating system, Android, dominates the global smartphone market, helping the company expand use of its Chrome browser and generate revenue from mobile ads. European regulators see Android as one of several ways the internet giant is abusing its power.

Devices shipped, by mobile operating system

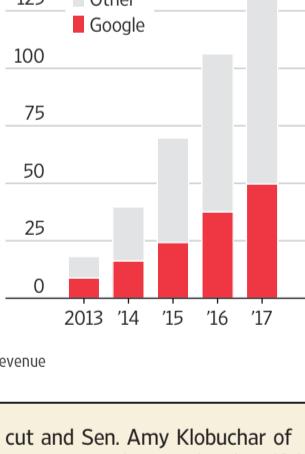


*Through 1Q 2018 Sources: IDC (shipments, vendors); StatCounter (market share); eMarketer (revenue)

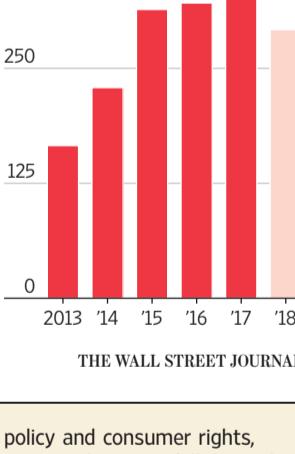
Chrome's mobile web browser market share



Mobile ad revenue



Number of smartphone vendors*



*THE WALL STREET JOURNAL.

Europe's Decision Puts New Pressure On U.S. to Step In

Europe's latest move to rein in Google puts pressure on U.S. regulators and lawmakers to curb the power of the Silicon Valley giant—a step they have thus far been reluctant to take.

The European Union slapped Google parent **Alphabet** Inc. with a \$5 billion fine for abusing the dominance of its Android mobile platform on Wednesday, the EU's second major antitrust action against

the internet search provider in

a little more than a year.

No similar action appears on the horizon in the U.S., where Google and other top tech companies have benefited from the prevailing view that their business practices, on the whole, benefit consumers beyond any concerns they might raise. Their considerable political clout in Washington also has helped shield them from scrutiny.

But in recent months, various U.S. policy makers have voiced concerns that Google's practices are stifling competition and endangering the privacy of billions of users.

Democrats such as Sen. Richard Blumenthal of Connecticut

cut and Sen. Amy Klobuchar of Minnesota, along with a handful of Republicans like Rep. Todd Rokita of Indiana, have called for U.S. antitrust officials to reopen an investigation into Google.

"The point here is not that bigness is necessarily bad and certainly not illegal, but the misuse of that bigness and market power to stifle innovation and consolidate dominance is against the law," Sen. Blumenthal said in an interview Wednesday.

A spokeswoman for Alphabet declined to comment on the potential for U.S. regulation.

Sen. Mike Lee (R., Utah), the chairman of the Senate subcommittee on antitrust, competition

and consumer protection, said he was encouraged by the EU's decision.

That amount would be 44% of Alphabet's estimated overall revenue of \$136 billion for 2018, according to S&P Global Market Intelligence.

That dominance was partly

achieved through a simple trade-off: In exchange for providing Android to smartphone makers free of charge, Google encourages them to offer devices loaded with Google ser-

vices such as search, YouTube, Gmail and Google Maps. That allows Google to gather vast amounts of data on consumers based on their use of those popular apps and then devise and target ads.

Now, Google may be forced to offer new terms that give handset makers and phone carriers more freedom to feature their own apps, strike

policy and consumer rights, cautioned against following the European approach, which he said could undermine competition and innovation in the U.S.

The Federal Trade Commission has broad powers to bring legal actions against companies that abuse market power. Joseph Simons, sworn in as FTC chairman in May, said part of his job will be to look for anti-competitive activity on the big tech platforms.

"We're going to look closely at what the EU is doing," Mr. Simons said at a Wednesday House hearing.

—Douglas MacMillan and John D. McKinnon

deals with Google's rivals or even charge Google for pre-installing its apps.

Brussels has given Google 90 days to make the changes it is demanding, including requiring Google to permit phone makers to offer their own tailored operating systems based on Android's open-source version.

The decision, while applica-

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WORLD NEWS

Ethiopia Leader Makes His Mark In Short Order

BY JOE PARKINSON
AND MATINA STEVENS-GRIDNEFF

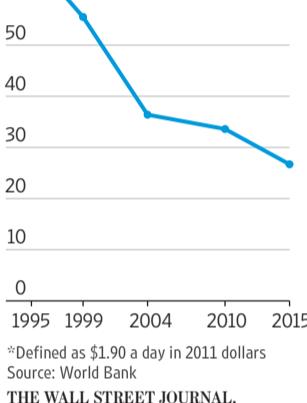
ADDIS ABABA, Ethiopia—In this strategically vital nation of 100 million, a charismatic young leader is delivering shock therapy to one of the world's most entrenched one-party systems.

In the four months since Abiy Ahmed—a 42-year-old former army officer—emerged as prime minister from an opaque power struggle in Ethiopia's ruling party, he has riveted this East African nation with announcements that have shattered political taboos.

He has angered hard-liners by launching a fast-track end to the two-decade conflict with Eritrea over their shared border, which on Wednesday cul-

Fewer Poor

Ethiopia has slashed poverty in the past two decades, but a quarter of the population still lives on less than two dollars a day.

People living in poverty*

*Defined as \$1.90 a day in 2011 dollars

Source: World Bank

THE WALL STREET JOURNAL.

minated in the first commercial flight since the outbreak of the war, on Ethiopian Airlines from Addis Ababa to the Eritrean capital Asmara, amid celebrations in both capitals.

The Ethiopia-Eritrea rapprochement, until recently unthinkable, has unfolded rapidly in the course of six weeks over which the two leaders exchanged visits, signed a peace agreement and now reopened their skies and roads.

This seems to be the speed Mr. Ahmed is most comfortable as he goes about his radical reform agenda.

In the same period of time, he has conceded that Ethiopia's ruling EPDRF coalition—in power since overwhelming the communist junta in 1991—is tainted by corruption and accused the powerful security services of conducting “terrorism” against their own population.

The premier has smiled, hugged and glad-handed his way across the country, calling for national reconciliation in the midst of violent ethnic discord, ordering the release of thousands of political prisoners and legalizing opposition groups long classified as terrorists.

Mr. Ahmed has also pledged to liberalize Ethiopia's economy and partly privatize state-owned enterprises, including Ethiopian Airlines, one of the world's fastest-growing carriers. Market analysts expect him to tighten commercial and investment relations with the West over China, which has so far dominated the Ethiopian economy and owns most of the country's massive debt load.

The outcome of Mr. Ahmed's breakneck overhaul agenda



After 18 years apart, a man is reunited with his twin daughters at the international airport in Asmara, Eritrea, on Wednesday.

could fundamentally reshape politics across the Horn of Africa, a strategic coastline perched on one of the world's busiest shipping lanes and site of mounting geopolitical competition between the Gulf monarchies, Iran, China and the U.S.

His agenda has been supported by U.S. policy makers hoping to move a crucial counterterrorism partner closer to Washington and away from Beijing.

Mr. Ahmed's message—and his telegenic delivery—has won him adulation from young and marginalized voters in a country where the median age is 18.

His sharp rhetorical shift comes with significant risks, lifting the veil on Ethiopia's existential challenges. “It's difficult not to be carried away by the euphoria about Abiy,” said Rashid Abdi, an analyst with Brussels-based think tank International Crisis Group.

“But he's still struggling with significant pockets of discontent internally, and the frenetic pace of reform is upsetting his conservative critics.”

Ethiopia's challenges are immense. Praised internationally for sky-high growth rates, the

effects including the \$4.2 billion Grand Ethiopian Renaissance Dam on the Nile, which has been only temporarily alleviated by a \$1 billion cash infusion from the United Arab Emirates.

Mr. Ahmed's agenda has created powerful enemies, including the longtime political and intelligence elite he outflanked but which are starting to regroup. The premier now delivers speeches behind bulletproof glass after an assassination attempt at a rally last month.

“Love always wins....To those who tried to divide us, I want to tell you that you have not succeeded,” Mr. Ahmed said in an address shortly after the blast.

Western diplomats in the capital are hopeful the new leader will translate rhetoric into real change, but they caution that opening Ethiopia's system carries danger. “This is extraordinary and his PR is genius

—he is talking individual rights and freedoms from within this Leninist system,” said one senior Western official. “But in some ways he's playing with fire. What happens when you take the lid off this system?”

Mr. Ahmed's rhetoric appears to be changing one of Africa's most paranoid political cultures. On the streets in Addis Ababa, voters feel more comfortable discussing politics or criticizing the government. Newspapers report that voters who always avoided speaking about politics are now coming to them with their views.

“I am 70, and I've never seen a prime minister like this,” said Girma Birtu, a retired lawyer in a tweed flatcap. “This is Ethiopia's time to move to the next chapter. We've needed to do this for a long time.”

—Yohannes Anberbir contributed to this article.

Throughout Middle East, Web Is Being Walled Off

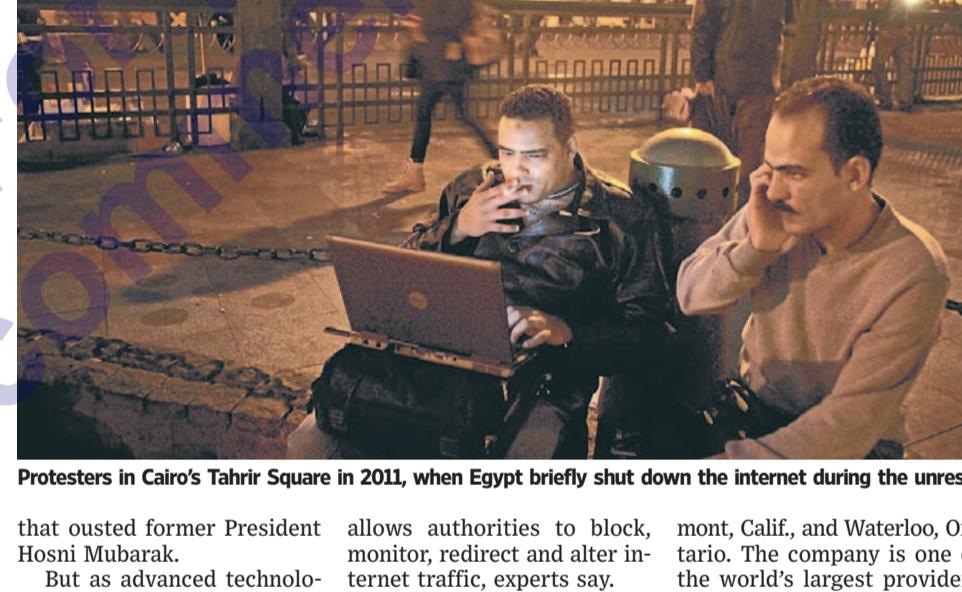
BY JARED MALSIN

CAIRO—In Egypt, the websites of the Huffington Post and Human Rights Watch aren't available to most internet users. Turkey blocks more than 100,000 sites, including Wikipedia. In Saudi Arabia, a range of news sites linked to rivals Qatar and Iran are off-limits.

“My first thought was, ‘Welcome to China,’ ” said a banker in Cairo, recalling his attempt to access Mada Masr, Egypt's leading independent news organization, which has been blocked since June 2017. He asked to have his name withheld for fear of government reprisal.

Egypt's Parliament has moved to cement online censorship in law, including legislation passed Monday giving the government the right to block social-media users and accounts that engage in vaguely defined violations, such as “incitement to break the law.”

Authoritarian governments in the Middle East are increasingly adopting a version of China's approach to online censorship, walling their citizens off from swaths of the in-



Protesters in Cairo's Tahrir Square in 2011, when Egypt briefly shut down the internet during the unrest.

ternet and denying access to popular websites, often with the aid of Western technology. China has banned Facebook since 2009, two years before social media played a key role in the uprisings of the Arab Spring.

As a result, surfing the internet is often a more limited experience than people in the West are used to. Cairo, for example, has more than doubled the number of websites it blocks to an estimated 500 in the past year, watchdog groups say. The internet can differ considerably from place to place, depending on the priorities of people in power.

“We're starting to head toward a model where each country has its own version of the internet,” said Alp Toker, director of NetBlocks, a London-based organization that tracks online censorship around the world.

Governments that see potential threats from the internet have long sought to spy on their citizens online, and Middle Eastern regimes have often cut off or slowed the internet in times of stress. Egypt briefly shut all internet access during the 2011 revolution

that ousted former President Hosni Mubarak.

But as advanced technologies become more widely available, even countries without a large domestic tech industry are becoming increasingly sophisticated in targeting internet usage. Those technologies include deep packet inspection, which

allows authorities to block, monitor, redirect and alter internet traffic, experts say.

According to Citizen Lab, an internet research group at the University of Toronto, Egypt is blocking websites with the help of devices whose digital fingerprint matches those of products sold by Sandvine, a firm based in Fre-

mont, Calif., and Waterloo, Ontario. The company is one of the world's largest providers of network management tools and a supplier to telecom giants such as Comcast Corp.

Sandvine, whose technology is designed for governments and corporations to engage in deep-packet inspection, says it holds its business “to the

highest standards” and has safeguards to ensure it adheres to “principles of social responsibility, human rights and privacy rights.”

The company said it found some of Citizen Lab's allegations to be “technically inaccurate and intentionally misleading,” but gave no further details and said it is investigating the claims. Government officials declined to comment.

Saudi Arabia and other Gulf countries, meanwhile, blocked access in May 2017 to broadcaster Al Jazeera and other Qatari news sites in response to content they perceived as destabilizing to their national interests. It was the first sign of an escalating Saudi-led campaign against Qatar.

In Turkey, the authorities have carried out some of the region's most extensive internet censorship, blocking an estimated 100,000 sites, although the list of censored sites is constantly shifting, making a hard count impossible, according to Mr. Toker of NetBlocks.

—Amira El Fekki in Cairo, Margherita Stancati in Beirut and Erdem Aydin in Istanbul contributed to this article.

U.S. Looks to Move More ISIS Detainees

BY GORDON LUBOLD

WASHINGTON—The U.S. has returned about two dozen suspected Islamic State fighters detained in Syria to their home countries as it grapples with the fate of hundreds more, leaving the door open to sending some to the American prison at Guantanamo Bay, Cuba, U.S. defense officials said.

The Pentagon has assisted the Kurdish and Arab forces it backed in Syria in holding about 600 Islamic State detainees in several facilities there, U.S. defense officials said. The Defense Department has paid to upgrade the facilities and improve conditions, but has left guarding and monitoring detainees to its main ally in Syria, an amalgam of Kurdish and Arab fighters known as the Syrian Democratic Forces, they said.

There are about 400 more Syrian fighters also held separately by the SDF and thousands more Syrians who are also be-

NORTH KOREA
Coal Slips Through Sanctions Net

The South Korean government is investigating the whereabouts of thousands of tons of suspected North Korean coal that entered its ports last year despite a ban on such shipments, in what would be another example of Pyongyang exploiting gaps in the U.S.-led sanctions regime.

About 9,000 tons of North Korean coal, worth at least \$325,000, appear to have been shipped to the South Korean ports of Incheon and Pohang on Oct. 2 and 11 last year, respectively, having been unloaded and reloaded in the port of Khomsk, on the Russian island of Sakhalin.

The move was an apparent attempt to obscure the origin of the coal, according to a South Korean Foreign Ministry official and a United Nations report.

The U.N. banned North Korea from trading coal in August 2017.

—Andrew Jeong



North Korean leader Kim Jong Un inspects a coal-mining machine factory. Pyongyang is suspected of violating a ban on coal trade.

CANADA
Trudeau Shuffles Cabinet Over Trade

Prime Minister Justin Trudeau shook up his cabinet to prioritize trade diversification amid uncertainty over the North American Free Trade Agreement, and to get the Liberal government ready for elections next year as the rival Conservative Party has made gains in the polls.

“We need to diversify our markets. We need to ensure that we are not as dependent on the U.S.,” Mr. Trudeau said after an event swearing in new ministers.

Mr. Trudeau named Jim Carr, formerly the resources minister, as the minister charged with international trade diversification. Mr. Carr is highly regarded by Mr. Trudeau's inner circle, and has ties to the business community.

Some of the most important ministers—notably, Chrystia Freeland, the foreign minister and responsible for U.S. trade and Nafta talks; and Finance Minister Bill Morneau—are staying put.

—Paul Vieira

WORLD WATCH

NORTH KOREA

Curbs on Smoking Are Tightened

Japan tightened its smoking rules ahead of the 2020 Summer Olympics in Tokyo, joining a global trend after long being one of the easiest places among developed economies to light up.

Parliament passed a law Wednesday barring smoking in

restaurants and bars with more than about 1,100 square feet of space, except for separate and sealed smoking rooms. For the first time, the law sets fines for violators, with illegal smokers on the hook for up to ¥300,000 (\$2,658).

Some 55 countries, including the U.K., Canada and Russia, ban smoking in many public places, according to the World Health Organization.

—Megumi Fujikawa

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—Megumi Fujikawa

IN DEPTH

Hot Cars Lure Saudi Women

Continued from Page One

When Ms. Weheba told people she wanted an RS3, few believed her. It is the kind of car young Saudi men use for drag racing.

It is also popular for drag racing's more dangerous variation, "drifting," in which drivers show off their spinning and skidding skills. Ms. Weheba aspires to be one of the kingdom's first female drifters.

"Everyone suggested I get the yellow Q2," she said, referring to a mini-SUV. She dismisses it as "cute."

"Do I look like a yellow Q2 kind of girl?" she said.

As soon as the Saudi king last September disclosed plans to let women drive, Sahar Nasief knew what she wanted:

a Mustang convertible.

"It's always been my dream car," said Ms. Nasief, 64, who learned how to drive decades ago as a student in the U.S.

When Ford Motor Co. heard that Ms. Nasief, who is known for having participated in the campaign for women's right to drive, wanted a Mustang, it offered to give her one. She asked for one in yellow and black, the colors of her local soccer team, Al-Ittihad.

She has been driving the Mustang almost nonstop. She zooms down Jeddah's palm-lined avenues, often with the top down despite sweltering heat, giving rides to various groups of her 16 grandchildren.

"I love this car because of its roar," said Ms. Nasief. "Everybody is staring at me because I'm a woman in a sports car. But why not? We are even better drivers than the men, to be honest."

Ms. Nasief keeps one hand on the steering wheel and the other on the horn, blasting male drivers who fail to use



Sahar Nasief, 64, in Jeddah with her new Mustang convertible.

turn signals or who talk on a cellphone. "If I see them behave badly, I go 'beep beep!'" she said. "We'll teach them how to drive."

Female drivers are still a rarity on Saudi roads, particularly outside major cities. That is set to change. Tens of thousands of women have signed up for lessons at the few women-only driving schools, creating long waiting lists.

More schools are expected to open soon. Some three million women are expected to get behind the wheel by 2020, says an analysis by PricewaterhouseCoopers.

For many women, driving is an economic necessity, the alternative being the pricey one of paying a driver. In remote desert areas, some Bedouin women have been quietly driving for decades, using pickups to haul goods and livestock around.

Many Saudi women are already well-versed in car mechanics, having driven outside the kingdom. Mohammed al-Dali, a salesman at GMC's showroom in Jeddah, was surprised when a woman wanted to know the cubic-centimeter capacity of a car's engine and other details.

Some women, lacking licenses, are still at the stage of fantasizing about what they will buy and in what color.

Atreena Mohammed, a 27-year-old in Riyadh, said she was considering buying a pink car, but only because her brothers would be too embarrassed to poach it.

"If it's baby pink," she said, "they won't borrow it."

Princess Aljohara al-Saud, a member of the kingdom's vast ruling family, has her heart set on a Range Rover.

"I'm a first-time driver, so I would rather go for something big," said the princess, sitting in the driver's seat of a Range Rover Velar in the company's Riyadh showroom. "Also, with all the potholes on the streets, I prefer to have a higher car."

First she needs to find a spot in Riyadh's only driving school for women, a challenge even for a royal. "They told me it may take up to three months just to get an appointment to start the process," she said.

Maha Taher, a cultural-agency official who has gotten her license, spent a recent evening at Porsche AG's Riyadh showroom assessing different models. A salesman directed her toward the Macan, an easy-to-drive crossover designed to primarily attract women.

She demurred. "The Macan is too small," she said.

Ms. Taher wants good speakers to blast her music. She wants dark interiors to avoid discoloring seats with the all-black gowns Saudi women typically wear. And she would like an engine that roars.

"I like the noise," she told the salesman. "VROOM! VROOM!"

—Donna Abdulaziz contributed to this article.

States Diverge on Health Law

Continued from Page One

The outcome is consistent with President Donald Trump's goal to dismantle a one-size-fits-all approach of the ACA and leave decisions about many health-policy issues to the states. Many Republicans say that is a better approach because states have specific challenges better handled locally, and can also be a laboratory for new ideas.

Different directions

The growing divergence between states may be even more pronounced than it was before the ACA, also called Obamacare, passed in 2010. Many states have adopted broader consumer protections than before the health law. Others have taken new steps to curb the law's provisions, such as adding work requirements to Medicaid.

It is too early to gauge the financial impact of the moves by various states. Those that have embraced the Trump administration's changes could see lower insurance costs for businesses and many individuals, but higher public-health expenses stemming from hospital visits by uninsured people. States opting for more regulation could see higher insurance costs for younger and healthier people.

Among conservative-leaning states, Arkansas, Kentucky, Indiana and New Hampshire are moving to impose or have imposed work requirements in Medicaid. Idaho's governor wants to let insurers sell plans that don't cover benefits that are mandatory under the ACA.

The states' accelerating tendency to peel off in different directions will have significant financial repercussions for nearly 30 million U.S. small businesses, about 17 million people who buy individual coverage, 75 million Medicaid recipients and scores of hospitals and insurers.

The Trump administration is pushing the process ahead. It has asked a court to strike down parts of the ACA, including coverage guarantees for people with pre-existing health conditions. It recently froze money that insurers count on to help offset more expensive customers.

It has largely left regulation to the states, which has given them more leeway, and has also spurred high-stakes lobbying by businesses, insurers and consumer groups.

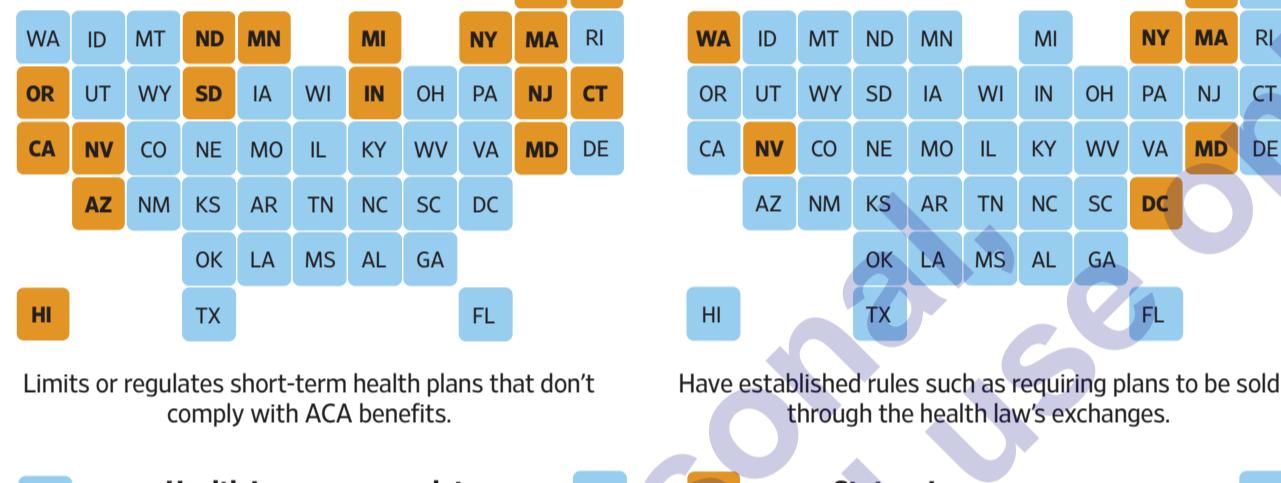
"There are trade-offs in how states respond to these new federal changes, and states will struggle with them," said Larry Levitt, a senior vice president at the Kaiser Family Foundation, a nonprofit that focuses on health-policy analysis. "For some states, the right judgment will be clear. For others, it will be more controversial."

This reflects a broad national divide. Conservatives want to give people more insurance options than the ACA allows, to say they shouldn't be forced to buy unwieldy policies they don't need. Democrats champion the federal law as a way to insure the broadest number of people while ensuring the coverage is comprehensive and doesn't leave consumers with staggering bills.

Where States Stand on ACA

As the Trump administration moves to roll back parts of the Affordable Care Act, some states have taken steps to preserve parts of the health law or strengthen their ACA markets.

■ Yes ■ No



Limits or regulates short-term health plans that don't comply with ACA benefits.

Health insurance mandate



Requires residents to pay a penalty if they don't have health coverage or requires minimum coverage.

Source: Georgetown Policy Health Institute



\$7,200 a year. He supports Mr. Sanders and is a fan of universal coverage, but he doesn't want state lawmakers to adopt a fine.

"What do little people like us do? We're struggling to keep a business," Mr. Poach said. "I'm really not happy about it. I have a problem paying something and getting nothing."

Maureen Linke/THE WALL STREET JOURNAL

Thousands of Iowans will now have affordable coverage," Ms. Reynolds said in signing the bill.

In Iowa, Republican Gov. Kim Reynolds signed a bill in April that introduced a work-around allowing the sale of health plans that don't comply with ACA regulations. She said the plans should be priced lower and provide an option for people who can't afford rising ACA premiums.

"Thousands of Iowans will now have affordable coverage," Ms. Reynolds said in signing the bill.

The Trump administration is expected to release a rule soon letting people buy "short-term" health policies, lasting as long as a year, that don't comply with ACA requirements. These plans would be less expensive, but wouldn't provide all the benefits or consumer protections of an ACA plan.

A bill by California Democratic state Sen. Ed Hernandez would ban such stripped-down policies within the state. Insurers such as IHC Group, which are eager to sell the short-term plans, have pressed state legislators to reject the Hernandez bill, saying many people need the plans.

Jean Dubauskas, general counsel for healthdeals.com, a division of IHC, an organization of insurance carriers, said some California lawmakers may be acting less out of concern for the insurance market than out of a generalized anger at the Trump administration.

Some consumers who have used the short-term plans don't think an outright ban is necessary. Jennifer Queen, a massage therapist in Ventura, Calif., bought such a policy when she accidentally let her son's coverage lapse and had to wait until the end of the year before she could sign him up again.

"It was nice to have the bridge," she said. "I think options are the way to go."

As the divide among the states grows, each side predicts the other will pay a political price.

Grover Norquist, president of the conservative Americans for Tax Reform, said people in states without access to Trump-driven changes will be angry when they see people in neighboring states able to buy such plans.

Democrats say voters know that Republican promises of "more choice" are code for proposals that help healthy people and drive up premiums for those who need insurance most.

Mr. Hernandez, the sponsor of a bill to ban stripped-down policies in California, said, "Let's not go back to the days before the Affordable Care Act."

Supporters of the insurance requirement say healthy people would drop coverage without it, inflating premiums for less-healthy people. "The Affordable Care Act is what we have right now, and trying to keep it functioning—the individual mandate is a part of it," said state Rep. Timothy Braglin, a Democrat.

The issue isn't breaking down along party lines in Vermont, where some Republicans agree a coverage requirement is necessary. "The Affordable Care Act required pre-existing conditions to be covered. You

can't have one without the other," said GOP state Rep. Anne Donahue.

Other conservatives—and some younger Vermonters—are upset. "It's preposterous," said John McClaughry, a former state senator and vice president of the state's Ethan Allen Institute, a free-market think tank. "It will be a new tax. Senators agreed to a mandate without even knowing what enforcement will be."

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GREATER NEW YORK

Billions Needed for Subway Cars: Report

Replacing, rehabbing much of city's aging fleet will cost more than \$9 billion, group says

BY MAYA SWEEDLER

The Metropolitan Transportation Authority needs to spend more than \$7 billion in additional funding to improve its aging and increasingly unreliable subway fleet in New York City, according to a new report by a local watchdog group.

The nonpartisan Citizens Budget Commission said in the report released Wednesday that subway cars have been

breaking down more frequently as the MTA has replaced cars at a slower pace and lengthened maintenance cycles. Increasing the subway system's reliability will require the restoration and replacement of much of the fleet, and will cost more than \$9 billion, the report said.

That is the price tag for purchasing 3,650 new subway cars and retrofitting an additional 1,200 existing cars—figures drawn from the MTA's Fast Forward plan, a recently released proposal that seeks to revitalize the city's subway and bus systems during a 10-year period.

The MTA's current capital budget, which ends in 2019,

only allocates \$1.7 billion for new and rehabbed cars. The agency hasn't yet released its next capital budget, which begins in 2020. The Citizens Budget Commission recommended allocating \$8.3 billion to purchase new cars and \$710 million to retrofit existing cars over the next decade.

In a statement, the MTA said it supported the report's conclusion regarding the need to fund the Fast Forward plan. It added that New York City Transit Authority President Andy Byford has been meeting with stakeholders in government to make the same case.

The details of Fast Forward were revealed in May, but the

NYCT hasn't yet announced the program's official budget estimates. The unofficial cost of the total program is about \$43 billion.

3,650

Number of new subway cars to be purchased over 10-year period

in exploring the relationship between subway performance and car procurement and maintenance since the MTA amended its current capital plan in May 2017. The amendment rolled funding for new subway cars into the next capital plan, the period during which the cars would actually arrive.

Ultimately, Mr. Dague said, he wanted to highlight the importance of allocating resources to maintaining infrastructure.

"Ongoing cost must be thought about when MTA sits down to decide how they're going to dedicate capital," he said.

The current plan's \$1.7 billion allocation provides for 450 new subway cars, which are

set to arrive between 2021 and 2023. The existing contract includes an option to purchase an additional 1,077 new cars at a predicted lower per-car cost in the 2020-24 capital period.

The MTA has operated in five-year capital planning periods since 1982, after the mean distance between subway car failures reached an all-time low of 6,640 miles, according to the report. During the next decade, the MTA purchased almost 1,800 new cars and overhauled much of the rest of the fleet. It also implemented a scheduled maintenance system, which includes regular inspections, cleaning and preventive maintenance.

States Sue Seeking Federal Grants

BY ZOLAN KANNO-YOUNGS

New York, along with five other states, filed a lawsuit against the Justice Department for withholding a federal grant honoring a fallen New York City Police Department officer as punishment for the states' refusals to comply with Trump administration immigration policies.

Under Attorney General Jeff Sessions, the Justice Department has sought to penalize so-called sanctuary cities that don't cooperate with immigration enforcement by, among other things, giving federal agents access to local jails.

The Justice Department has yet to release the long-running federal Edward Byrne Memorial Justice Assistance Grant, which supports emergency responders, diversion programs for nonviolent drug offenders and anticybercrime initiatives, according to a statement from New York Attorney General Barbara Underwood. She said the Justice Department was interfering with the rights of states and cities to set their own law-enforcement policies.

New York state would lose nearly \$9 million in federal funds, Ms. Underwood said. New York City, which filed a separate lawsuit over the withholding of federal funds, has yet to receive more than \$4 million.

"The Trump administration's actions are illegal and morally bankrupt," New York Mayor Bill de Blasio, a Democrat, said in a statement.

Other states that filed the lawsuit in federal court in Manhattan on Wednesday include Massachusetts, New Jersey, Connecticut, Virginia and Washington.

Justice Department spokesman Devin O'Malley said by choosing not to cooperate with federal immigration authorities, "political leaders deliberately choose to protect criminal aliens in their custody and to make their communities less safe. Today's lawsuit is a disservice to these states' law-abiding citizens."

New York City follows Chicago and Los Angeles in suing the Justice Department for withholding the funds.

For the past year, Mr. de Blasio has said the city would sue the federal government if it didn't get the grant, named for Edward Byrne, an NYPD officer fatally shot in Queens while guarding a witness in 1988.



A system of conveyor belts twists and turns for 9 miles through FreshDirect's distribution center in the Bronx. Below, workers filet fish for customers' orders.

FreshDirect's Big Moves to Corner the Market

BY JENNIFER SMITH

During a typical night at online grocer FreshDirect's highly automated distribution center in New York City, workers fillet, wrap and label individual orders of harpoon-caught swordfish and then slide the packages on a serpentine system of conveyor belts that twists and turns for 9 miles through the building.

Trucked in that day from Nova Scotia, the fish might spend 24 hours or less inside the warehouse before hitting the streets bound for homes from Connecticut to as far south as the Washington, D.C., suburbs.

"It takes us less than a day to get it down here from the boats, depending on when they are landing," David McInerney, a FreshDirect LLC co-founder with the official title of chief food adventurer, said on a recent visit to the company's signature new facility in the Bronx.

Designed to keep food fresh longer and move it faster, the 400,000-square-foot operation is the online grocer's multimillion-dollar bet on the fastest-growing sector in the grocery business.

FreshDirect helped build the



e-commerce home-delivery market, and now with Amazon.com Inc. and major grocery chains such as Kroger Co. piling on investments, some of the biggest names in retail are jockeying for position in a business that some believe is the future of supermarket sales.

Amazon, Target Corp. and other large companies have invested hundreds of millions of dollars to expand food delivery and build out their grocery e-commerce operations. Supermarket chain owner Koninklijke Ahold Delhaize NV's Pea-

pod unit, the longest-running online grocery service in the U.S., has expanded to 24 markets and is investing in technology to cut its handling and delivery costs.

Walmart Inc. said this month that Jet.com, the online retailer it bought two years ago, will open a fulfillment center in the Bronx this fall to help roll out same- and next-day grocery deliveries in New York City.

The grocers are trying to

solve one of the toughest problems in home delivery:

Online Food-Delivery Service Expanding

FreshDirect launched its online-only service in 2002 in New York. Its green and orange trucks now provide next-day delivery to customers across the New York-New Jersey, Philadelphia and Washington, D.C., metropolitan areas, with plans to expand into Boston next.

The private company says it generated between \$600 million and \$700 million in annual revenue in 2017.

Getting food to doorsteps in the same condition consumers would expect if they went to the store themselves. Delivering perishables is trickier than dropping off paper towels or dog food. Fruit bruises, meat spoils, eggs break. Botched deliveries can upend dinner plans, leaving customers angry, and hungry.

"Consumers are not going to be patient with a retailer who delivers two hours earlier, and your ice cream is sitting outside," said Jill Standish, a senior managing director and head of

It declined to disclose the cost of the new Bronx facility, which was financed with the help of a \$189 million investment round in 2016 led by J.P. Morgan Asset Management, direct funding and incentives from state and local governments.

Online sales remain a sliver of the more-than \$700 billion-plus U.S. grocery market.

Market-research firm Kantar Worldpanel projects that U.S. e-commerce sales of food and alcohol will reach roughly \$40 billion by 2021, up from \$14.1 billion last year.

the retail practice at Accenture.

FreshDirect's logistic hurdles start well before delivery. It must get products from its suppliers to the building, process the food, then pick, pack and ship orders before the quality degrades.

That is why the new Bronx facility has 15 different temperature zones. Tomatoes do best at about 55 degrees, but "chicken and meat like it to be just at 32 degrees. It gives more shelf life to it," said FreshDirect Chief Executive

Please turn to page A10B

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GREATER NEW YORK

City Council Passes Bill to Regulate Airbnb

BY KATIE HONAN

The New York City Council on Wednesday voted unanimously to require Airbnb to disclose the names and addresses of its hosts to a city-run enforcement agency in an effort to crack down on illegal units. The move rankled the multibillion-dollar home-sharing company, which blasted the hotels union for the bill.

It is the first type of regulation of Airbnb for New York City, where an estimated 40,000 hosts list their homes, apartments and spare rooms.

Councilwoman Carlina Rivera, a Democrat who sponsored

the bill along with 43 other colleagues, said it would give the city the ability to enforce laws that root out "bad actors" who own multiple units that could be used for affordable housing.

The measure is designed to help the city recognize who might be warehousing residences. Currently, the only tool they have for enforcement is responding to complaints.

Airbnb could face a fine of up to \$1,500 for each listing that isn't disclosed to the city, officials said. A city listing is illegal under state law if a host rents out space for less than 30 days without being present during the stay in a building

with multiple units.

The bill passed with a 45-0 vote. The remaining six members of the council weren't present. Mayor Bill de Blasio is likely to sign the bill.

The global-home-sharing company said the bill was favored by the powerful Hotel Trades Council, which has donated thousands of dollars to council members. "The fix was in from the start and now New Yorkers will be subject to unchecked, aggressive harassment and privacy violations, rubber stamped by the City Council," said Liz DeBold Fusco, an Airbnb spokeswoman.

The company pointed to the

economic benefits to New Yorkers who rent their residences. Its analysis found 77% of hosts used the money they earned from the platform to help stay in their homes, paying off mortgages and utilities.

A typical Airbnb host in the city has 60 renters a year and earns more than \$6,300, according to the company.

Both Ms. Rivera and Speaker Corey Johnson denied that the hotels union influenced their support for the legislation. "We're doing this because we're trying to make common sense regulation based on concerns we hear from the public," Mr. Johnson said at a news conference before the vote.

The city's enforcement for Airbnb and other home-sharing sites has extended beyond the busy Midtown Manhattan hotel district.

An analysis by The Wall Street Journal earlier this month found that nearly 200 owners of one- or two-family residences received violations since 2015. The Mayor's Office of Enforcement, which launched in 2006, has grown significantly since June 2015. The budget has risen to \$6.45 million and the staff—which is tasked with cracking down on illegal hotels—grew from 11 to 48, an official said.



Leandra Feliz held a portrait of her son, who was slain in June.

Charges Filed in Fatal Teen Stabbing

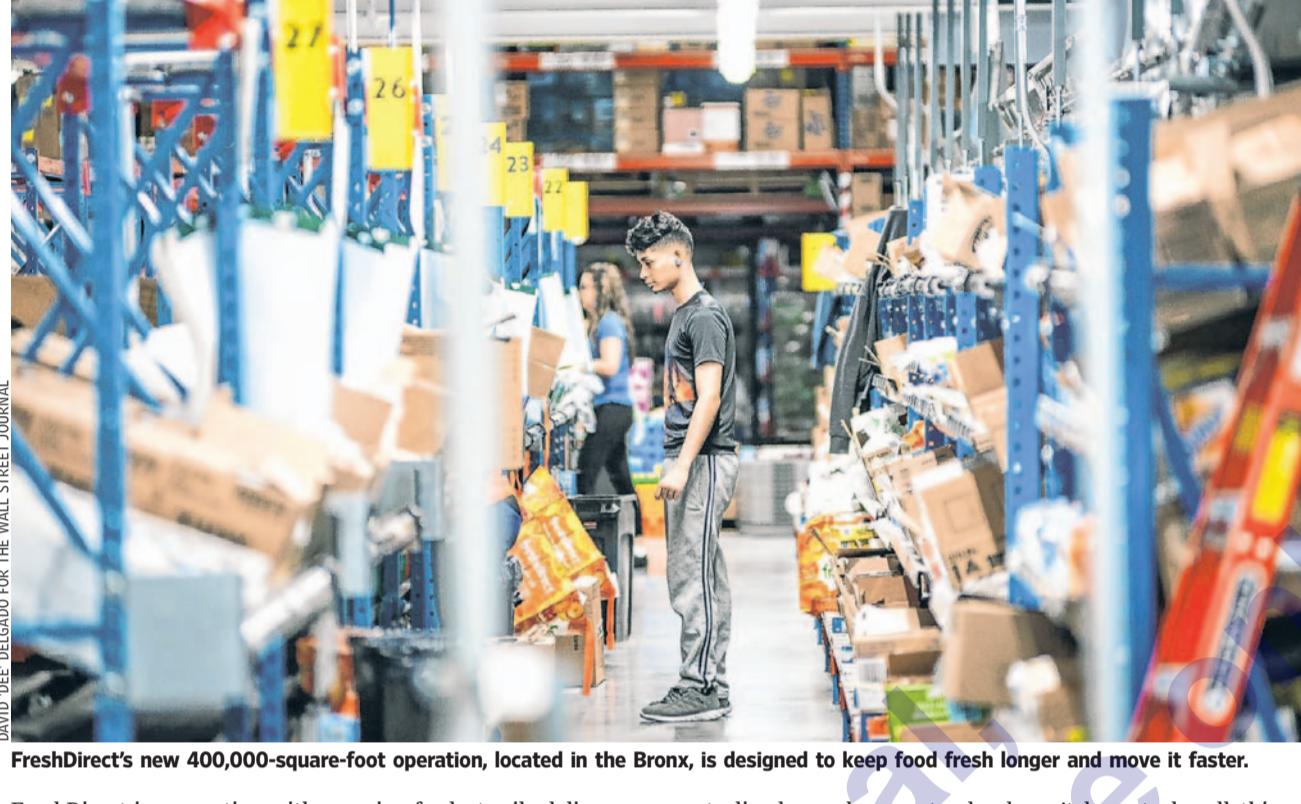
BY GERALD PORTER JR.

Twelve alleged members of the Trinitarios gang were indicted on murder charges in the stabbing of 15-year-old Lesandro "Junior" Guzman Feliz, who authorities say was dragged from a Bronx bodega and killed in a case of mistaken identity.

Bronx District Attorney Darcel Clark on Wednesday announced the charges, which were handed down in late June. Five of the suspects were charged with first-degree murder and torture, she said. All 12 defendants were charged with second-degree murder and first-degree manslaughter, among other gang assault and weapons counts.

The defendants are alleged members of a Trinitarios faction called "Los Sures," who police said were targeting members of a different group within the gang, known as "Sunset."

Several lawyers representing the defendants didn't respond to requests for comment. Donald Vogelman, a lawyer for defendant Danilo Payamps Pacheco, said: "My client is not guilty, he was merely present near the scene of a terrible murder."



FreshDirect's new 400,000-square-foot operation, located in the Bronx, is designed to keep food fresh longer and move it faster.

DAVID DEE DELGADO FOR THE WALL STREET JOURNAL

FreshDirect is competing with

grocery chains that often fill online orders through their stores, using a mix of staff and third-party services such as Instacart Inc.

So-called click-and-collect services, where consumers swing by to pick up their own orders, tend to have better margins because the retailer isn't

paying for last-mile delivery.

Kroger, the biggest U.S. grocery chain by revenue, recently increased its stake in British online grocer Ocado Group PLC, and plans to license the company's technology to run automated warehouses and process online orders.

Online-only operations with

centralized warehouses tend to be more efficient than logistics run out of stores because they use fewer workers

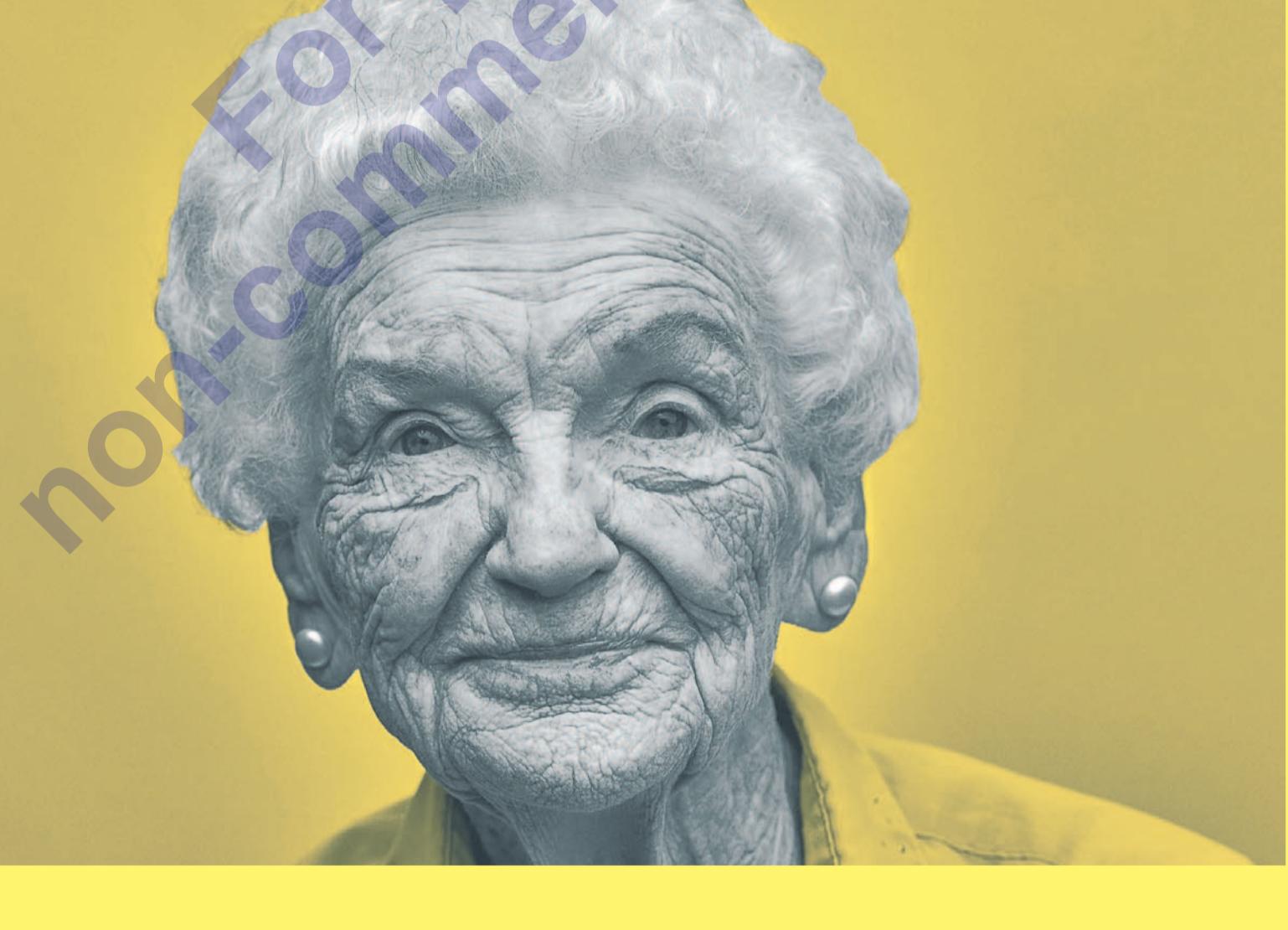
and can position goods for faster fulfillment, said Judah Frommer, a food retail analyst with Credit Suisse.

FreshDirect says its relatively small scale also can be an advantage because it

doesn't have to be all things for all shoppers.

"We don't ship Evian to Oklahoma," Mr. Ackerman said. "We're not a national shipping business. We focus on being the best local food, fresh-food retailer. And a lot of the tech is to support that."

—Heather Haddon contributed to this article.



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LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

The Secrets of Airline Seats

The little design choices carriers make—sometimes just an extra inch—can mean everything on a long flight

DO YOU ACHE all over after flying in a coach seat? That could be by design.

Airlines have lots of choices when they order seats for their airplanes. Those selections go a long way to determining how comfortable—or uncomfortable—their customers will be.

The seat bottom is one of the most crucial elements in seat comfort, and one of the most carefully studied. Longer is better: You get more support under your thighs. But airlines can scrimp.

Some reduce seat length to save weight. "You get hot spots on the back of your thighs. You're in misery but you don't know why," says Robert Funk, vice president for sales and marketing for the seating division of Zodiac Aerospace.

Most U.S. airlines go with an average length on the seat bottom, about 18 inches. Singapore Airlines designed a Zodiac seat for its premium economy cabins on long-range Airbus A350s that has a 19-inch seat bottom. Those seats also have leg rests, which can take strain off muscles and increase blood flow, and recline with the seat sliding up as well as forward, so you don't slide out of it when you lean back during 18-hour flights.

Another airline choice that affects your comfort: how high the seat is off the floor. About 18 inches is standard, but some European airlines with generally tall clientele want seats constructed higher, so long legs rest more naturally. Some Asian airlines order seats at 17 inches cushion height.

Southwest Airlines happens to have a variety of heights—some planes with seats 18.2 inches off the floor and others with just 17.2 inches. (At 6-foot-1, I can feel the difference.) The lower seat, found on Southwest's new 737-8 MAX airplanes, "is designed to help increase the personal space for our customers," a spokesman says.

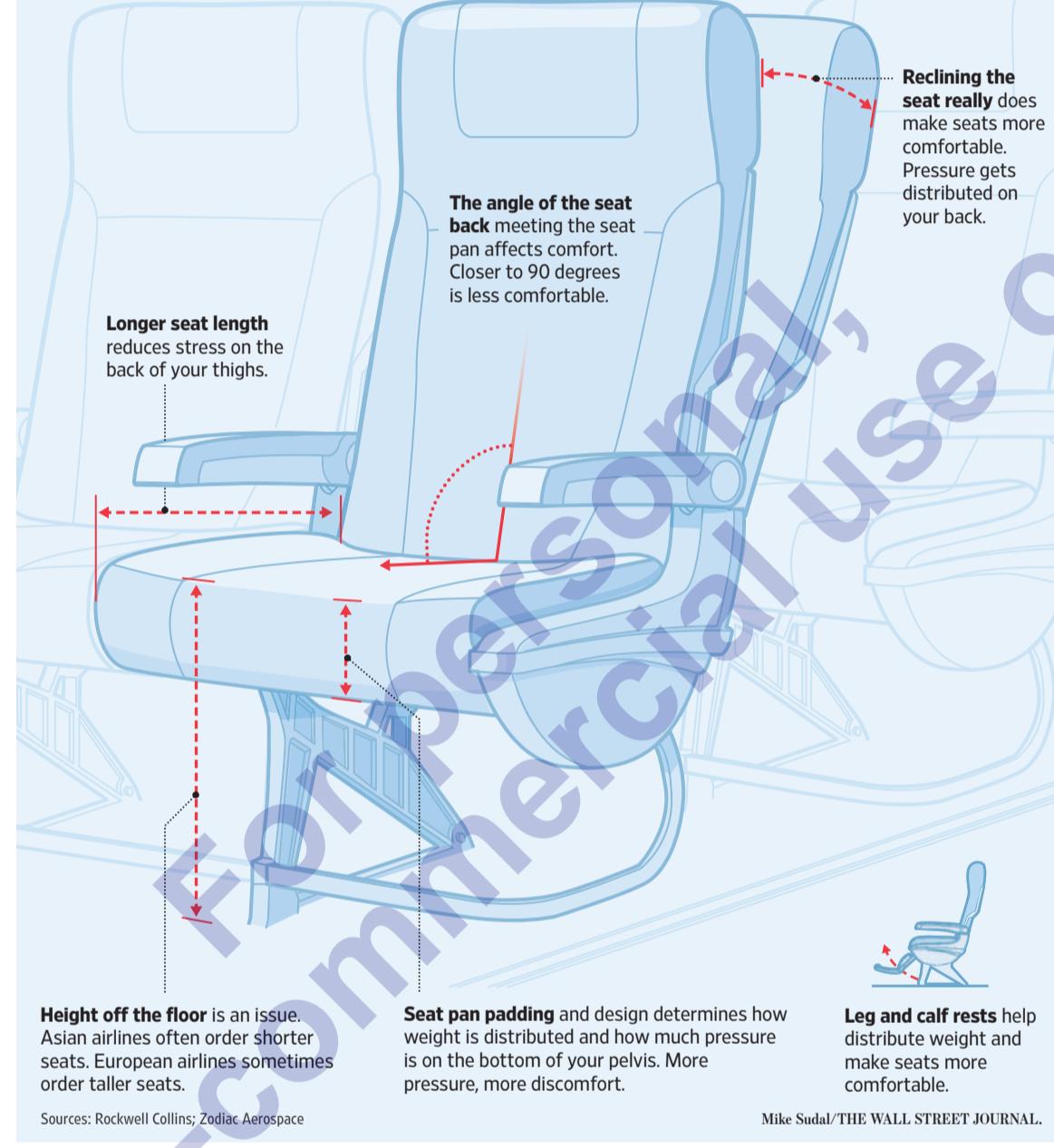
Seat makers say many factors influence seat comfort far beyond their control. The length of the flight affects how comfortable passengers think a seat is. So do cabin temperature and lighting. The temperament of passengers when they get on the plane also affects comfort assessments—if you're frazzled from the hassles and frustrated by TSA, you're more likely to think the seat is uncomfortable. Friendliness of flight attendants can help or hurt seat-comfort surveys, too.

Airlines have their long-held prejudices on seats. Some prefer a firm cushion. Others want softer. Even when manufacturers suggest one particular firmness that they think provides ideal support and comfort for most passengers, some airlines insist on modifications, says Alex Pozzi, vice president of technology and seating develop-



On the Edge of Your Seat

Here are some of the key specs airlines must consider:



Sources: Rockwell Collins; Zodiac Aerospace

Mike Sudal/THE WALL STREET JOURNAL

ment at Rockwell Collins's seat-manufacturing division. That's based on assumptions that "our particular market wants X," he says. (Mr. Pozzi won't name names.) "There's some science

there, and some not-so-much science."

The cleanliness of the airplane is a big factor in seating comfort scores. In addition, studies show more attractive color combinations

score higher. "A seat that looked less attractive always rated less comfortable," even when it was the exact same seat, Mr. Pozzi says.

Bad news for travelers who think no one should recline into

their space: Reclining actually improves comfort. Some of your weight gets shifted to the seat back from the seat bottom. Distributing weight across more seat surface is better for blood flow and pressure on key body parts.

Airlines can adjust how far their seats can recline, anywhere from 0 to 6 inches. As rows get smaller and airlines pack in more seats, airlines need to give more thought to reclining allowance than they sometimes do, Mr. Pozzi says. Some think they're doing customers a favor by giving them lots of recline.

Manufacturers say they can achieve greater comfort when the support materials and padding distribute weight so that as little as possible falls on a pair of bones on the bottom of the pelvis known as the sit bones. You can feel them when you're sitting on something hard, says Andy Severance, director of strategic marketing for premium cabins at Zodiac.

Most seat bottoms for aircraft are no longer made with hard metal seat pans topped with thick padding. Instead, the bottom structure is a flexible diaphragm that adjusts to different shapes and sizes and moves with people as they squirm in a seat, topped with minimal foam padding.

To test designs, manufacturers typically recruit lots of volunteers to sit in seats for hours, recording both data and comments on how uncomfortable they are. Zodiac recruits testers from a local college near its Gainesville, Texas, manufacturing plant, paying them \$10 to \$12 an hour plus lunch.

Zodiac offers a two-hour seat, a two-to-six hour seat and a seat for flights eight hours or longer.

One issue for manufacturers is that airplanes these days get used for longer and longer flights. Regional jets designed for short hops of only a couple of hours now sometimes fly four-hour trips. Planes designed initially for short trips like the Boeing 737 now fly cross-country.

Airlines get all kinds of options on aircraft seats. Foot and calf rests are options rarely used by U.S. airlines but more common overseas. A one-piece food tray is more robust than a bi-fold. Coach seats can have reading lights, USB ports, 13.3-inch monitors, dual water bottle holders and under-seat boxes for entertainment gear so there's no box on the floor blocking under-seat storage and foot space.

Many airlines, of course, choose not to provide those conveniences.

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MUSIC

CHOPIN IS HAVING A MOMENT

BY BRENDA CRONIN

A PROLIFIC COMPOSER with a world-wide following and an enviable sheaf of screen credits is back in the spotlight—almost 170 years after his death.

The music of Frédéric Chopin, the 19th-century Polish pianist whose sonatas, waltzes and other works defined the Romantic era, has popped up in television shows like "Westworld" and "Mozart in the Jungle" ahead of several other projects devoted to him.

Paramount Pictures is developing a biopic about the pianist and Chopin specialist Byron Janis. In August, W.W. Norton & Co. is publishing Paul Kildea's wide-ranging narrative "Chopin's Piano: In Search of the Instrument That Transformed Music," in the U.S. Two months later, Farrar, Straus and Giroux will bring out Alan Walker's biography, "Fryderyk Chopin: A Life and Times."

Born in 1810, Chopin grew up in Warsaw and began studying piano with his mother when he was around 4 years old. He started writing music a few years later.

As he grew older, despite fragile health stemming from a teenage bout of tuberculosis, he performed, composed and taught, ending up in his father's native country, France. There, he became involved with Amantine Aurore Lucile Dupin, a maverick writer with the pen name George Sand.

'You must never let the right hand know what the left hand is doing!'

During almost a decade with Sand—who nicknamed him "Chip-Chip"—Chopin composed some of his best-loved works. He died at 39 in Paris, where he is buried in Père Lachaise Cemetery. At his request, his heart was preserved in alcohol and brought back to Poland, where it remains at the Church of the Holy Cross in Warsaw.

Chopin's poetic sensibility, technical prowess and pioneering use of Polish dances such as the polonaise and the mazurka set him

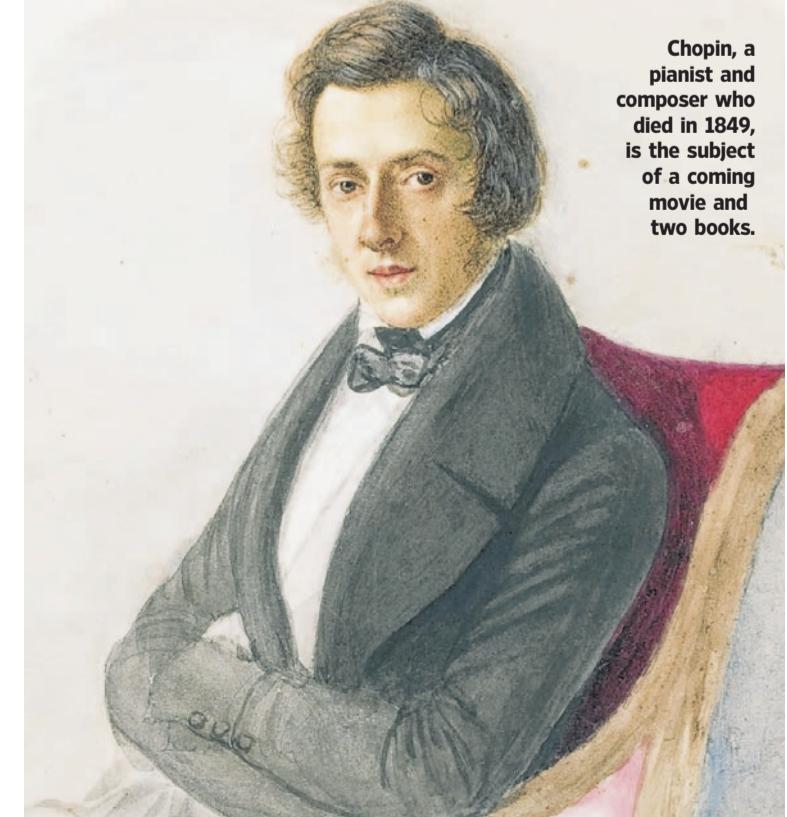
apart, said David Dubal, host of a radio program devoted to piano performance and the author of "Reflections From the Keyboard," a collection of interviews with famous pianists. "Everyone wants to play Chopin because the melodic genius is so extraordinary."

His music has also proved to be catnip for directors. In the finale of the first season of HBO's sci-fi thriller, "Westworld," Dr. Ford, the Svengali of the titular theme park, listens to Chopin's moody "Nocturne in E flat major."

In the Amazon series "Mozart in the Jungle," about life in a New York orchestra, a wunderkind conductor picks out Chopin's gentle "Prelude in A major" on the piano while visiting his girlfriend's parents. And in Amazon's "Transparent," about a family whose patriarch becomes a woman, Chopin's "Military Polonaise" thunders through a pageant in a drag club.

In the 2003 comedy, "Bad Santa," the opening sequence unfolds to the strains of Chopin's "Nocturne in E flat major." The camera moves inside a bar where Billy Bob Thornton, playing a dis-

Please turn to page A12



Chopin, a pianist and composer who died in 1849, is the subject of a coming movie and two books.

MARIA WODZINSKA

LIFE & ARTS

TURNING POINTS | By Clare Ansberry

People Who Don't Need People

ARE BABY BOOMERS anti-social?

Members of the baby boom generation, especially those 55 to 64 years old, are less socially engaged than people the same age 20 years ago, according to researchers at the Stanford Center on Longevity.

The big question is why, says Tamara Sims, a Stanford research scientist, who is collecting more data with her colleagues to figure out the answer.

Theories are already emerging. Boomers, especially women, are working more or devoting themselves to caring for parents, leaving less time to see friends or help out at church. They are interacting differently, perhaps joining an online literacy initiative rather than volunteering at a library. "They may be engaging in virtual ways not captured by the data," says Dr. Sims, 41, who is organizing a conference on the role of social media in engagement.

Cathy Jones Parks would like to be more engaged but cares full-time for her 84-year-old mother, who has Alzheimer's and lives with her. Ms. Parks still tries to go to church on Sundays, relying on her husband to stay with her mom, but has cut back volunteering there as a lector. Going to a movie, attending a wedding or taking trips means finding people to stay with her mom. In the rural area where they live, about 180 miles from Albuquerque, N.M., there aren't many support services, like respite care.

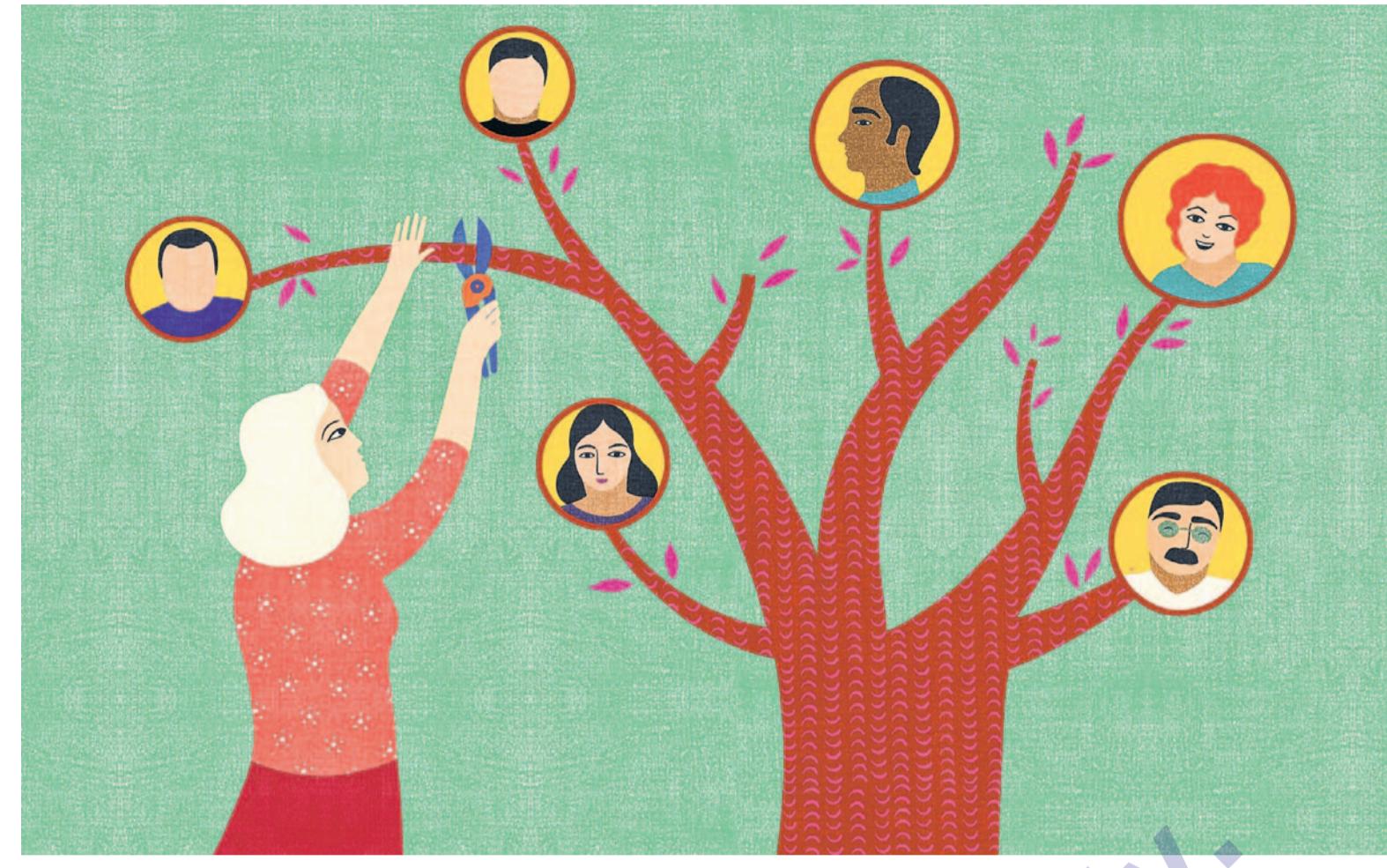
"You just start not accepting invitations," says Ms. Parks, 55, who gave up her job as director of a regional educational cooperative to care for her mother. "Your social life becomes doctors' appointments and those sorts of things."

One evening, she googled stress and caregiver and stumbled upon caregiving.com, an online support group. "It was such a relief to connect with other people who understood my story," she says.

Laura Carstensen, director of the Stanford Center on Longevity, engages socially with a small circle of family and friends. "I certainly find myself being more selective," says Dr. Carstensen, 64. Neighbors and friends don't just stop by the house, the way they did when she was growing up. Now when she hears the doorbell, especially at night and if alone, it's almost alarming, she says.

Dr. Carstensen isn't sure whether baby boomers are deliberately choosing to disengage and be anti-social or whether they don't have time because of other obligations. "We don't know that yet," she says.

Mark Lohkemper, 63, says that 20 years ago, people around his age weren't working as much and didn't have lots of often-distracting technology to keep up with. That left them more time to spend



Kathy Goldberg, seen with her dog Coal, works long shifts and wonders if she should socialize more.

on family and friends or golfing and bowling. Today, he says, people interact on social media. Mr. Lohkemper, who lives in La Jolla, Calif., and owns a small manufacturing company, texts a childhood friend in New York at least once a day. "You couldn't do that 20 years ago," he says. Mr. Lohkemper considers himself something of an introvert and says social media helps keep him engaged. But he also says there is no substitute for time with friends. He has a circle of confidants who go out to dinner monthly and take vacations together at least once a year.

Mobility, in terms of both job and home, also can disrupt connections, says Kathryn Betts Adams, a former social-work professor who consults on aging. Dr. Adams, 60, who lives in the Hartford, Conn., area, has moved several times and left a longtime teaching job in 2013. "I'm probably less socially engaged," she says, than she used to be.

It's also possible that boomers are remaining independent and self-sufficient—just as they have



always been. They questioned social norms and felt less obligated to attend church or join the Junior League and Chamber of Commerce. "Baby boomers do whatever they want," Dr. Adams says.

The Stanford findings, reported in 2016, are based on surveys taken in 1995 and 2012. Among the questions was: "Do you have a good, important talk with your partner at least once a week?"

Dr. Sims is directing the research as part of the Sightlines Project for the Stanford Center on Longevity. Researchers used nine measures of social engagement, including interaction with friends and family, contact with neighbors, and commu-

nity and church involvement. Among five age groups, the biggest drop in social engagement—and the only statistically significant decline—was among people 55 to 64, who were 5.11% less socially engaged than their same-age predecessors. That age group accounts for about half the baby boomer generation, which spans people born from 1946 to 1964, who are now 54 to 72 years old.

Being disconnected has its risks. Loneliness has the same impact on mortality as smoking 15 cigarettes a day, according to a 2018 study by health insurer Cigna.

Lack of engagement also affects brain health. "The more social connections you have, the less severe the decline in memory," says Elizabeth Kirby, a neuroscientist who teaches at Ohio State University. Dr. Kirby used aging mice to explore whether those who lived in groups performed better on memory tests than ones living in pairs. The mice from groups outscored the twosomes and also had less inflammation in the memory part of the brain, according to her study released this year. She suspects that being with a group requires more complex interactions, keeping the brain sharp.

Kathy Goldberg, a 63-year-old

registered nurse who lives in Pittsburgh, has always been private and independent, but is probably more so since her husband, Phil, died 13 years ago. Their three sons are grown. She has no family in the area. Ms. Goldberg works long shifts and doesn't interact much with neighbors, but does meet other dog owners when walking her poodle, Coal. "I'm social with people when I want to be," she says. If she feels like swimming, she goes by herself. If she sees a friend at the pool, she says it's nice to have the company, but not necessary.

"I've reached the age when I don't do things I don't want to do," Ms. Goldberg says. But she wonders if she should socialize more, perhaps join a neighborhood

book club. Her father, in his 90s, is very social and in good health.

Stanford's Dr. Carstensen is concerned about what is lost if baby boomers withdraw from meaningful engagement. As a generation, they can provide much good—volunteering, mentoring, helping kids read—especially since they are healthier and more educated than previous generations. "To the extent that we keep to ourselves, that is not going to be good for our communities," she says. "We need all hands on deck."



Jack Nicholson plays Chopin, above, in the 1970 movie 'Five Easy Pieces'; left, Evan Rachel Wood, James Marsden and Anthony Hopkins in 'Westworld,' one of the TV series where Chopin's music can be heard.

Chopin Returns to The Spotlight

Continued from page A11
sipated Father Christmas, drinks alone.

"I definitely had a mood (melancholy) and a pace in mind," Terry Zwigoff, the director of "Bad Santa," recalled in an email.

"I discovered the Chopin with

the help of my editor, Robert Hoffman, once we were in the editing room," Mr. Zwigoff added. "I thought it was perfect."

Things almost took a different turn. After he screened his cut of "Bad Santa" for the film's produc-

ers, they hated the Chopin music, Mr. Zwigoff wrote, "and wanted to replace it with 'Jingle Bell Rock' by Alvin and the Chipmunks."

Mr. Janis, 90, the subject of the Paramount project, is a lifelong fan of the composer. He met Sand's granddaughter, Aurore, in France in 1955 and played "Nocturne in D flat major" for her. His 2010 memoir, written with his wife, Maria Cooper Janis, is titled "Chopin and Beyond: My Extraordinary Life in Music and the Paranormal."

According to Ron Losby, chief executive of Steinway Musical Instruments, Chopin's music resonates on an emotional level with listeners.

"Whether it's the very happy 'Butterfly Etude'—that is just a little wisp of a song—or if it's something that is far deeper, like one of his sonatas that's more melancholy and more of an inner emotional journey," Mr. Losby said. "It connects with people across all cultures and across all generations."

For Mr. Dubal, the radio host, Chopin is just as much a star of the 1970 movie "Five Easy Pieces" as Jack Nicholson. In one scene, Mr. Nicholson's character, a former piano prodigy, leaps out of his car during a traffic jam. He climbs aboard the back of a nearby truck and starts hammering out Ch

opin's "Fantasie in F Minor" on an upright piano.

Pianist Ruth Slenczynska, who just wrapped up a tour of Japan and Taiwan, allows that the piece has its challenging stretches.

"Your hands are always in very awkward positions," Ms. Slenczynska said, such as a passage where "the right hand has to play legato"—where notes follow smoothly—"and the left hand has to play staccato"—where each note sounds short and discrete.

That is a Chopin hallmark, she said, remembering a teacher warning her that when playing Chopin: "You must never let the right hand know what the left hand is doing."

Now 93, Ms. Slenczynska is contemplating an all-Chopin program for her return to Asia next year.

"It has such a particular sound that even the least musical person is brought into it," she said. "It touches them."



LIFE & ARTS



KINO LORBER (4)

BY KRISTIN M. JONES

Brooklyn, N.Y.
IN MOVING pictures I have found my life work," the director, screenwriter, actress and producer Lois Weber said in 1914. She was not alone. Although many of their contributions have been forgotten, women played vital roles in shaping early cinema. They took diverse creative approaches, explored formal and technical innovations, and mastered numerous genres—including melodramas, westerns, adventure serials, slapstick comedies and even movies for children.

That kaleidoscopic variety is on view in "Pioneers: First Women Filmmakers," running at BAMcinéma tek from July 20 through July 26. Presented in collaboration with Kino Lorber and the Library of Congress, the series showcases—with newly commissioned scores—digital restorations of 28 American silent-era films to which women made major creative contributions. A selection will also travel to the American Cinematheque in Hollywood and the Los Angeles County Museum of Art. Produced by Bret Wood and curated by the film historian Shelley Stamp, the collection will be released in a DVD/Blu-ray boxed set in November.

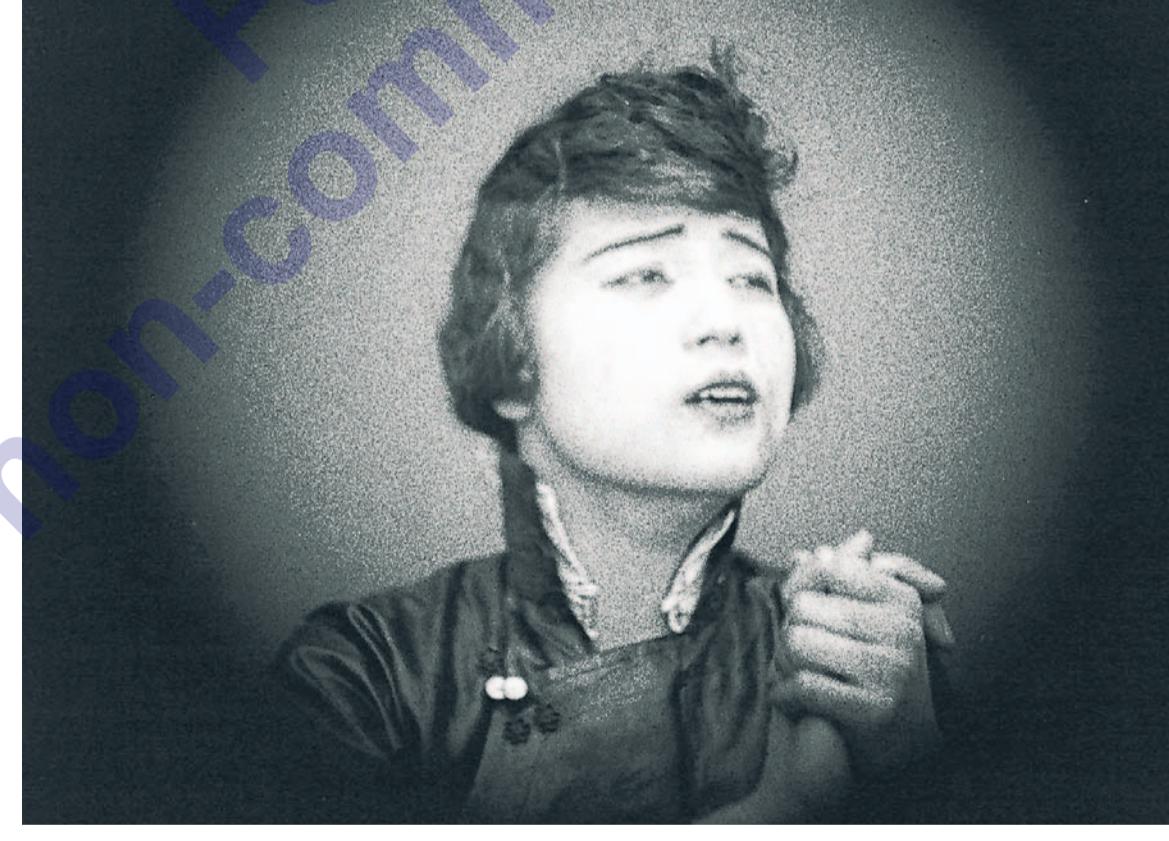
One of the most unjustly neglected figures has been the French-born Alice Guy Blaché, who pioneered narrative filmmaking for Gaumont and became an entrepreneur in the American film industry. Testifying to her versatility, a program dedicated to Guy Blaché's work includes such gems she directed as the western "The Little Rangers" (1912), in which young sisters save their postmaster father's life and chase a villain with guns blazing, and the melodrama "The Ocean Waif" (1916), starring a winsome Doris Kenyon.

Weber, another talented and once-famous director, performed in musical theater and did missionary work in slums before entering the film business. She collaborated with her husband, Phillips Smalley, although she was the team's primary creative force. Two Weber programs demonstrate her imaginative storytelling, technical innovation and visual flair. "The Rosary" (1913) illustrates lyrics from a popular song with scenes unfolding within the circle of a rosary. The superbly crafted thriller "Suspense" (1913), about a knife-wielding vagrant's invasion of an isolated house where a woman (Weber) is alone with her infant, incorporates unusual camera angles and a groundbreaking split screen.

In Weber's controversial allegory "Hypocrites" (1915), set in medieval and modern times, the "Naked Truth" is shown as a nude woman. Weber also tackled social issues such as poverty and capital punishment, addressing contraception in "Where Are My Children?" (1916), a daring but muddled film

CULTURAL COMMENTARY

Highlighting the Forgotten History of Women Filmmakers



'The Red Kimona' (1925), top; clockwise from above: 'The Curse of Quon Gwon: When the Far East Mingles With the West' (1916); 'Salomé' (1923); 'When Little Lindy Sang' (1916)



that incorporates disturbing ideas about eugenics. In "Scandal Mongers" (1918), a creature seen in double exposures represents reckless gossip.

Passionate about animals and nature, the Canadian-born Nell Shipman wrote and starred in the



captivating "Back to God's Country" (1919), which became the most successful Canadian film of the silent period. A young woman (Shipman) living in the northern wilderness—alongside bears, raccoons and owls—finds love but is terrorized by an infatuated villain.

The story features a valiant dog and a race by dog sled across the snow to save the heroine's beloved.

Grace Cunard played equally intrepid heroines in her popular adventure serials. In "The Purple Mask: Episode 13" (1917), which she

directed with Francis Ford (John Ford's older brother), Cunard as Patsy Montez leads an outlaw band to steal an ill-gotten hoard. In "A Daughter of the Law" (1921), Cunard plays a detective who goes undercover to nab bootleggers.

And then there was the comedy trailblazer Mabel Normand. She directed Charlie Chaplin, and played a woman he tries to impress, in "Caught in a Cabaret" (1914) and Charley Chase in "Mabel's Blunder" (1914), in which she disguises herself as a man in a fit of jealousy.

The writer, producer, actress and director Dorothy Davenport shows the importance of women's support for each other in "The Red Kimona" (1925), about a young woman (Priscilla Bonner) lured into prostitution who faces societal hypocrisy when she searches for work after being acquitted of a crime, and "Linda" (1929), in which a book-loving country girl (Helen Foster) falls in love with a young doctor (Warner Baxter) but is pressured to marry an older man (Noah Beery).

Considering women's contributions to film beyond the studio system, the series includes "field-work footage" by Zora Neale Hurston showing scenes of rural black life in the American South in the late 1920s. Activities Hurston documented include a crowd celebrating at a baseball game, children playing and dancing, and a stirring baptism. Angela Murray Gibson made "That Ice Ticket" (1923), a delightful comic short, for her production company in North Dakota.

An especially fascinating rarity—although not all of the footage remains—is "The Curse of Quon Gwon: When the Far East Mingles With the West" (1916), the earliest Chinese-American independent film known to exist. As a young woman, Marion E. Wong wrote and directed it in Oakland, Calif., for the Mandarin Film Company, of which she was president, performing in it and casting family members and friends in other roles. A melodrama involving assimilation, it features naturalistic acting and a passage with expressive uses of dissolves and superimposition.

For bold creative vision, look no further than the exquisitely stylized "Salomé" (1923), starring and produced by the Russian-born Alla Nazimova. Natacha Rambava's sets and costumes—including Nazimova's headdress with huge pearly beads—drew inspiration from Aubrey Beardsley's illustrations for the play by Oscar Wilde. An electrifying force onscreen and off, Nazimova was a shining example of a pioneer—one of many women who shaped film history.

Pioneers: First Women Filmmakers
BAMcinéma tek, July 20 through July 26

Ms. Jones writes about film and culture for the Journal.

OPINION

REVIEW & OUTLOOK

Ajit Pai and Sinclair

Media content companies and telecom delivery systems are fast converging, which has propelled Sinclair Broadcast Group's merger with Tribune Media. Pity Federal Communications Commission Chairman Ajit Pai, who must manage this economic change with outdated communications laws.

Liberals love to hate Sinclair because its programming leans conservative, and for months they have derided Mr. Pai as a subsidiary of the Smith family-owned network because he has eased regulations to facilitate the Tribune tie-up. But on Monday Mr. Pai hit pause on the deal.

"Evidence we've received suggests that certain station divestitures that have been proposed to the FCC would allow Sinclair to control those stations in practice, even if not in name, in violation of the law," Mr. Pai said.

Let's rewind the tape. Sinclair, which owns or operates 191 stations, last year made a \$3.9 billion bid for Tribune. Since the merged company would exceed the FCC's national and local audience caps, Sinclair offered to sell about two dozen stations. Even then Sinclair would exceed the 39% limit that Congress dictated in 2004.

These audience caps are relics of the analog age when people relied on local broadcast stations for news. The intent was to maintain a diversity of editorial viewpoints. But the restrictions are passé and make it harder for broadcasters to scale up and compete with Facebook and Google for advertising dollars.

Barriers to entry are falling as news media converge and digital platforms expand. Sinclair competes with Fox News and Newsmax Media, among others, for conservative eyeballs. Its local programming vies against national broadcasters and even Twitter. (The Journal has a weekend show on Fox.)

Mr. Pai knows all this and has tried to promote competition across platforms, but laws and regulations are less supple than markets. Last year he reinstated a decades-old rule juked by his predecessor Tom Wheeler that allowed stations with channels 14 and higher to count only

half of their market toward the cap. In the era of bunny-ears, these stations had signals with shorter reaches.

The FCC Chairman follows the law in stopping a merger.

The rule helped Sinclair clear the national audience cap but was challenged in court. Liberal groups claimed the regulation was anachronistic, which is ironic since the left cheered Mr. Wheeler's net neutrality rules that applied obsolete utility-style regulation to broadband. The D.C. Circuit Court of Appeals is expected to rule soon, and a strike against the FCC could scuttle the Sinclair-Tribune deal.

Meantime, Sinclair's opponents on the left and right are playing regulatory arbitrage. Newsmax has petitioned the FCC to deny Sinclair's divestiture applications, which it claims are "antithetical to the public interest."

At issue are Sinclair's "sidecar" deals that allow the company to retain some control of its sold stations. Such "sidecars" can smooth a transition in ownership but must be made at "arm's length." Sinclair's don't appear to be. A business associate of Executive Chairman David Smith and a privately-held company controlled by his family had offered to buy some of the stations.

The 1934 Communications Act requires an administrative hearing if a party makes "specific allegations of fact" that a merger is inconsistent with "the public interest" or violates the FCC's ownership rules. If the FCC rubber-stamped Sinclair's sidecars, it would surely be challenged in court. Mr. Pai thus asked his colleagues on the commission to punt the matter to an agency administrative law judge. Sinclair on Wednesday offered to tweak its sidecar deals to assuage Mr. Pai's concerns, but it's not clear whether its proposed changes will be sufficient.

The left is rejoicing—maybe this will reduce Mr. Pai's threat ranking to Public Enemy No. 3—but Sinclair's regulatory travails mean less media competition. Mr. Pai is doing his best to make markets more competitive, but unlike his predecessor he has refrained from rewriting laws to achieve political goals. It's up to Congress to change broadcast ownership restrictions.

Europe Fights the Last Google War

It's uncanny how the antitrust czars in Brussels never miss an opportunity to fight the last war. So it is with the record-setting €4.34 billion (\$5 billion) fine they levied against Google Wednesday in a case that will seem quaint five years from now, if it doesn't already.

Antitrust Commissioner Margrethe Vestager whacked Google for insisting that smartphone handset makers preload Google's search and web browser apps in phones using Google's Android operating system. Brussels also frets that Google paid some manufacturers to preinstall the search app. These arrangements, Brussels says, are illegally intended to protect Google's popularity in search, which the company exploits to sell advertising.

Google wants as many people as possible to use its apps, but this case makes you wonder if the EU learned anything from its decade-plus wrangle with Microsoft over browsers on desktop computers. That fight involved objections to Microsoft making its Internet Explorer the default browser on new computers using Microsoft Windows. You may have forgotten because as that legal tussle was wrapping up, a smartphone-and-tablet market dominated by Apple and Google was emerging to challenge Microsoft's dominance in PC software.

Google may deserve legal scrutiny, but more

By the time this case is over, markets will be on to the next technology.

for the way it profits from the content of others (such as this publication) without compensating them, or the way it uses algorithms to steer users to preferred content. The latter was the essence of the EU's €2.4 billion fine against Google last year for thwarting rivals of its web shopping service.

Google doesn't charge handset makers for its operating system, which makes it hard to see how its contracts raise prices. Consumers can also download apps that compete with YouTube, Gmail or Google Maps, and many people do. They can also buy an Apple phone.

Tech innovators are likely to move faster than the trust busters to disrupt Google's operating system. An example is social media. The EU takes care to define a market in "general internet search services" so it can accuse Google of monopolizing that market. But the company is caught in fierce competition with social-networking sites for advertising revenue. Many companies—including some that object to Google's smartphone practices—produce their own apps that bypass search.

Google says it will appeal. And whatever the next digital innovation is, that technology will probably be here by the time Google and the European Commission have finished going the full 10 rounds in appellate courts.

Albany's Millionaire Tax Revolt

The Republican tax bill is the law for 2018, but some progressives are mounting an insurrection against taxation without . . . loopholes for rich people. As a slogan it's not the Boston Tea Party, but check out the revealing legal challenge from four states.

Last year's Republican reform capped at \$10,000 the state-and-local tax deduction, which allows filers to write off taxes paid to the denizens of Albany and other corruption-full zones. The previous unlimited deduction had allowed taxpayers to avoid the full pain of high state taxes, effectively subsidizing bigger government in high-tax states. New York and New Jersey in 2014 reaped more than 19% of the overall tax write-off, according to IRS statistics.

The deduction flows to a small subset of taxpayers who itemize and tend to be affluent. This is especially true now that Republicans have doubled the standard deduction and more filers will decline to itemize deductions. The \$10,000 cap was a political compromise intended to ensure that some middle-class taxpayers don't end up paying more.

But savor the irony that New York Governor Andrew Cuomo and others are standing up for millionaires: The Attorneys General of New York, New Jersey, Connecticut and Maryland this week filed a lawsuit in federal court in Manhattan claiming that this change in tax policy violates the Constitution. The plaintiffs assert that "the new cap disregards Congress's hitherto unbroken respect for the States' distinct and inviolable role in our federalist scheme."

This is a sure legal loser, not least because

High-tax states sue to protect their richest taxpayers.

tax reform merely rewrote the *federal* tax code. Congress didn't touch a single state statute. The plaintiff AGs claim their states were somehow politically targeted, but the federal law applies to all 50 states uniformly.

States are always free to change their own state laws in response to the federal law, and several have. Michigan adjusted its law to make sure the state wouldn't collect more money simply because of the change in federal deductions. New York has chosen to concoct a convoluted payroll tax-deduction scheme that the IRS is suggesting won't pass legal muster.

The plaintiffs also claim the feds are "commandeering" state resources and forcing New York and Connecticut to change fiscal policy. That's the point that tripped up ObamaCare's Medicaid expansion. But the Supreme Court found expansion coercive because the government threatened to revoke Medicaid funding for states that didn't expand. Tax reform forces states to do nothing. The reform is less coercive than federal statutes that deny money to states unless they follow certain rules.

The biggest hoot is that the plaintiffs claim tax reform passed "with a bare congressional majority of one party," as if narrow majorities are unconstitutional. That would have killed ObamaCare, which passed without a vote to spare in the Senate.

For all the talk about how progressive states need high taxes for roads and free college, note that they are dumping taxpayer cash into lawsuits that are essentially campaign documents. These states apparently have money to burn.

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

ALAN ROSE
Naples, Fla.

Pepper ...
And Salt

THE WALL STREET JOURNAL

LETTERS TO THE EDITOR

Sweden Dictates One Answer on Child Care

In her July 16 letter responding to Erica Komisar's "The Human Cost of Sweden's Welfare State" (op-ed, July 12), Swedish Ambassador Karin Olofsson makes the case for Sweden's government-sponsored children and parents' programs. I am a mother of five who lives in Sweden. As Ms. Olofsson says, Sweden does have generous family leave policies. However, anyone who doesn't want to follow the state-prescribed program is pressured economically and socially to toe the line. This has been my experience, as well as that of others I know.

The government is primarily concerned with the needs of adults and the state. Full-time work is the norm, with little opportunity for women to work part-time or on a flexible schedule. Work comes first, not family. Most politicians in Sweden are concerned with gender equality and work opportunities, which are important issues for women. But they shouldn't come at the cost of the emotional and mental health of children, or parents' authority to decide what is best for their children.

State preschool, which Americans call day care, is seen necessary to a child's healthy development and superior to the care of a parent or single caregiver, despite substantial attachment and neuroscience research to the contrary. Because the government generously subsidizes preschool and offers no financial support or incentive to parents who choose not to send their children, the financial burden essentially removes the choice for many parents. At one point, the government did make a small contribution to families who chose to care for their young children themselves, but it was removed because it was seen as a "womentrapp."

It's time we ask women what they want.

MADELEINE WALLIN
HARO
Hyssna, Sweden

In her op-ed Erica Komisar writes, "women increasingly value—or are pressured to value—career and professional achievement over family." Femi-

nists in the U.S. would love to take all the credit for pushing American women into careers and away from family. But unfortunately, working has become an economic necessity for women, with the basic cost of living far outpacing most salaries.

United Way is doing a very good study of this cost-of-living trend called "Alice": asset limited, income constrained, employed. Some of the data is showing that the basic cost of living for a family of four in some communities exceeds the income of two-earner households. According to the Social Security Administration, about 55% of workers in 2016 earned less than \$34,000 and a total of about 43% earned less than \$24,000. Thus, women are forced not into "choices for the economic benefit of the country" but rather for the economic survival of their families.

MICHAEL P. CARTER
Savannah, Ga.

If we view the lives of Western women through the lens of 21st-century age demography, the limitations of the lifestyles Ms. Komisar describes become even more apparent. Take the 32-year-old friend Ms. Komisar mentions, who is likely to live about another 50 years. A profound benefit of our era's longevity is the ability to build into our lives distinct phases of education, work and enjoyment, which could include a 10-year period of full-time parenting if one is able to afford it. If a Swedish woman works for 10 years and then bears children for whom she becomes a full-time parent for 10 years, she may still have another 40 years to work, go back to school, continue as a "full-time parent" or something else yet to be invented. We have reached a milestone, which, for the history of humanity has been unimaginable. The once extravagant prospect of growing old has become the norm. It's too bad the Swedish government's approach to child care, parenting, work and retirement lacks the imagination today's miracle of longevity affords.

MICHAEL HODIN
New York

Unrwa Is Doing What It Is Supposed to Do

Richard Goldberg and Jonathan Schanzer seem to be under the false impression that they can deny the existence of an entire population of people and circumvent international law simply by publishing a report ("Expose the Palestinian 'Refugee' Scam," op-ed, July 6).

The United Nations Relief and Works Agency (Unrwa) was created by a United Nations mandate in 1949 to minister to those made refugees by the creation of Israel in 1948. In the absence of a solution to the Palestine refugee problem, the U.N. General Assembly has renewed Unrwa's mandate every three years. The last vote received the support of 167 member states out of 193. Unrwa's mandate can't be altered except by a majority decision of the U.N. General Assembly.

While neighboring states have sheltered Palestinian refugees over the years, most refugees don't enjoy the same rights as citizens. For example, Lebanon doesn't permit Palestinians to work lawfully or to access its education and health-care system.

Unrwa grants descendants of refugees status according to the principle of family unity. This principle was again enshrined in the 1951 Refugee Convention which laid out standards for dealing with refugees globally. U.N. High Commissioner for Refugees' official standards for determining eligibility indicate that refugee status is transferred through generations. Contrary to what Messrs. Goldberg and Schanzer claim, this has always been the case.

Redefining refugees to exclude descendants would contradict established humanitarian principles and leave an already vulnerable population more destitute, with no comparable U.N. or other international organization able to effectively meet their needs.

KAREN KONING ABUZAYD
Chicago

Ms. AbuZayd is a former Unrwa commissioner general.

Taxpayers Didn't Contract Those Student-Loan Debts

As student-loan debt has doubled in the past decade to \$1.4 trillion, perhaps the judges should have some compassion for the taxpayer before making rulings that so casually transfer debt ("Student-Loan Debtors Get Help From Judges," page one, June 15). The taxpayer wasn't at the table during these agreements or lacked proper representation. Maybe an additional premium should be charged to the borrower, much like private mortgage insurance, to protect the lender and ultimately the taxpayer.

BRINT BROOKS
Englewood, Fla.

Bankruptcy judges should consider holding institutions of higher learning accountable for some or all the unpaid portion of student-loan debt. This would protect hardworking taxpayers who are being forced to pick up the unpaid tab.

THOMAS SUBLER
Versailles, Ohio

Pepper ...
And Salt

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ALAN ROSE
Naples, Fla.

OPINION

Keep Politics Out of the Boardroom

By Phil Gramm
And Mike Solon

Even in democratic governments constrained by constitutional limits, the interests of the governed and the governors don't align well. Government is inefficient by its very nature, spending other people's money and subject to the leeching effects of special interests. Corporate governance, in contrast, historically has been conducted by people spending their own money, subject to the will of shareholders with a common ownership interest in the company. Calvin Coolidge famously noted that "the business of America is business," because Americans are "profoundly concerned with producing, buying, selling, investing and prospering in the world."

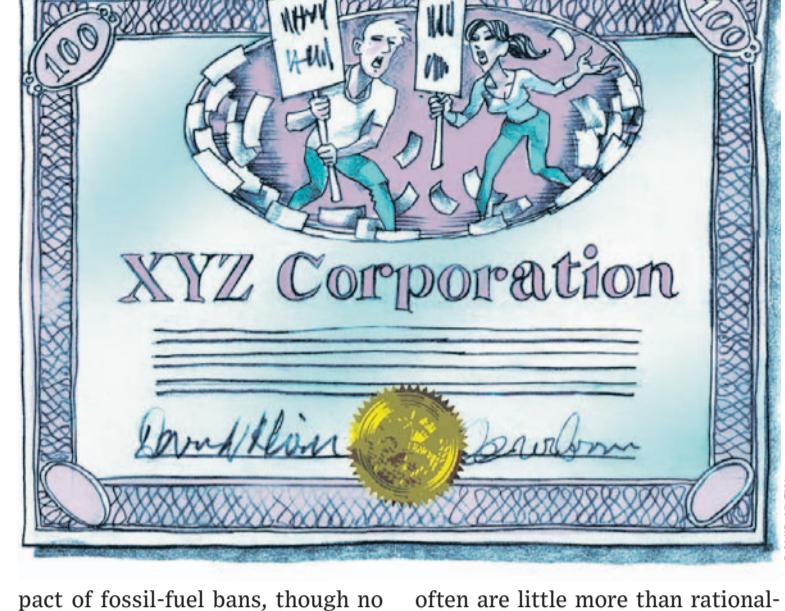
But today government is working to remake the dynamic business sector in its own feeble image. Reforms to enhance shareholder rights made it easier for small shareholders to initiate votes, but the new rules mostly have helped

Reforms intended to give a voice to small shareholders have instead let social activists hijack proxy votes.

interest groups with nominal stock ownership promote their political objectives at the expense of shareholders.

The rise of index funds, which own an ever-greater portion of U.S. stocks, raises the specter of a vast number of shares being voted by fund managers and their proxy advisers who don't own the shares and may have a conflict of interest with the people who do. The Sarbanes-Oxley Act increased the proportion of independent directors on the boards of public companies, diluting the share of the board with a vested stake in good performance.

Today investors with a political agenda force major energy companies and banks to evaluate the im-



pact of fossil-fuel bans, though no government has ever instituted such a ban. A Manhattan Institute study estimates that 56% of proxy resolutions in Fortune 250 companies last year dealt with social and environmental issues. Even when such proposals are repeatedly crushed by shareholder votes, the business operations of targeted companies suffer. And corporations sometimes bow to political pressure by granting concessions in return for dropping the resolutions.

The claim that investors can do good and well at the same time by investing in socially desirable objectives is reminiscent of Bill Clinton's 1992 campaign proposal to invest private pension funds in chosen public projects. When even union pension funds refused to put members' retirement at risk by making "publicly beneficial investments," President Clinton opted in 1995 to use the muscle of housing and bank regulators. Federal agencies pressured private financial institutions and Fannie Mae and Freddie Mac to promote affordable housing with subprime loans. The outcome of this experiment in promoting the public interest with private money is now called the financial crisis.

Arguments for imposing political and social objectives on business

often are little more than rationalizations for forcing businesses to abide by values that have been rejected in Congress and the courts. Activists increasingly attempt to disguise their values with the cloak of fiduciary responsibility.

The rise of passive investing presents a similar challenge to good governance. With the cost advantage that comes from investing based on formulas, resources have gushed into index funds, which today total 29% of all equity investment in America. Index funds are now the largest shareholders of 40% of all public U.S. companies. When an index fund participates in corporate governance, conflicts of interest can arise.

Since funds are voting their investors' shares and not their own, they may be inclined to vote in a way that prioritizes their public image and fundraising above the performance of the company on which they're voting. When BlackRock, Vanguard or State Street supports political resolutions, are they acting in the interest of their investors or themselves?

Court rulings and regulatory actions have undermined the requirements of fiduciary responsibility, which once protected investors against conflicts of interest. To restore those protections, the Securities and Exchange Commission

should reverse the guidance it offered in its 2004 Egan-Jones letter and its subsequent ruling on behalf of Institutional Shareholder Services, which allows investment managers to use proxy advisers to escape responsibility for conflicts of interest. The SEC and Labor Department should revise their 1988 "Avon" letters to remove the mandate that investment managers must vote their fund's proxies.

All actions of investment managers and proxy advisers should be subject to fiduciary standards, and activists should be held to the same liability standard as every one else for false and misleading statements. The SEC should raise the ownership requirement for offering resolutions not directly related to the firm's profitability, and set a higher threshold for reoffering resolutions that previously have been rejected.

In restoring fiduciary responsibility, the SEC should follow a recent Labor Department bulletin clarifying that "fiduciaries may not increase expenses, sacrifice investment returns, or reduce the security of plan benefits in order to promote collateral goals." Congress also should codify these changes, starting with Rep. Sean Duffy's Corporate Governance Reform and Transparency Act, which the House passed in December.

America created the world's most successful economy by allowing private wealth to serve private economic objectives rather than political ones. The politicization of business decisions threatens to bring the massive inefficiencies of government into the private sector, cheating investors, workers and consumers in the process.

We are all free to invest our own money to promote broadly defined objectives. But when fund managers and investment advisers cast votes with shares owned by investors, the investors' interests must govern, rather than the interests of activists, managers or advisers.

Mr. Gramm, a former chairman of the Senate Banking Committee, is a visiting scholar at the American Enterprise Institute. Mr. Solon is a partner at US Policy Metrics.

Trump Fans, Acknowledge His Failings

By F.H. Buckley

Is there a greater political virtue than honesty? Perhaps courage, the trait an honest man needs before he can tell the truth. I can't say whether honesty or courage is greater, but I do know that we've not seen a lot of either in the debate over Donald Trump.

Anti-Trump politicians and commentators refuse to credit the president for turning the economy around. They say the tax cuts didn't help anyone, and prefer to talk about collusion with Russian agents. With greater honesty, they would acknowledge that Americans' bottom lines have improved, that there's little evidence Mr. Trump colluded with Russia, and that conspiracy theories about his Monday meeting with Vladimir Putin are off the deep end. With greater courage, they would say all of this publicly.

Many of President Trump's supporters defend him in the same knee-jerk way. They talk about the craziness of the left but seldom utter a single critical word about the president. So the debate between Mr. Trump's critics and supporters amounts to a dialogue of the deaf.

The president has pursued bad trade policies and fouled relations with allies. His supporters are silent.

This lack of candor has long characterized the left. But honest commentary is especially needed now on the right, since many of Mr. Trump's recent moves have been highly questionable, and worse even than the embarrassment of Helsinki.

The White House's escalating trade wars are likely to hurt American workers and consumers. Many administration officials admit that in private, although loyalty to the president prevents them from criticizing him publicly. That's understandable, but the same excuse can't explain the silence from Mr. Trump's defenders in the media.

The president's antagonism at last week's North Atlantic Treaty Organization summit was similarly destructive. Mr. Trump called out German Chancellor Angela Merkel for free-riding on the U.S. military. But NATO was formed to defend the West from the Soviets, and Mr. Trump currently is trying to make Russia an ally. While our rapprochement with Russia is long overdue, if Russia is going to become an ally somehow why should NATO increase its military spending? Shouldn't we be talking about a peace dividend instead?

Germany spends about 1.2% of gross domestic product on defense, less than the 2% target NATO adopted in 2006 and far below the 4% Mr. Trump wants. But Germany's puny spending level is owing in part to its self-conscious decision after World War II to keep its armed forces small. Does the U.S. really want to change that? NATO's first secretary general described the purpose of the alliance as keeping the Americans in, the Russians out, and the Germans down. Mr. Trump and his supporters should seek to uphold that mission.

Mr. Trump's biggest gaffe last week was criticizing British Prime Minister Theresa May for her handling of Brexit. Whether or not his critique has merit, Mr. Trump was wrong to opine publicly on Britain's bilateral negotiation with the European Union, which is none of his business. Mr. Trump generally has championed noninterference in the internal affairs of other countries. That was his justification for ignoring North Korea's human-rights abuses while he tried to strike a de-nuclearization agreement. He signaled that Kim Jong Un could do whatever he wanted to his own people so long as the regime rolled back its threat to the U.S.

This approach abandons a long U.S. tradition of vocally criticizing others' internal affairs, which Mr. Trump rightly notes has led to a few foolish wars. But he should at least be consistent in scrapping intervention, and it isn't consistent to object to Ms. May's handling of Brexit while passing over Mr. Kim's mass murders.

Mr. Trump's overall goals may be admirable, but his statements and actions often aren't. Being honest, his supporters ought to show they are aware of the difference.

Mr. Buckley is a professor at Scalia Law School and author of "The Republican Workers Party: How the Trump Victory Drove Everyone Crazy, and Why It Was Just What We Needed," forthcoming in September from Encounter.

China Makes U.S. Companies Foreign-Policy Tools

By Brian Su

The People's Republic of China is targeting international airline companies, threatening to "take disciplinary actions" against them unless they start referring to Taiwan as part of China by the end of July. Directing this type of intimidation at private companies marks a new and dangerous trend in the Chinese government's push to marginalize and isolate Taiwan. It should serve as a warning to the international community that China is working to upend the international order on behalf of an expansionist agenda.

The new policy targeting private companies began in January 2018 when Beijing shut down the Marriott hotel chain's Chinese websites and apps as punishment for an email questionnaire the company circulated listing Taiwan as a country. Marriott, a multinational company with numerous hotels in China, complied.

Emboldened by that success, China is attempting to exert its power over more companies. Between January and April, Beijing issued threats to major clothing brands, and Chinese leaders demanded that dozens of international airlines change their naming convention from "Taiwan" to "Taiwan, China," or "Taiwan Region, China," the latter two suggesting that Taiwan is part of China. It is difficult to explain to Americans why this is such a big deal—after all, Taiwan's official name is still the Republic of China.

But it is a very big deal to the 23 million people of Taiwan. We are not part of the People's Republic of China and never have been. Taiwan has a robust democracy, a vibrant free

press, and respect for the rule of law—all nonexistent in China. Taipei and Beijing govern the two sides of the Taiwan Strait separately. The people of Taiwan have shed blood, sweat and tears to emerge from our own

Beijing threatens to punish businesses that refuse to pretend that Taiwan doesn't exist.

one-party dictatorship and aren't about to bow down to another.

Taiwan shed the tyranny of the past and moved beyond political repression, prisoners of conscience and the fiction that the Republic of China would one day retake the mainland. During the Cold War,

part of the U.S.-led effort to resist the spread of communism, the West found it a useful fiction to refer to the government in Taipei as "Free China." By the mid-1970s, however, it became increasingly clear, both in Taipei and Washington, that this fiction was as unproductive as it was unrealistic. It was abandoned in favor of democratization. Today, only China holds on to the fiction of "One China" though it insists that other countries, and now companies, pay it lip service.

If the United States and other free democratic countries cave to Chinese demands, China will slowly and methodically chip away at international norms until it has changed the global order. While this may initially sound like hyperbole, one needs only look to the South China Sea as an example of China ignoring international norms and gradually changing the

balance of power in the region.

China has a long history of threatening Taiwan that includes aggressive regional displays of military saber-rattling, isolating Taiwan from international organizations, even denying Taiwanese passport holders entrance to the United Nations headquarters in New York.

By pressuring multinational companies to refer to Taiwan as part of China, Beijing is attempting to extend its power to entities that are not subject to its authority. The White House has correctly referred to this as "Orwellian nonsense." If other countries fail to take action against China's coercion, it will be nothing less than an abdication of the global liberal order.

Mr. Su is deputy director-general of the Taipei Economic and Cultural Office in New York.

A Family Reunion, Thanks to Facebook

By Beth Herman

While most of the country is thrashing Facebook, I'd like to send Mark Zuckerberg a thank-you note. His social-media site enabled me to find and maintain close contact with my second cousin Kelly Warshofsky during the last five years of her life.

I didn't really know Kelly growing up. Our fathers were first cousins, but she was 13 years my junior, so we didn't have much to talk about. Also, there was a cultural divide. My parents grew up in Brooklyn but, like me, were geographic and psychologi-

cal residents of Manhattan. Regular attendees at the Mostly Mozart Festival and the New York City Ballet.

Kelly's family was from the "other" New York island, Staten Island, the one accessible only by ferry and parodied in films like "Working Girl" and television shows like "Sex and the City."

Except for brief email exchanges and a quick drink in the 1990s, Kelly and I had little contact. That changed in 2013, when I found her on Facebook. We were not yet "friends," so I sent Kelly a request, expressing my sorrow over the death of her mother, Marcia.

Kelly wrote back, thus beginning an intense five-year friendship. Her comments to my Facebook posts were clever and supportive. "I am genetically related to this beauty!" she wrote on one of my photos.

She was one of the few people, outside my husband and my writing buddies, with whom I shared early drafts of my essays. "I'm so proud of you for finding your voice and showing your battle scars," she wrote. "That's not easy, but we are warrior women!"

Kelly certainly was. Devastated by her mother's death, she participated in an annual Walk to End Alzheimer's, encouraging friends and family to donate money for Team Marcia.

You could find Kelly on Facebook most days, posting motivational statements, pictures of her cats, or cheery notes to friends. The social-media site enabled her to hold on to the healthy version of herself and momentarily forget her illness.

Kelly had been sick for some time, often in pain. A nurse by profession, she felt her lot in life was to help others, not fret about herself. She rarely complained, despite worrying about all the things people with debilitating diseases worry over. Would

My cousin Kelly and I became Facebook friends, then became real friends.

she be able to find the right doctor and drug protocol to ease her pain? Would she become a burden to her adored husband?

Over the past year, I sensed that Nurse Kelly was having difficulty reconciling with Patient Kelly, so I suggested she let them have it out by journaling. But there simply wasn't time. In March, Kelly's liver failed. She was 42.

From Kelly I learned about friendship and acceptance. She never judged, not even when we discussed my decision, 16 years earlier, after decades of frustration and conflict, to sever ties with the family.

"You'll always have your cousins no matter what," she wrote. "Especially this one. Time, age or distance can never separate us."

If only that were true. Rest peacefully my beloved cousin. Not even Facebook can connect us now.

Mrs. Herman is an artist and writer. She is working on a memoir, "Edgar Degas and Me."

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BUSINESS & FINANCE

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Passive Funds Ruffle Stock Prices

Fears, however, of wide disruptions from ETFs are overblown, S&P report concludes

By ASHYLYN LODER

The deluge of money flooding into and out of passive investments can have a very active effect on stock prices, new research says.

The report, from the data and research arm of S&P Global Inc., a major provider of financial-market indexes, is

the latest salvo in a long-running debate about the pressure index funds exert on the stocks and bonds they are meant to track. The resurgence of market turbulence this year intensified concerns that an exodus from index funds could trigger an avalanche of forced selling.

Assets in passive funds that try to match the market rather than beat it have quintupled in the past decade to \$6.9 trillion, according to research firm Morningstar. Exchange-traded funds, perhaps the most visible manifestation of the index-investing trend, have

been linked in recent years to unusual price swings in oil, Japanese equities and high-yield debt.

While the S&P report found that the money sloshing into and out of passive strategies does move asset prices, S&P researchers concluded that fears of widespread market disruptions because of ETFs are overblown.

"Any strategy in the financial markets is fine when there's a small number of people doing it, but when a large number of people do it, it can cause distortions," said Jared

Dillian, an investment strategist with research firm Mauldin Economics.

Size is especially important in an industry where the cheapest funds garner the most assets. The bigger the strategies grow, the more money fund companies make.

Investors yanking cash out of index-tracking strategies exacerbated sharp declines in early February, when stocks plunged and volatility surged, according to the report published this week by S&P Global Market Intelligence. S&P Global builds and licenses in-

dex products, such as the S&P 500, to mutual funds and ETF companies.

Strategies that mimic the S&P 500, including mutual funds, ETFs and other index-tracking investments, may have accounted for as much as one-third of the benchmark's almost 3.8% decline on Feb. 8, wrote Daniel Sandberg, a director at S&P Global Market Intelligence, in the report.

"There is an impact and that impact can be significant," Mr. Sandberg said in an

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AmEx Lifts Revenue Outlook

By ANNAMARIA ANDRIOTIS AND MARIA ARMENTAL

American Express Co. raised its revenue forecast for the year, following a second consecutive quarter of strong results on higher card-member spending and loan growth.

The company on Wednesday said that given its financial performance for the first half of the year, it now expects revenue for the year to increase at least 9%, up from its earlier view of at least 8%. It maintained its view of earnings to be at the high end of \$6.90 to \$7.30 a share.

Second-quarter consolidated total revenue, net of interest expense, was a record \$10 billion, up 9% from \$9.2 billion a year earlier, the highest level of growth for the company since the last financial crisis.

The increase reflected continuing growth in card spending and borrowing as well as more consumers signing up for AmEx cards that charge annual fees.

The second quarter marked the first full quarter for AmEx's new chief executive, Stephen Squeri, since he took over from longtime chief Kenneth Chenault in February.

Mr. Squeri laid out the company's top priorities under his leadership on the earnings call, including expanding AmEx's position in the premium consumer-card market and in commercial payments.

Overall, AmEx reported a 21% increase in second-quarter profit to \$1.62 billion, or \$1.84 a share.

Analysts surveyed by Thomson Reuters projected a profit of \$1.82 a share on \$9.84 billion in revenue.

AmEx card loans surged as the company continues its efforts to ramp up lending. The company reported \$75.4 billion in card-member loans, up 14% from a year earlier. The company has been increasing lending as part of its strategy to fuel revenue growth.

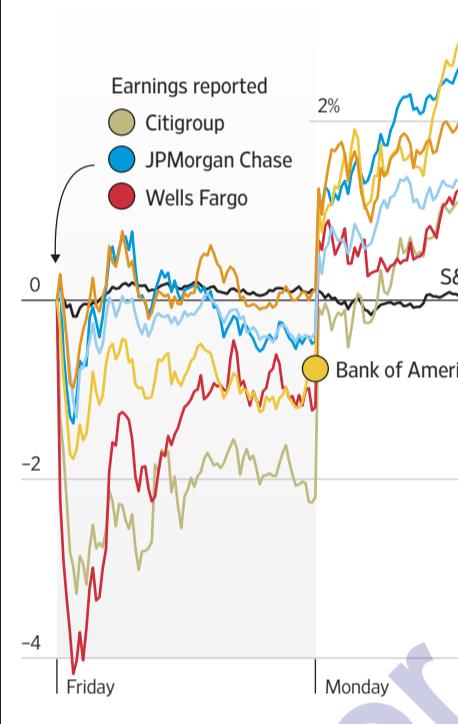
Mr. Squeri on the earnings call touted the company's recent Supreme Court win: Wednesday's financial report is the first since the company won a key legal challenge on its policy of preventing retailers who accept AmEx cards from offering customers incentives to pay with cheaper cards.

"Their ruling was a welcome end to a long legal battle," he said.

Big 6 Banks Leave S&P Behind After Posting Strong Profits

Shares of the major U.S. banks have risen over the past week, outpacing a modest increase in the broader market, after second-quarter earnings reports mostly exceeded Wall Street's expectations.

Share-price and index performance since July 12



THE WALL STREET JOURNAL.

Morgan Stanley wrapped up a big-bank earnings season that reflected continued strength in the U.S. economy. B10

Netflix Brings Its Comedy to Radio

By JOE FLINT

Netflix is coming to radio. The streaming-content giant has cut a deal with **Sirius XM Holdings** Inc. to create a comedy channel with the satellite-radio broadcaster, according to the companies.

For **Netflix** Inc., the platform—dubbed Netflix Is a Joke Radio—will give it a new outlet to use its growing library of comedy content and potentially drive SiriusXM subscribers back to its own service.

Besides using the channel as

a promotional tool for its stand-up specials, Netflix will also create original content for it with its talent.

The SiriusXM partnership, scheduled for a launch by January 2019, marks the first time Netflix has moved beyond video and joined with another distribution platform to create a Netflix-branded product.

The push beyond its own platform comes as Netflix faces increased competition.

Hulu—the streaming service co-owned by **Walt Disney** Co., **21st Century Fox** Inc. and

Comcast Corp.—and **Amazon.com** Inc. are investing more in content. Disney is also launching its own direct-to-consumer service to compete with Netflix. (21st Century Fox and The Wall Street Journal's parent company **News Corp** share common ownership.)

Comedy has become one of Netflix's biggest bets in content. Over the past few years, it has spent heavily to woo superstar stand-up comedians including Chris Rock, Dave Chappelle and Amy Schumer away from HBO to its platform.

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In some cases, Netflix more than doubled the fees that comics were getting on AT&T Inc.'s HBO.

Mr. Rock received \$40 million for two stand-up specials for Netflix, twice what HBO was offering, people familiar with the pact said.

Netflix also has become a home for rising comedic talent such as Michelle Wolf, who recently premiered a show there. Joel McHale has a show on Netflix and Norm Macdonald is developing his own show as

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High-Speed Flying Is Back On Aviation Industry's Radar

FARNBOROUGH, England—Fifteen years after the Concorde last flew, supersonic air-

By Andy Pasztor, Robert Wall and Andrew Tangel

travel is back in the aerospace industry's sights.

Investors, plane makers and equipment suppliers are pushing to revive superfast airliners and business jets. The big questions: Will regulators go along, and will passengers be willing to pay? The Concorde cut the time to fly from New York to London or Paris to about 3½ hours, about half today's typical journey. But it was an economic failure.

The latest efforts, highlighted by exhibits and discussions at the international air show here, reflect support from major aerospace companies, buttressed by promising research into reducing the sonic boom that occurs when planes exceed the speed of

sound.

Backers include **Boeing** Co., **Lockheed Martin** Corp. and closely held Colorado startup **Boom Technology** Inc., which aims to start flying a reduced-size demonstration craft late next year. An initial goal for Boom's proposed airliner is to slash the time for transcontinental trips by more than half. Round trips between the U.S. West Coast and Asia could be completed within the same day, for business travelers—the plush cabins would offer only premium seats—in a real hurry.

"This was the future we were all promised," said Steven Isakowitz, president of Aerospace Corp., a nonprofit think tank for the Pentagon. In an interview earlier this month, he cited both technical advances and "extremely interesting" NASA research into reducing the shock wave and noise.

"It's going to be doable," Dennis Muilenburg, Boeing's

chief executive, said in an interview at the show. He expects supersonic technology to be "viable within the next decade," and that further advances will eventually allow flights connecting cities around the world within several hours. The bigger challenge is the economic case, he added: "Are there enough travelers who would pay a premium to fly faster?"

Boeing is still trying to answer that question. Will twice as fast be enough, "or do you really have to go a lot faster on a longer route?" asked Greg Hyslop, the company's chief technology officer.

Weeks ago, Boeing unveiled a concept for a passenger-carrying hypersonic aircraft, theoretically capable of flying many times the speed of sound. But some experts predict it could be two decades away. Boeing declined to provide a timeline.

For Boom's founder and



IBM'S NEW BUSINESSES START TO LOOK SMART

EARNINGS, B4

Heating Up

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\$8 billion

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BUSINESS & FINANCE



BEN STANSAL/AGENCE FRANCE PRESSE/GTY IMAGES

The Aston Martin Vision Volante Concept aircraft on display at Farnborough. Plane buyers this year don't want to be identified.

Jet Buyers Lie Low to Avoid Tweets

BY ROBERT WALL AND ANDREW TANGEL

FARNBOROUGH, England—Who's buying all the jets?

The aviation industry is gathering this week at an air-strip here outside London for its biggest trade fair of the year—typically a week of boasting by **Boeing** Co. and **Airbus SE** over billion-dollar airplane deals.

Here's the trouble: Many of the buyers this year don't want to be named. Industry executives say they are worried such high-profile deals could make headlines and exacerbate global trade tensions, says Eric Schulz, Airbus chief commercial officer.

All told, some \$35 billion in orders—or about 285 planes—have been snapped up by anonymous buyers this week.

Deal announcements that don't disclose a buyer aren't unprecedented in the commercial jet industry. But the numbers during Farnborough this year are much higher than usual.

Plane buyers have asked to remain unnamed "not to fuel the fire" on trade, Mr. Schulz said. That anxiety is particularly pronounced in Asia, he told investors Wednesday. China has become a lightning rod in Washington, where the Trump administration has traded barbs, tariffs and threats of further trade actions with Beijing.

President Donald Trump has often taken to Twitter praising, or criticizing, corporations that have taken action seen as helping, or hindering, his efforts to reset America's trade relationship with the rest of the world. That has

added a new sensitivity inside boardrooms when it comes to announcing cross-border deals.

"The world today is governed by the tweets we receive every morning from one side of the Atlantic," Mr. Schulz said.

That has created pressure among airline customers and governments to lie low this year. Airbus kicked off the third day of the show announcing a deal for six A330-900 wide-body planes from an undisclosed customer. About half of the company's total Farnborough orders so far have come from buyers who aren't publicly identified.

"Clearly we don't like undisclosed orders but we have to respect customers," Mr. Schulz said.

Boeing on Wednesday said it snared commitments for a

total of 93 single-aisle 737 Max airplanes valued at \$11 billion at current list prices from four unnamed airline and airplane-leasing customers. Some of the deals were final while others haven't been completed, said Ihssane Mounir, Boeing's chief of commercial aircraft sales and marketing. He declined to speculate about why the customers wanted to remain unidentified.

The Farnborough show is unfolding amid heightened trade tensions between the U.S. and China, as well as among Washington and a number of the U.S.'s traditionally close trading allies, including the European Union, Mexico and Canada.

Industry officials say that, despite all that, they aren't seeing an impact on demand for travel or for planes.

High-Speed Flying Back On Radar

Continued from page B1

chief executive, Blake Scholl, a decade is too long to wait. Buoyed by some early orders plus a strategic investment from Japan Airlines Co., Boom also has benefited from the afterglow of successful startups such as Elon Musk's SpaceX.

Mr. Scholl said his company, which is roughly two years behind its original timetable, wants to end the era of air travel that is "low on excitement, low on progress and high on frustration."

Closely held Aerion Supersonic has spent 16 years developing a superswift business jet. **General Electric** Co. and **Lockheed Martin** are backing plans for the latest version, the three-engine AS2, which aims for a maximum "super cruise" speed 1.4 times the speed of sound.

Among the prime marketing targets: people wealthy enough to pay a premium for speed "because they can," Chief Executive Brian Barents said in an interview Tuesday.

Many proposals for supersonic airliners and business jets have surfaced and sunk over the years, brought down by reasons from high fuel prices to environmental concerns to Concorde-era rules barring civilian aircraft from breaking the sound barrier

over U.S. territory.

Supersonic proponents have recently stepped up lobbying of lawmakers. In addition, the Federal Aviation Administration has moved to begin a public dialogue over regulations.

The current debate isn't

Many proposals for supersonic airliners and business jets have lapsed over the years.

over lifting the ban on breaking the sound barrier over land. Rather, it is about waiving or revising noise restrictions on planes climbing from

or descending toward U.S. airports to begin or end supersonic routes over water.

Some recent innovations have prompted the FAA to consider whether there is a possibility of reintroducing supersonic flight, Carl Burleson, the agency's acting deputy administrator, told a federal advisory group this summer.

A fact sheet posted on the FAA's website in May says "lighter and more efficient composite materials, combined with new engine and airframe designs" may make supersonic transport viable, so the agency plans to propose new rules. One would cover "the range of permissible supersonic operations"; the other, the procedures for gaining authorization for supersonic flight tests.

Netflix Is Coming To Radio

Continued from page B1
well. And former late-night host David Letterman was wooed out of retirement to make a series of specials for Netflix.

Like the streaming service, Netflix's SiriusXM channel will be commercial-free.

"We believe our promotional partnership with SiriusXM will extend choice for listeners to sample and enjoy commercial-free content off of our service," said Ted Sarandos, the chief content officer for Netflix.

Exclusive nonmusic content is another way for SiriusXM to differentiate itself from competitors such as Spotify. The Netflix channel joins an already large comedy presence on the SiriusXM dial. **Viacom** Inc.'s Comedy Central has a channel there, as does stand-up star Kevin Hart.

For SiriusXM, which has more than 33 million subscribers, the comedy brand is one of the company's biggest performers; it has six channels devoted to stand-up.

"We look forward to creating one-of-a-kind exclusive original comedy programming with existing and new Netflix talent," said SiriusXM Chief Content Officer Scott Greenstein.

NETFLIX

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Netflix has been spending heavily to bring stand-up comedians like Chris Rock to its platform.

BUSINESS NEWS

U.S. Seeks To Speed Appeal of AT&T Deal

BY BRENT KENDALL

WASHINGTON—The Justice Department on Wednesday sought to fast-track its appeal of the court decision allowing AT&T Inc. to buy Time Warner Inc., while offering the first hints of its legal arguments for the next phase of proceedings.

The department filed its appeal last week, a month after U.S. District Judge Richard Leon rejected the government's antitrust claims against the more than \$80 billion deal, which AT&T and Time Warner have since completed.

The Justice Department on Wednesday asked the U.S. Court of Appeals for the District of Columbia Circuit to adopt an accelerated timeline for the appeal, with all legal briefs filed by mid-October and oral arguments to follow shortly thereafter. That could allow the appeals court to reach a decision in early 2019.

AT&T, which would like to remove prolonged legal uncertainty over the deal, doesn't object to the expedited timeline, according to the government's court filing.

The Justice Department argued any delay in deciding the appeal "will make it increasingly difficult to unwind the merger" if the government wins.

AT&T has agreed to hold Time Warner's Turner cable networks in a separate unit through next February during any appeals-court proceedings.

If no appeals decision has been reached by then, "AT&T immediately can be expected to exercise the increased bargain-

AT&T doesn't object to the expedited timeline, according to the court filing.

ing leverage that it would gain from control of Turner," the Justice Department said in Wednesday's filing.

The department argued during a trial this spring that AT&T, which owns DirecTV, could demand higher fees for "must have" Turner networks such as TNT and CNN, which would put rivals at a disadvantage and lead to higher prices.

Judge Leon rejected those arguments and agreed with AT&T that acquiring Time Warner wouldn't give the merged company anticompetitive leverage. AT&T said the merger would help the companies compete for advertising dollars and better deliver video products to wireless subscribers.

The Justice Department's filing signaled that a key part of its appeals argument will be that Judge Leon erred by disregarding fundamental economic principles about how two companies bargain during contract negotiations.

The department said the merger makes AT&T and Time Warner "less vulnerable to economic harm" when the merged firm negotiates future contracts with rival TV providers on fees for carrying the Turner networks. That means AT&T "can and will credibly hold out for higher fees," it said.

"The district court's disregard of economic reasoning constitutes reversible error," the Justice Department argued.

A person familiar with AT&T's thinking said the company will argue that Judge Leon fully understood the government's economic theory but the facts of the case didn't support it.



The Justice Department argued that Judge Leon disregarded "economic reasoning."



Toy Story Land at a Disney park in Florida. CEO Robert Iger has the chance to boost international presence by gaining ownership of the European satellite company.

Sky May Not Be Crucial for Disney

BY ERICH SCHWARTZEL AND BEN FRITZ

LOS ANGELES—Walt Disney Co. Chief Executive Robert Iger has called Sky PLC a crown jewel of his \$71 billion pursuit of 21st Century Fox Inc. assets. Now, as he decides how hard to fight for it, some on Wall Street are arguing that the European television company isn't key to Disney's future.

As part of his proposed takeover of most of Fox, Mr. Iger has the chance to immediately boost his company's international presence and new direct-to-consumer strategy by gaining ownership of Sky. Fox currently has a 39% stake in the European satellite company and internet provider.

But Sky has also been targeted by Comcast Corp., which currently has the lead with a bid valuing Sky at \$34 billion, 5% higher than Fox's most recent offer.

A Fox takeover of Sky would essentially be done on behalf of Disney, presuming its agreement to buy Rupert Mur-

doch's media empire goes through and isn't topped by Comcast.

Some analysts on Wall Street say Sky, which was already in Fox's sights before the bidding war, isn't integral to Disney's future in streaming. Stepping back in favor of Comcast also offers Disney a chance to reduce the debt load of its planned \$71 billion acquisition of Fox.

"It's a nice-to-have, but not a must-have," said B. Riley FBR analyst Barton Crockett of Disney acquiring Sky. "Most investors I talk to would be happier if they just walked."

Fox and Wall Street Journal parent News Corp share common ownership.

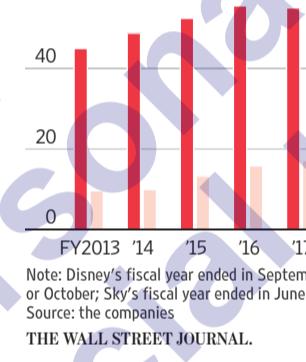
Disney and Fox still could come back and top Comcast's offer for Sky, either because winning the bidding war could be advantageous for tax reasons or to save face in what has become a fierce battle between the company behind Mickey Mouse and the cable giant for media assets on both sides of the Atlantic.

Numerous analysts and media executives have speculated

Greater Access

An acquisition of Sky would increase Disney's revenue and give it more exposure to the European market.

Revenue



Disney could "split the baby" with Comcast and, in partnership with Fox, cede Sky to the cable company. Based on how the Sky auction plays out, Comcast could decide to drop its pursuit of Fox's assets, according to people familiar with the matter.

Fox could raise its bid for Sky at any point. But if it makes a move, it may wait until after a shareholder vote on its sale to Disney scheduled for July 27, so both companies have certainty about what would happen to the 39% stake.

As a satellite television service reaching about 23 million customers across five European countries, Sky would give Disney a head start in Mr. Iger's goal of transforming a traditional media company into one that distributes content it produces directly to consumers, in the mold of Netflix Inc.

Founded as a satellite-TV provider in 1989, Sky has since grown to offer phone and in-

ternet service and produce original content.

As part of the Fox acquisition, Disney would acquire valuable franchises such as "Avatar" and "The Simpsons" that it could incorporate into its movie, consumer-products and theme-park businesses.

That library of titles is also seen as essential to the company's plans for streaming services.

Disney plans to launch a family-targeted movie-and-TV streaming service in late 2019, complementing an ESPN-branded sports service that recently went live. If the Fox deal goes through, Disney would also assume majority control of Hulu, giving it a third digital offering, which it would populate with more adult content, the company has said.

Disney could use Sky's broadband internet offering to help launch the three streaming services in Europe. Sky has already announced plans to offer Netflix to its subscribers as part of an entertainment package.

Shalini Ramachandran contributed to this article.



CEO Vas Narasimhan said the company would evaluate its strategy for 2019 as this year proceeds.

Novartis Freezes Its Drug Prices

BY DONATO PAOLO MANCINI AND BRIAN BLACKSTONE

Novartis AG won't increase its U.S. drug prices for the rest of 2018, the Switzerland-based drugmaker said Wednesday, days after Pfizer Inc. took a similar step following criticism from President Donald Trump.

In an interview, Novartis Chief Executive Vas Narasimhan said the company would evaluate its strategy for 2019 when it has more clarity on the pricing environment. "Let's see how this unfolds for the rest of this year," he said.

Last week, Pfizer said it would defer some price increases, reversing course after Mr. Trump criticized the company for its plans to raise the prices of more than 40 drugs.

Novartis disclosed last month that it was reeling back price increases that had been slated for the third quarter, a company spokesman said.

Mr. Narasimhan didn't speak directly with Mr. Trump about pricing, the company said, adding it had been in contact with

the U.S. Department of Health and Human Services in the context of the administration's blueprint to curb drug prices that was unveiled in May.

The comments on pricing came as Novartis reported higher second-quarter revenue and profit. Novartis also backed its outlook for 2018 and reiterated that it considered the Michael Cohen affair over, following weeks of turmoil in which the company was scrutinized for its ties to Mr. Trump's former personal attorney. The \$1.2 million consulting deal between Novartis and Mr. Cohen's company, Essential Consultants LLC, came to light in May. At the time, the company said the deal had been a mistake.

"I view the Cohen issue as closed," Mr. Narasimhan said Wednesday.

Novartis said second-quarter net sales grew to \$13.2 billion from \$12.2 billion, mainly underpinned by drugs Cosentyx and Entresto. Its oncology division posted growth throughout the year after losing exclusivity for its blockbuster drug

Gleevec/Glivec.

It said profit rose to \$7.8 billion from \$2 billion, benefiting from a \$5.7 billion gain from the sale of its stake in a consumer health-care joint-venture with GlaxoSmithKline PLC. Novartis said it expects group net sales to grow at a low- to mid-single digit rate this year.

Back in May, Novartis said it had hired Mr. Cohen for insight into how the Trump administration might approach U.S. health-care policy matters, but that executives realized from their first meeting with him in March 2017 that he wouldn't be helpful and stopped engaging with him.

A report by four Democratic senators last week disputed much of the company's account of the interaction, saying Novartis had played down its ties to Mr. Cohen. Novartis said it disagreed with the report's conclusion. Mr. Narasimhan said Wednesday he hasn't received any further requests from political or legal authorities for additional information on the matter.

UnitedHealth Is Among Suitors Of Tenet Business

BY DANA MATTIOLI AND MELANIE EVANS

UnitedHealth Group Inc. is among suitors exploring an acquisition of Tenet Healthcare Corp.'s health-care-management subsidiary, according to people familiar with the matter, as the industry giant pursues further expansion.

Tenet, one of the largest U.S. hospital companies, has said it would weigh a sale of the unit, Conifer Health Solutions, which provides services to hospitals and physician groups. Tenet had said it would make a decision in the first half of 2018 on Conifer, which accounted for about 8% of its revenue last year.

It isn't clear who the other suitors might be, and it isn't guaranteed UnitedHealth or anyone else will ultimately strike a deal for the business, which Tenet has said it might not sell.

Should there be a deal, it could value Conifer at \$2 billion or more, analysts have estimated.

Minnetonka, Minn.-based UnitedHealth has been an aggressive acquirer in an industry undergoing a wave of consolidation. Conifer, which generated \$1.6 billion in revenue last year from medical-billing and care-management services, would add to deals UnitedHealth to bolster its health-services arm, Optum.

Optum has built up one of the biggest pharmacy-benefit managers and a huge array of doctor practices and surgery centers, as UnitedHealth positions itself among companies

looking to reshape the U.S. health-care industry.

Conifer would come under a different segment of Optum's business, which serves as a contractor and consultant to health-care providers, particularly hospital systems.

One potential complication for UnitedHealth: Some hospital operators may be leery of working with Conifer if it becomes part of Optum, whose surgery centers and clinics compete directly with them in many markets. Also, UnitedHealth is the parent of the biggest U.S. health insurer, UnitedHealthcare, which negotiates prices with hospitals. UnitedHealth says it maintains a wall between its insurance operations and Optum.

Tenet announced the possible divestiture in December, two months after its longtime chief executive left the company as it grappled with pressure from an activist investor.

Tenet has continued to restructure this year, announcing in January it would expand previously announced job cuts to 2,000, or about 2% of its workforce. The company said Wednesday it reached a deal to sell three Chicago-area hospitals to Pipeline Health LLC and TWG Partners LLC.

A Conifer sale would be a boon to its minority owner, nonprofit-hospital system Catholic Health Initiatives, or CHI. The Englewood, Colo.-based CHI owned roughly 24% of Conifer, Tenet securities filings show.

Anna Wilde Mathews contributed to this article.

TECHNOLOGY

WSJ.com/Tech

IBM Turns Corner With Newer Businesses

More than half of sales in latest quarter came from initiatives like cloud computing

By MICAH MAIDENBERG

International Business Machines Corp. said it generated more than half of its quarterly revenue from newer services such as cloud and artificial intelligence, a first for the venerable tech giant as it shifts away from equipment sales and other legacy businesses.

It was the third consecutive

quarter in which IBM's revenue rose from the previous year, a feat that gives Chief Executive Ginny Rometty breathing room to execute a turnaround after a nearly six-year stretch of shrinking quarterly sales under her leadership.

Revenue in the second quarter rose 3.7% from a year earlier to \$20 billion. Analysts polled by FactSet had expected \$19.9 billion in revenue.

Ms. Rometty is trying to turn IBM around by pinning its future on a series of fast-growing businesses lumped under what the company calls strategic imperatives, includ-

ing cloud computing, security and data analytics. Revenue from those offerings totaled \$10.1 billion in the quarter, up 15% from a year ago.

"We've done the work to reposition our company," IBM finance chief James Kavanaugh said about its strategic-imperatives initiative. "We are seeing our investments in these high-value segments of the IT industry now paying off."

The Armonk, N.Y., company's profit rose 3.1% to \$2.4 billion. Excluding special items, IBM had a profit of \$3.08 a share. Analysts polled by FactSet were expecting an adjusted profit of \$3.04 a share.

IBM shares, down 6% over the past year, rose 3.1% to \$148.99 in after-hours trading on Wednesday.

Despite reporting higher revenue and profit in the latest quarter, IBM still faces challenges on several fronts. In its Cognitive Solutions segment, which includes services tied to the Watson supercomputer, sales fell 1% after adjusting for currency moves to \$4.6 billion.

Mr. Kavanaugh said the segment includes IBM's transaction-processing software business, which produces software that is a "critical component" to IBM because it produces

high profits.

Sales in Systems, a segment that includes the company's mainframe business, shot up 25% to \$2.2 billion. Some observers believe the company will likely find it difficult to maintain that pace when a purchasing cycle for its mainframe products starts to wind down.

IBM's margins, another concern for shareholders, fell in the latest quarter.

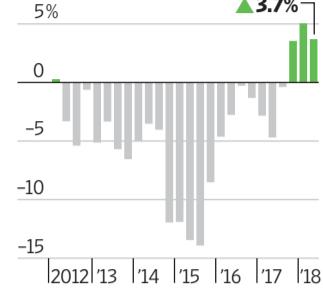
The gross profit margin of 46% was slightly down from 46.5% in the year-earlier period.

—Jay Greene

contributed to this article.

Revving Up

IBM reported its third consecutive quarter of revenue gains.

Change from previous year

Sources: S&P Capital IQ; the company

THE WALL STREET JOURNAL.

Samsung Readies Phone With Foldable Screen

By TIMOTHY W. MARTIN

SEOUL—Samsung Electronics Co. plans to introduce a foldable-screen smartphone early next year, according to people familiar with the matter, as the world's largest phone maker eyes a splashy device to help re-energize its slumping handset business.

The Samsung prototype, which bears the internal code name "Winner," features a screen that measures about 7 inches diagonally, roughly the size of a smaller tablet, these people said.

The screen can be folded in half, like a wallet, these people said. When the phone is folded, its exterior shows a small display bar on one side and cameras on the other, they said.

A foldable-screen device has long been a hotly rumored industry pursuit, with several phone makers said to be developing models. Unlike a traditional flip phone, the device when opened would be almost all screen, giving consumers a large display akin to a tablet, with the portability of a phone.

Other manufacturers have launched smartphones that fold, but those devices used two screens that, though they



senior Samsung executives making it one of the company's top priorities, the people say.

Another factor behind Samsung's push: a fall-off in premium-phone demand this year, especially for the company's latest flagship device, the Galaxy S9—which surprised some Samsung mobile executives, according to several of the people. The Galaxy S9's sales drop-off from the prior year's model could be 20% or more, industry analysts say.

The South Korean company earlier this month forecast a lower-than-expected operating profit for the second quarter, largely driven by the decline in Galaxy S9 sales.

Samsung has been working on a foldable-screen phone for years. The company has acknowledged such a device is on its product road map, though it has never noted a firm release date or design specifics.

The phone's price tag could easily surpass \$1,500, according to people familiar with the matter. Consumers have already balked at paying more than \$1,000 for the newest high-end devices, though Samsung apparently is betting that the novelty would win over some premium users.

The company hopes to make a splash in a sluggish handset market. Customers at a store in Paris.

work in tandem, are divided by their phone frames.

The new Samsung design—using a foldable screen—could help rejuvenate a handset industry that has struggled to find new dazzling features to impress consumers.

Smartphone sales declined 0.3% in 2017, the first annual decline in the industry's history, according to IDC, a mar-

ket researcher. They are projected to dip again this year, by 0.2%, IDC says.

A Samsung spokeswoman declined to comment.

The foldable-screen phone would create an entirely new product category and become Samsung's third flagship device, alongside its primary Galaxy S and large-size Galaxy Note lineups, several of the

people say.

The rollout would be on a smaller scale, targeting specific markets like mobile gamers. If successful, it would pave the way for a broader commercial debut in the second half of 2019, these people say.

The timing and final design could still change, though the project has assumed greater urgency in recent months, with

people say.

The phone's price tag could easily surpass \$1,500, according to people familiar with the matter. Consumers have already balked at paying more than \$1,000 for the newest high-end devices, though Samsung apparently is betting that the novelty would win over some premium users.

—Sarah E. Needleman

contributed to this article.

Facebook Cuts Sites Advocating Violence

By DEEPA SEETHARAMAN

Facebook Inc. said Wednesday it will start removing misinformation that could spark violence, a response to mounting criticism that the flow of rumors on its platform has led to physical harm to people in countries around the world.

The new policy is a shift in Facebook's broader approach to misinformation, which had focused on suppressing its popularity on the platform without scrubbing the problematic content entirely. But the company has also faced more questions about the platform's role as a vector for false information that can inflame social tensions.

Facebook will rely on local organizations of its choosing to decide whether specific posts contain false information and could lead to physical violence, company officials said.

If both hold true, the posts will be taken down.

A spokeswoman said Facebook will implement the policy first in Sri Lanka and later in Myanmar, countries where some people and groups have used Facebook to spread rumors that ultimately led to physical violence.

The attacks in those countries have garnered significant attention.

"There were instances of misinformation that didn't violate our distinct community standards but that did contribute to physical violence in countries around the world," said Tessa Lyons, a product manager on Facebook's news feed, citing Sri Lanka and Myanmar. "This is a new policy created because of that feedback and those conversations."

The policy raises questions that company officials said are too early to answer, including who its partners will be and what the criteria are for becoming one.

A Facebook spokeswoman said she couldn't provide a list of organizations Facebook plans to team up with or countries where they could deploy this new policy.

It also isn't clear how those partners will determine whether or not content is false or could lead to violence. Nor was it clear how Facebook would ensure those organizations remain independent or relatively free from political bias.

Ms. Lyons said Facebook was in the early stages of creating these policies and didn't have details to share publicly. In an interview, she said Facebook will rely on outside organizations' judgment because they have "local context and local expertise."

Facebook has relied on third-party organizations to help it navigate other thorny issues.

In December 2016, while facing mounting pressure for allowing misinformation to proliferate on the platform during the U.S. election, Facebook said it would team up with fact-checking organizations in the U.S. to help suppress false news reports on the platform.

The organizations determine which claims are true and false. If enough organizations say it is false, Facebook will lower the rank of the posts.

Jam City Prepares For IPO in the Fall

By MAUREEN FARRELL

Jam City, the social-gaming and entertainment company led by one of the co-founders of Myspace, is preparing for an initial public offering as soon as this fall, joining what is expected to be a rush of companies tapping the public markets in late 2018.

The Culver City, Calif.-based company could seek a valuation around \$1 billion, according to people familiar with the company's plans, though an IPO's size and terms can change until a deal is priced.

The company is expected to file confidentially for the forthcoming IPO with the Securities and Exchange Commission this week, these people said, and has chosen **JPMorgan Chase & Co.** and **Bank of America Corp.** as the lead underwriters.

Jam City creates mobile

games including "Panda Pop" and "Cookie Jam" and serves as a studio for translating Hollywood franchises into mobile games.

Its recent hit release, "Harry Potter: Hogwarts Mystery," has been among the top 100 grossing apps in the U.S. since launching in April, according to app-analytics firm Apptopia Inc., which estimates the game has generated \$44 million in revenue worldwide.

Jam City was co-founded in 2010 by Chris DeWolfe, who serves as its chief executive officer and previously co-founded Myspace. The parent company of Myspace was acquired by a predecessor of News Corp., the current owner of The Wall Street Journal, for \$580 million in 2005 and was later sold for \$35 million.

—Sarah E. Needleman

contributed to this article.

Tesla CEO Apologizes

By a WSJ Staff Reporter

Tesla Inc. Chief Executive Elon Musk apologized for lashing out at the British cave explorer who dismissed his efforts to help rescue the youth soccer team trapped in a Thai cave.

"His actions against me do not justify my actions against him, and for that I apologize to Mr. Unsworth and to the companies I represent as leader," Mr. Musk said in a post on his official Twitter account Tuesday, referring to cave explorer Vern Unsworth. "The fault is mine and mine alone."

Mr. Musk had come under increasing pressure following his Sunday broadside, with calls for the CEO to apologize. "Your behavior is fueling an unhelpful perception of your leadership—thin-skinned and short-tempered," Gene Munster, managing partner at a venture-capital firm Loup Ventures, wrote in an open letter

cue the soccer team, an ill-informed public-relations stunt, saying it "had absolutely no chance of working" because it was too big for the cave.

"Sorry pedo guy, you really did ask for it," read a tweet on Mr. Musk's Twitter account Sunday in response. The posting, which was deleted, sent Tesla's stock falling Monday.

The organizations determine which claims are true and false. If enough organizations say it is false, Facebook will lower the rank of the posts.



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British cave explorer Vern Unsworth had criticized the submarine designed by Elon Musk.

BUSINESS NEWS

Potbelly CEO's Sandwich Plan

Fast-casual chain has struggled to distinguish itself in an increasingly crowded market

By JULIE JARGON

Potbelly Corp.'s new chief executive says more interesting sandwiches can save the struggling restaurant chain.

"You don't differentiate yourself by calling yourself generic names," said Alan Johnson, a consultant and retail executive with turnaround experience who was recruited in December to take over as CEO.

The four-decade-old company, named for the antique potbelly stoves that decorate its restaurants, built a devoted following with live music performances and hearty sandwiches such as "A Wreck," piled high with salami, roast beef, turkey and ham.

But in recent years, Chicago-based Potbelly became harder to distinguish from other sandwich makers. Consulting firm Technomic Inc. said the number of stores operated by fast-casual sandwich chains with more than \$50 million in annual sales, a category that includes Jersey Mike's Subs and Jimmy John's Gourmet Sandwiches, grew 70% to more than 7,500 over the past five years.

After Potbelly's sales growth began to slow, then-CEO Aylwin Lewis said in May 2017 that he would step down. Three months later, the company said it would review its business and consider selling itself.

Mr. Johnson called 2018 a transition period and said that sales likely won't improve until next year. For the quarter ended April 1, same-store sales at company-owned restaurants—most of the 500 total—fell 3.6%. Potbelly's shares are up less than 1% this year.

The Potbelly CEO said he is focused on improving Potbelly rather than selling the business. "We had a lot of in-



The chain, named for the potbelly stoves decorating its restaurants, built a following with live music and hearty offerings.

terest, but in the end we and the board decided to implement the strategy we're working on now," he said.

Mr. Johnson said Potbelly needs to make its sandwiches stand out. Chicken-salad and turkey club sandwiches introduced before he was hired, he said, sound too much like those served at other chains.

The company wouldn't offer any specific new names that it is considering.

Mr. Johnson also said Potbelly's menu had grown too complicated, with 115 items at 66 different prices.

He plans to trim back the menu and to pair sandwiches with cookies and drinks. Potbelly hasn't offered such "combo meals" previously.

He recently overhauled Potbelly's management team.

One of his new recruits is Ryan LaRoche, a former executive sous chef at the Michelin-starred L'Atelier de Joël Robuchon in Las Vegas. Mr. LaRoche, the chain's vice president of culinary innovation, also worked as an executive chef at Park Hyatt hotels in Chicago and Washington.

One of the first menu items developed by Mr. LaRoche, two barbecue pulled-pork sandwiches—one spicy, one not—will go on sale at Potbelly restaurants for a limited time later this month. He also is working to improve breakfast items.

Mr. Johnson said he also will expand the chain more slowly and convert more stores into franchises after what he said was a too-rapid expansion into too many

markets.

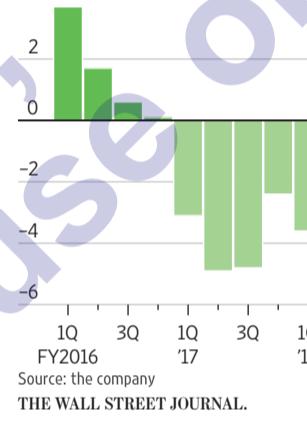
The sandwich chain has increased the number of customers in its loyalty program by 60% to 800,000 since the beginning of the year by providing more personalized rewards and perks beyond a free cookie.

The average Potbelly customer visits the chain 16 times a year, Mr. Johnson said. He wants to lure them in once more, and to get them to buy one more item when they visit. The company is spending more on marketing and training employees to upsell customers who order a sandwich by offering them a milkshake, too. To date, he said, too few employees are encouraging customers to add items to their order. "That's the sales-prevention business," he said.

Soggy Sandwich

Potbelly has reported declining same-store sales at its company-owned restaurants for more than a year.

Change from previous year



Source: the company
THE WALL STREET JOURNAL.

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Wednesday, July 18, 2018										Lows										
Stock		52-Wk % Sym Hi/Lo Chg		Stock		52-Wk % Sym Hi/Lo Chg		Stock		52-Wk % Sym Hi/Lo Chg		Stock		52-Wk % Sym Hi/Lo Chg		Stock		52-Wk % Sym Hi/Lo Chg		
Highs	AxonEnterprise	AAXJ	72.06	1.3	CoStar	CSGP	434.52	-0.4	Funko	FNKO	18.46	4.6	Kemet	KEM	29.63	1.0	Noovocare	NVCR	36.75	2.5
	BJsRestaurants	BJRI	64.05	1.9	CoupaSoftware	COUP	65.96	1.3	GATX	GATX	78.33	0.4	KindredBiosc	KIR	12.65	-0.4	O'ReillyAuto	ORLY	290.81	3.0
	BectonDickinson	BDX	248.57	-0.6	CineticsPharm	CRNX	25.50	44.2	GS Acquisition	GSALU	10.34	0.3	KinsaleCapital	KNSL	57.24	2.7	OnDeckCapital	ONDK	8.21	6.8
	Benefitfocus	BNFT	37.73	1.8	CyberArkSoftware	CYBR	69.97	1.5	GoDaddy	GDDY	79.00	0.3	KrystalBiotech	KRYS	18.41	3.2	OneMadison	OMAD	9.75	0.1
	Becton&Labs	ABT	65.50	3.1	DCP Midstream	DCP	42.98	1.4	Grainer	GRO	7.33	-1.1	LRAD	LRAD	2.98	-1.6	OrionGroup	ORN	9.49	2.6
	Axiom	ACWX	44.31	-1.0	DigitalGlobal	DEO	49.20	3.1	Hillenbrand	HWLD	34.18	1.2	LibertySirius	LSXMA	48.43	8.0	OxfordSquare	OSQX	7.34	1.5
	AdobeSystems	ADBE	260.94	0.6	Digeo	DEO	148.99	-0.6	HD Supply	HDS	45.01	1.6	LibertyTripAadv	LTTRA	18.15	8.8	ParTechnology	PTE	18.71	3.2
	AtdalenGlobEdu	ATGE	53.40	0.9	Brown&Brown	BRO	29.62	0.5	Hilco	HILC	78.58	1.4	Lifevantage	LGND	10.88	4.5	PhibroAnimal	PAHC	40.70	-0.4
	AeroVironment	AVV	75.25	-0.2	Brown&Brown	CBRE	50.00	1.6	Huayra	HUA	97.68	...	Imperva	IMMR	27.33	1.1	TableauSoftw	TBLW	7.48	2.6
	AlignTech	ALGN	375.33	0.5	CDW	CDW	58.55	-0.2	Int'l Fcsone	CFNLF	25.18	0.2	Int'l Fcsone	CFNLF	10.25	0.2	TexasRoadhouse	TXRH	70.48	2.6
	AllegroMerger	ALGR	10.16	0.1	CoupaSoftware	COUP	65.96	1.3	GoldResource	GDR	7.33	-1.1	KindredBiosc	KIR	12.65	-0.4	TableauSoftw	TBLW	7.48	2.6
	AllianceBernstein	AB	30.10	1.4	Crown	CWN	110.36	1.2	Grainer	GRO	7.33	-1.1	LibertySirius	LSXMA	48.43	8.0	OxfordSquare	OSQX	7.34	1.5
	Alphabet C	GOOG	1204.50	-0.2	Crown	CWN	110.36	1.2	Hillenbrand	HWLD	34.18	1.2	LyraHealth	LYRA	12.05	1.7	ParTechnology	PTE	18.71	3.2
	Alphabet A	GOOGL	1212.59	-0.1	Crown	CWN	110.36	1.2	Huayra	HUA	97.68	...	LyraHealth	LYRA	12.05	1.7	PhibroAnimal	PAHC	40.70	-0.4
	CareerEducation	CECO	18.75	2.0	Ennis	EBF	22.98	10.1	Infra&EnterAltWt	IEAWW	1.32	0.8	Majesco	MJCO	7.47	0.9	ReataPharm	RETA	45.54	3.3
	ChampionsCorp	CSBR	8.40	1.2	Facebook	FB	210.99	-0.3	Imperva	IMMR	27.33	1.1	MedidataSolutions	MDSO	88.38	-1.6	ReticMed	RMD	100.73	-0.8
	Altexys	AVX	43.48	0.7	Facebook	FB	210.99	-0.3	Infini&EnterAltWt	IEAWW	1.32	0.8	MeritMedical	MMIS	56.85	-1.4	TwelveSeasInt'l	TWLV	7.48	2.6
	AltisourcePortf	ASPS	33.99	2.6	CharlesRiverLab	CHRL	120.59	0.4	Finjan	FINN	50.70	-0.3	RingCentral	RNG	17.95	1.5	VermontEnergy	VEN	11.20	5.0
	Amazon.com	AMZN	1858.88	-0.1	ChiefsWarehouse	CHEF	31.90	-0.2	FirstData	FD	207.09	0.1	Roku	ROKU	34.47	5.5	WestRock	WRK	11.20	5.0
	AnchorBancorp	ANCB	29.55	4.2	CitrixSystems	CTXS	110.94	0.6	FirstData	FD	207.09	0.1	Rubbermaid	RBL	46.13	6.8	Weyerhaeuser	WY	11.20	5.0
	ArmstrongWorld	AWI	69.10	1.5	CoastalInl	CCB	16.75	13.1	FirstBancshares	FBMS	36.95	-0.6	RingCentral	RNG	17.95	1.5	Weyerhaeuser	WY	11.20	5.0
	ArrowheadPharm	ARWV	17.18	1.3	CoherusBioSci	CHR	18.10	20.1	FirstData	FD	22.84	0.8	Roku	ROKU	34.47	5.5	Weyerhaeuser	WY	11.20	5.0
	AspenTech	APZN	99.94	0.5	Collerane	CGI	82.35	0.8	FirstData	FD	207.09	0.1	Rubbermaid	RBL	46.13	6.8	Weyerhaeuser	WY	11.20	5.0
	AstraZeneca	AZN	37.37	0.4	ConstellAlphaWt	CHACW	0.50	16.3	FortivePfdA	FTVPA	103.00	1.5	TableauSoftw	TBLW	7.48	2.6	Weyerhaeuser	WY	11.20	5.0

Mutual Funds

Data provided by LIPPER

Top 250 mutual-funds listings for Nasdaq-published share classes by net assets.
e—Ex-distribution. f—Previous day's quotation. g—Footnotes x and s apply. j—Footnotes e and s apply. k—Recalculated by Lipper, using updated data. p—Distribution costs apply. 12b-1 r—Redemption charge may apply. s—Stock split or dividend. t—Footnotes p and r apply. v—Footnotes x and e apply. x—Ex-dividend. z—Footnote x, e and s apply. NA—Not available due to incomplete price, performance or cost data. NE—Not released by Lipper; data under review. NN—Fund not tracked. NS—Fund didn't exist at start of period.

Wednesday, July 18, 2018				Net YTD NAV Chg % Ret				Net YTD NAV Chg % Ret				Net YTD NAV Chg % Ret				Net YTD NAV Chg % Ret					
Fund	NAV	Net Chg	% Ret	Fund	NAV	Net Chg	% Ret	Fund	NAV	Net Chg	% Ret	Fund	NAV	Net Chg	% Ret	Fund	NAV	Net Chg	% Ret		
American Century Inv	IntSmVa	21.64	+0.02	-5.8	BluCh	102.66	+0.10	17.0	LSGWth	16.50	+0.02	2.6	PIMCO Funds Instl	PIMFundInstl	11.74	+0.32	12.6	MultAdml	13.93	+0.01	0.1
Ultra	TAUSCoreEq2	19.04	+0.08	5.6	Contra	138.44	+0.61	14.8	AllAsset	11.74	-0.01	-2.1	John Hancock Instl	JohnHancockInstl	23.66	+0.14	1.5	MultAdml	11.44	-0.01	-0.1
American Funds Cl A	US CoreEq	24.15	+0.08	6.6	Contrak	138.42	+0.61	14.7	ShortT	9.87	-0.01	-1.7	DispValMCI	DispValMCI	12.05	+0.14	1.5	MultAdml	10.87	-0.01	-0.8
AmcApA p	23.14	+0.09	11.2	US Small	22.62	+0.08	5.5	TotRt	9.98	-0.01	-1.5	JPMorgan Funds	JPMorganFunds	41.15	+0.16	2.2	DivInvInstl	13.63	+0.01	-1.9	
AMutAlta p	41.63	+0.03	3.0	US Small	38.77	+0.16	8.3	DivInv	10.11	-0.01	-1.7	JPMorgan R Class	JPMorganRC	12.02	-0.01	-0.4	PrincipInvestors	12.02	-0.01	-0.4	
BalA p	27.63	+0.03	2.7	US SmCapVl	40.70	+0.14	7.6	DivInv	10.11	-0.01	-1.7	MdcPvL	MdcPvL	41.15	+0.16	2.2	PIMCO Funds A	12.02	-0.01	-0.4	
BondA p	12.56	-0.01	-1.4	US TgdVal	26.33</td																

MARKETS DIGEST

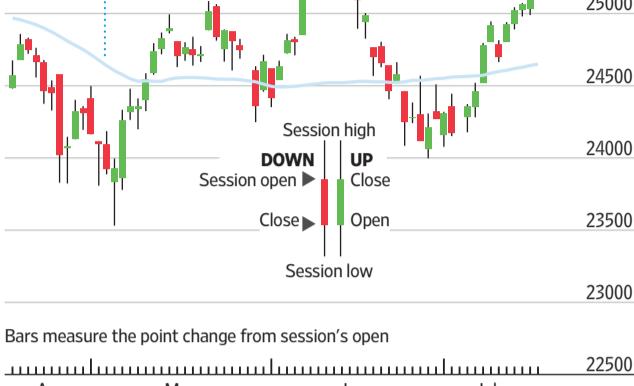
EQUITIES

Dow Jones Industrial Average

25199.29 ▲ 79.40, or 0.32%
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 23.85 20.93
 P/E estimate * 16.34 18.41
 Dividend yield 2.15 2.30
 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 22500 2500

*Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

S&P 500 Index

2815.62 ▲ 6.07, or 0.22%
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 24.52 24.29
 P/E estimate * 17.45 18.80
 Dividend yield 1.87 1.99
 All-time high 2872.87, 01/26/18



Apr. May June July 2500

Nasdaq Composite Index

7854.44 ▼ 0.67, or 0.01%
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 26.45 26.14
 P/E estimate * 21.36 20.91
 Dividend yield 0.94 1.12
 All-time high: 7855.12, 07/17/18



Apr. May June July 6600 7800

Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	52-Week		YTD % chg	3-yr. ann.
						High	Low		
Dow Jones	2515.32	2510.12	25199.29	79.40	▲ 0.32%	26616.71	21513.17	16.4	1.9
Industrial Average	10754.14	10549.67	10702.23	239.10	▲ 2.29%	11373.38	9021.12	11.8	0.8
Transportation Avg	720.85	714.39	717.60	-3.22	-0.45%	774.47	647.90	0.4	-0.8
Utility Average	29313.57	29186.24	29304.60	68.24	▲ 0.23%	29630.47	25030.26	14.3	5.9
Total Stock Market	760.11	753.93	760.01	4.02	▲ 0.53%	761.78	629.56	15.2	6.9
Barron's 400	2001.73	1987.45	2001.25	6.51	▲ 0.33%	2009.15	1691.67	12.4	5.3
Nasdaq 100	1052.23	1043.31	1052.13	4.50	▲ 0.43%	1057.32	817.25	20.7	12.4

Nasdaq Stock Market

Nasdaq Composite	7863.77	7822.83	7854.44	-0.67	-0.01%	7855.12	6213.13	23.0	13.8
Nasdaq 100	7411.25	7368.36	7390.13	-13.77	-0.19%	7403.89	5786.54	24.9	15.5

S&P

500 Index	2816.76	2805.89	2815.62	6.07	▲ 0.22%	2872.87	2425.55	13.8	9.8
MidCap 400	2001.73	1987.45	2001.25	6.51	▲ 0.33%	2009.15	1691.67	12.4	5.3
SmallCap 600	1052.23	1043.31	1052.13	4.50	▲ 0.43%	1057.32	817.25	20.7	12.4

Other Indexes

Russell 2000	1692.02	1679.23	1691.87	4.61	▲ 0.27%	1706.99	1356.90	17.3	10.2
NYSE Composite	12825.69	12770.32	12823.23	44.01	▲ 0.34%	13637.02	11699.83	7.4	0.1
Value Line	583.12	579.72	583.02	1.57	▲ 0.27%	589.69	503.24	9.6	3.7
NYSE Arca Biotech	5110.44	5073.23	5099.29	-12.34	-0.24%	5115.93	3787.17	28.7	20.8
NYSE Arca Pharma	551.43	549.46	551.00	1.69	▲ 0.31%	593.12	514.66	2.6	1.1
KBW Bank	108.58	107.02	108.28	1.30	▲ 1.21%	116.52	89.71	13.7	1.5
PHLX® Gold/Silver	80.46	79.56	80.17	0.14	▲ 0.17%	93.26	76.42	-3.0	-6.0
PHLX® Oil Service	152.17	149.03	151.19	-0.34	-0.22%	170.18	117.79	8.0	1.1
PHLX® Semiconductor	1371.56	1360.11	1369.46	10.47	▲ 0.77%	1449.90	1060.02	23.0	9.3
Cboe Volatility	12.47	11.44	12.10	0.04	▲ 0.33%	37.32	9.14	23.6	9.6

\$ Nasdaq PHLX

Sources: SIX Financial Information; WSJ Market Data Group

Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 50,000 shares.

Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
SPDR S&P 500	SPY	8,224.4	280.90	-0.16	-0.06	281.08	280.44
Pfizer	PFE	4,771.5	37.66	...	unch.	37.68	37.57
eBay	EBAY	4,472.3	35.78	-2.17	-5.72	38.90	35.45
Van Eck Vectors Gold Miner	GDX	3,341.7	21.87	0.01	0.05	21.88	21.83
CA Inc	CA	3,240.3	44.02	...	unch.	44.04	44.01
Altaba	AABA	3,006.1	74.66	...	unch.	74.66	74.50
AT&T	T	2,809.3	31.75	0.04	0.13	31.82	31.70
Wells Fargo	WFC	2,654.3	56.57	...	unch.	56.64	56.05

Percentage gainers...

Enbridge Energy Ptrs Cl A	EPP	172.2	11.40	0.82	7.75	11.40	10.55
Noodles Co. Cl A	NDLS	80.5	12.75	0.90	7.59	13.00	11.85
Cisco Systems	CSCO	1,164.1	43.41	1.20	2.84	43.85	42.10
IBM	IBM	1,177.5	148.53	4.01	2.77	148.60	142.50
Juniper Networks	JNPR	111.6	28.79	0.52	1.84	28.79	28.10

...And losers

eBay	EBAY	4,472.3	35.78	-2.17	-5.72	38.90	35.45

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COMMODITIES

WSJ.com/commodities

Futures Contracts

Metal & Petroleum Futures

	Contract	Open	High	Low	Settle	Chg	Open interest
Copper-High (CMX)	-25,000 lbs.; \$ per lb.						
July	2,747.0	2,756.5	2,7100	2,7520	0.0125	1,766	
Sept	2,745.0	2,7110	2,7155	2,7600	0.0130	166,626	
Gold (CMX)	-100 troy oz.; \$ per troy oz.						
Aug	1227.00	1229.10	1220.90	1227.90	0.60	254,205	
Oct	1232.70	1233.40	1226.00	1232.90	0.60	31,715	
Dec	1237.70	1239.40	1231.50	1238.40	0.60	196,408	
Feb'19	1243.30	1244.40	1237.50	1244.30	0.50	25,206	
Jun	1256.30	1256.40	1250.00	1256.30	0.50	6,294	
Dec	1271.10	1272.10	1268.90	1275.70	0.40	3,712	
Palladium (NYM)	-50 troy oz.; \$ per troy oz.						
Sept	909.10	910.00	900.00	901.80	-.740	19,281	
Dec	905.60	905.60	898.80	898.70	-.720	2,307	
Platinum (NYM)	-50 troy oz.; \$ per troy oz.						
July	820.80	821.00	820.80	813.70	-.210	16	
Oct	819.30	821.50	807.20	817.80	-.210	77,030	
Silver (CMX)	-5,000 troy oz.; \$ per troy oz.						
July	15.420	15.420	15.355	15.503	-.043	745	
Sept	15.585	15.625	15.410	15.574	-.043	153,676	
Crude Oil, Light Sweet (NYM)	-1,000 bbls.; \$ per bbl.						
Aug	67.64	69.06	67.04	68.76	0.68	86,325	
Sept	67.66	68.01	66.29	67.75	0.59	477,298	
Oct	65.48	66.60	65.20	66.38	0.54	242,709	
Dec	64.52	65.69	64.30	65.53	0.64	291,985	
Jan'19	64.27	65.33	63.98	65.19	0.65	157,247	
Dec	60.97	61.90	60.82	61.76	0.69	208,015	
NY Harbor ULSD (NYM)	-42,000 gal.; \$ per gal.						
Aug	2,058.8	2,095	2,044	2,093	0.020	74,859	
Sept	2,064.3	2,103	2,074	2,092	0.019	105,392	
Gasoline-NY RBOB (NYM)	-42,000 gal.; \$ per gal.						
Aug	2,0136	2,0571	2,0039	2,0444	.0183	65,915	
Sept	1,9853	2,0278	1,9750	2,0159	.0187	126,061	
Natural Gas (NYM)	-10,000 MMBtu; \$ per MMBtu.						
Aug	2,742	2,754	2,720	2,721	-.019	119,767	
Sept	2,707	2,718	2,688	2,689	-.255	295,965	
Oct	2,721	2,732	2,704	2,705	-.015	149,194	
Nov	2,770	2,780	2,755	2,755	-.014	123,227	
Jan'19	2,964	2,974	2,952	2,954	-.014	134,725	
April	2,584	2,592	2,576	2,578	-.008	128,497	

Agriculture Futures

	Contract	Open	High	Low	Settle	Chg	Open interest
Corn (CBT)	-5,000 bu.; cents per bu.						
Sept	346.25	349.00	346.00	347.25	1.00	647,467	
Dec	359.75	362.75	359.50	361.00	1.25	761,883	
Oats (CBT)	-5,000 bu.; cents per bu.						
Sept	231.00	236.50	231.00	234.00	2.50	1,681	
Dec	235.25	241.00	235.25	240.25	3.75	3,169	
Soybeans (CBT)	-5,000 bu.; cents per bu.						
Aug	839.00	847.50	834.75	842.25	2.75	80,420	
Nov	855.00	863.50	850.50	857.75	2.50	436,528	
Soybean Meal (CBT)	-100 tons; \$ per ton.						
Aug	329.10	332.00	327.50	328.20	-.90	55,684	
Dec	327.30	329.80	324.60	325.60	-.160	203,512	
Soybean Oil (CBT)	-60,000 lbs.; cents per lb.						
Aug	27.73	28.10	27.73	28.07	.34	55,728	
Dec	28.13	28.50	28.13	28.47	.34	237,965	
Rough Rice (CBT)	-2,000 cwt.; \$ per cwt.						
Sept	1195.50	1200.00	1171.00	1182.50	-.180	6,433	
Nov	1185.00	1185.00	1165.50	1167.00	-.170	1,193	
Wheat (CBT)	-5,000 bu.; cents per bu.						
Sept	498.25	505.00	493.75	494.50	-.325	204,185	
Dec	512.75	518.75	510.00	510.75	-.150	151,493	
Wheat (KC)	-5,000 bu.; cents per bu.						
Sept	490.75	497.75	487.25	487.75	-.300	137,669	
Dec	515.00	521.25	512.50	513.00	-.200	86,274	
Wheat (MPLS)	-5,000 bu.; cents per bu.						
Sept	532.75	535.75	527.25	528.00	-.525	30,024	
Dec	550.75	553.75	545.50	546.25	-.475	16,963	
Cattle-Feeder (CME)	-50,000 lbs.; cents per lb.						
Aug	151.67	154.900	151.150	154.450	3.175	15,299	
Sept	152.05	154.925	151.500	154.650	2.950	11,605	
Cattle-Live (CME)	-40,000 lbs.; cents per lb.						
Aug	106.65	109.150	106.350	108.950	2.525	70,131	
Dec	112.550	114.325	112.475	114.200	1.575	62,553	
Hogs-Lean (CME)	-40,000 lbs.; cents per lb.						
Aug	68.150	68.225	67.100	67.200	-.700	40,570	
Oct	52.450	52.450	51.325	51.925	-.275	105,047	
Lumber (CME)	-110,000 bd. ft. \$ per 1,000 bd. ft.						
Sept	503.80	506.80	499.90	499.90	-.150	4,400	
Nov	476.70	476.70	469.30	469.30	-.150	673	
Milk (CME)	-200,000 lbs.; cents per lb.						
July	15.01	15.20	14.97	15.09	.09	4,477	
Cocoa (ICE-US)	-10 metric tons; \$ per ton.						
Sept	2,397	2,402	2,321	2,337	-.58	85,750	
Dec	2,421	2,422	2,353	2,364	-.54	74,443	

Currency Futures

	Contract	Open	High	Low	Settle	Chg	Open interest
Japanese Yen (CME)	-\$1,250,000; pts per 100%						
Aug	.8862	.8884	.8855	.8877	-.0001	752	
Sept	.8893	.8908	.8874	.8897	-.0001	213,631	
Canadian Dollar (CME)	CAD-100,000; \$ per CAD						
Aug	.7583	.7587	.7584	.7593	.0008	266	
Sept	.7587	.7605	.7550	.7597</			

BANKING & FINANCE

Morgan Stanley Net Surges 39%

Lenders complete strong earnings season, lifted by economy, lower taxes

By LIZ HOFFMAN

Morgan Stanley's second-quarter earnings rose 39% from a year earlier, wrapping up a big-bank earnings season that showed continued strength in the economy and few signs that global tensions are spilling over into the financial sector.

The smallest of the big six U.S. banks by assets reported \$2.4 billion in profit on \$10.6 billion in revenue. Earnings per share of \$1.30 beat the \$1.11 expected by analysts polled by Thomson Reuters. Revenue also topped expectations by about \$500 million.

The last time Morgan Stanley reported two consecutive quarters of \$10 billion-plus revenue was 2007, just before the financial crisis. Its \$21.8 billion in revenue over the first six months of 2018 is a firm record.

The bank, run by Chief Executive James Gorman, is in the late innings of a multiyear turnaround effort. Mr. Gorman's push into wealth management—Morgan Stanley manages \$2.4 trillion on behalf of about 3.5 million U.S. households—has steadied its earnings and reassured investors,



James Gorman pushed Morgan Stanley into wealth management.

who had stayed away after repeated burns.

Mr. Gorman, who turned 60 last week, appears to be in harvesting mode and has shown little appetite to set ambitious

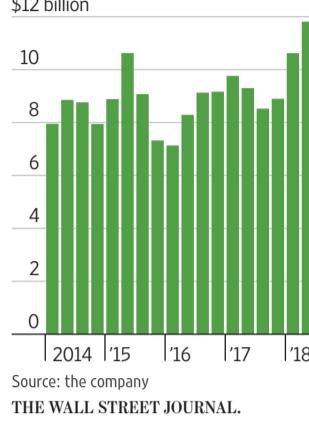
new targets or chase new businesses.

"A member of my team [asked me] recently, 'what's our strategy?' How about 'make some money?'" Mr. Gor-

Back to Basics

Morgan Stanley's core Wall Street businesses of trading and investment banking have been strong lately.

Trailing six-month revenue



Source: the company

THE WALL STREET JOURNAL.

man said Wednesday.

Shares rose 2.8% to \$40.56. Steady economic growth, lower taxes, an uptick in loan demand and renewed volatility in the prices of some securities have all helped big banks this year. Goldman Sachs Group Inc., Morgan Stanley's closest peer, on Tuesday reported its best first half in nine years.

So far, escalating global tensions, trade battles and a shrinking gap between the cost of short- and long-term debt—which has historically signaled a coming economic pullback—haven't spooked investment

funds and corporations that use banks to trade securities, advise on deals and arrange financing.

"Corporations feel good, consumers feel good," Morgan Stanley's finance chief, Jonathan Pruzan, said in an interview. "The pockets of volatility seem to be isolated and not rolling over into the broader market."

If that changes, and it starts to put people in defensive mode, we'll have a different second half of the year," he said.

Morgan Stanley's return on equity, a measure of how profitably it invests shareholders' money, stood at 13% in the quarter, hitting the goal Mr. Gorman had set, though with an assist from the lower taxes.

For the past few years, Morgan Stanley's giant retail brokerage has been the star, gathering assets and churning out reliable profits. This quarter, though, its Wall Street businesses shone.

Combined trading and investment-banking revenue of \$5.7 billion was 20% higher than last year and capped the best first half in those businesses since 2007. Fees from merger advice, stock trading and stock underwriting were all up double digits from a year ago.

♦ Heard: Morgan Stanley reboot looks complete..... B12

Trade War: Easy to Say, Hard To Define

By MIKE BIRD

When does a trade spat become a war? It depends on whom you ask.

Search interest in the term exploded this year, after President Donald Trump tweeted that "trade wars are good, and easy to win." Many analysts have tried to estimate what such a conflict would mean for markets. But without a common definition, pundits are talking past each other, making it harder for investors to gauge what is really at stake.

"Words matter," said Andy Rothman, investment strategist at asset-management firm Matthews Asia. "When you just toss out a dramatic phrase like that, one of the problems is that people stop analyzing it." On Tuesday, analysts at Australian bank Macquarie called the term "grossly overused."

There is an accepted academic meaning, from political scientist John Conyeare, who literally wrote the book on the subject three decades ago. But even this—an intense international conflict with largely economic goals, waged by restricting goods and services—covers a range of scenarios.

Broadly speaking, the politicians seem to be ahead of the markets. The Chinese government says the largest trade war in economic history has already begun, while French Finance Minister Bruno Le Maire said this month that a trade war had started.

Financial types mostly believe real hostilities have yet to begin, though they are bracing for it. Fund managers polled by Bank of America Merrill Lynch are now more worried about the threat of a "trade war" than anything else, by the largest margin of any issue since the European debt crisis in 2012.

Few analysts, however, explicitly define what that means—and those who do have different answers. For UBS economists, this could mean a 30% tariff on almost all Chinese imports, a similar response from Beijing and 25% levies on U.S. car imports, matched by all trading partners. Wells Fargo's team, meanwhile, thinks war requires surcharges of 50% or more.

There also are risks in drawing comparisons with the past—especially the Great Depression. Tariffs then were higher and broader, but with a far larger global trading system today, smaller restrictions could do more damage.

"In the 1930s there was little in the way of global supply chains to disrupt. So the negative impact of tariffs on the efficiency of production is likely to be greater today," said Barry Eichengreen, professor of economics and political science at the University of California, Berkeley.

Matthews Asia's Mr. Rothman draws parallels with "bubble"—another fuzzy term.

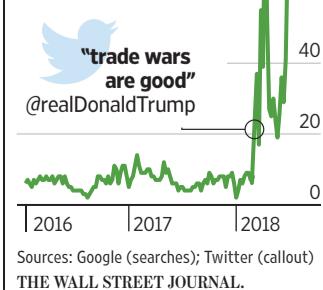
Bryan Carter, head of emerging-market fixed income at BNP Paribas Asset Management, said he struggled with this issue in writing letters to clients. "There's always a dramatic name—the taper tantrum, the trade war. Ten years ago we had the currency wars, remember that?" he said. "I have to pause and think about how I refer to what's going on," he added.

What Is It Good For?

Global interest in the term 'trade war' has surged this year.

Searches on Google

(100 = peak interest)



CFPB Launches 'Sandbox' for Fintech

By YUKA HAYASHI

WASHINGTON—Mick Mulvaney, the acting chief of the Consumer Financial Protection Bureau, spent the past eight months rolling back policies implemented by his Democratic predecessor. Now he wants to add his own mark by giving the agency a fresh mission promoting innovation in consumer finance.

Mr. Mulvaney on Wednesday said the bureau has launched a "regulatory sand-

box" to help fintech firms develop new products and services. Heading the team is Paul Watkins, formerly a lawyer in the Arizona attorney general's office who set up an initiative to attract fintech firms with the nation's first state-level sandbox program meant to encourage companies to bounce ideas off officials.

Mr. Mulvaney in an interview said he expects the new innovation office to look closely at cryptocurrencies, other financial technologies

based on blockchain, private currencies and microlending, or lending by individuals rather than institutions. The office also could help companies explore alternatives to traditional credit-scoring methods, such as considering rent and mobile-phone payments, consumer shopping behavior and social-media activity in credit decisions.

"You can make a strong argument...that new technology actually offers new and innovative ways to protect con-

sumers," said Mr. Mulvaney, a former Republican lawmaker and longtime critic of the CFPB. "You are moving light years beyond the complaint hotline to where you can really see things happening in real time," he added, referring to the bureau's public consumer-complaint portal. The database is popular with consumers but not with financial companies, which say it spreads unverified negative information about them.

The initiative comes as Mr.

Mulvaney prepares to hand over the bureau's leadership after a tumultuous period following the departure of an Obama-era official who had run the CFPB for most of its existence.

The Senate Banking Committee on Thursday is holding a confirmation hearing for Kathy Kraninger, a White House budget official and a Mulvaney associate who was nominated by President Donald Trump in June as permanent director.

Regulators Move To Ease Oversight Of Regional Banks

By RYAN TRACY

WASHINGTON—Regional U.S. banks are moving closer to getting relief from the stricter oversight they have faced since the 2008 financial crisis.

The Financial Stability Oversight Council on Wednesday approved **Zions Bancorp's** plan to shed Federal Reserve oversight, accepting the bank's argument that it isn't "systemically important" to the U.S. financial system.

Fed Vice Chairman for Supervision Randal Quarles separately raised the possibility that about a dozen U.S.-based lenders with \$100 billion to \$250

billion in assets may no longer have to file expensive and time-consuming "living will" bankruptcy plans and may face looser liquidity requirements.

"I believe we have a unique opportunity to further tailor our supervision and regulation framework," Mr. Quarles said in remarks prepared for a bankers' conference in Utah.

The oversight council's unanimously proposed decision is a win for Utah-based Zions, which is employing a novel legal strategy to avoid stricter regulations that apply to the largest U.S. banks.

The Treasury Department said the council's proposal could be made final within 60 days. While the 2010 Dodd-Frank financial law automatically applied stricter Fed rules to banks with more than \$50 billion in assets, it also gave the oversight council the ability to exempt banks from those rules.

Mr. Quarles's broader remarks on regional banks amounted to the most detailed guidance yet about how the Fed will decide which banks receive regulatory relief under the new law.

The Fed's regulatory point man said the central bank should start by soliciting public feedback on a set of criteria for evaluating banks. He said looking at a bank's size is "one relevant factor to include on the list," but the Fed should also look at cross-border activities, exposure to volatile short-term funding sources and other factors.

"Stress testing should continue to play an important role" at firms with assets between \$100 billion and \$250 billion, he said, but the test could occur less frequently. Stress tests for firms considered systemically important are now conducted every year.



Barclays and Tidjane Thiam's Credit Suisse paid \$154 million to settle dark-pool investigations.

Transparency Increases for Wall Street's 'Dark Pools'

By DAVE MICHAELS

WASHINGTON—Wall Street's "dark pools" will get a little clearer, as regulators move to require the trading platforms to tell investors more about how they handle orders and any preferential deals they cut with clients.

The Securities and Exchange Commission's regulation, passed Wednesday on a unanimous vote, builds on enforcement actions that found some dark pools misled clients about how they worked, including special access given to high-speed traders.

Banks and brokers have paid more than \$229 million in fines to the SEC and other regulators since 2011 for wrongdoing that involved dark pools, which are private trading platforms run by brokerage firms that don't disclose pretrade prices.

The measure moves dark pools closer to the regulatory treatment of stock exchanges, which must disclose how their systems match orders. Dark pools accounted for 12.8% of average daily trading volume in May, according to data from Tabb Group.

Asset managers execute as much as 30% of their trading volume using dark pools, said Larry Tabb, founder of research provider Tabb Group. Asset managers sometimes prefer dark pools to exchanges because orders remain hidden until they are executed, which can help investors get a better price on large trades. For those investors, the new disclosures will be meaningful.

Asset managers sometimes prefer dark pools to exchanges because orders remain hidden until they are executed, which can help investors get a better price on large trades. For those investors, the new disclosures will be meaningful.

Brokers will have to start filing the new disclosure in January, the SEC said. The SEC's rule covers only dark pools for stocks. The SEC didn't ask electronic trading platforms for corporate bonds to comply with the rule.

Mr. Tabb added.

"You want the people you are doing business with to give you the honest truth, and then you can make an informed decision about whether you want to represent your order there," he said.

Enforcement actions beginning in 2011 found some dark pools misled customers about their activity. The SEC said in 2011 that Pipeline Trading Systems LLC ran a dark pool and didn't tell subscribers that one of its affiliates profited by trading with those orders.

More recently, Credit Suisse and **Barclays** PLC collectively paid \$154 million to settle SEC and New York attorney general claims that they repeatedly failed to police their trading venues, gave some clients inaccurate information about the systems, and violated SEC rules aimed at ensuring market fairness and accurate pricing of stocks.

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The SEC's rule covers only dark pools for stocks. The SEC didn't ask electronic trading platforms for corporate bonds to comply with the rule.

\$66B

Zions Bancorp's assets put it above a regulatory threshold

billion in assets may no longer have to file expensive and time-consuming "living will" bankruptcy plans and may face looser liquidity requirements.

"I believe we have a unique opportunity to further tailor our supervision and regulation framework," Mr. Quarles said in remarks prepared for a bankers' conference in Utah.

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MARKETS

Financial, Industrial Stocks Power S&P

BY BEN ST. CLAIR
AND DANIELLE CHEMTOB

U.S. stocks rose Wednesday as investors parsed another wave of U.S. earnings reports and the Federal Reserve signaled that the economy is accelerating.

Corporate-earnings season is off to a

WEDNESDAY'S MARKETS r o b u s t start, with

about 8% of companies

in the S&P 500 having reported so far. Companies in the index have increased

earnings by 22% in the second quarter, surpassing analysts' estimates of about 19%, according to FactSet. Investors hope that earnings season will offer a spark for stocks, which were under pressure for much of June amid trade-related worries.

The Dow Jones Industrial Average added 79.40 points, or 0.3%, to 25199.29, rising for the fifth consecutive session, its longest winning streak since mid-May. The S&P 500 edged up 6.07, or 0.2%, to 2815.62, its highest closing value since February. The technology-heavy Nasdaq Composite fell 0.67 point, or

less than 0.1%, to 7854.44.

Gains in financial and industrial companies in the S&P 500 helped offset losses in the real-estate and utilities sectors, which are considered bondlike due to their hefty dividend payments.

Financial stocks were led by gains in **Morgan Stanley**, which rose 2.8% after the bank said second-quarter earnings rose 39% from a year ago, beating analysts' expectations. The announcement caps a strong second-quarter earnings season for the six largest U.S. banks.

Ryan Nauman, market strategist at Informa Financial Intelligence, said the strength in bank earnings bodes well for the sector, which has lagged behind this year despite rising interest rates, which typically boost lending profitability.

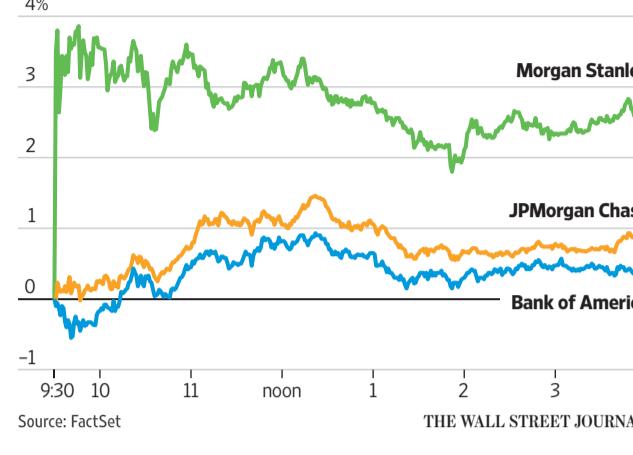
"For the time being in the second quarter, I'm very optimistic for financials, but moving forward it'll be interesting to see how they fare with a potential inverted yield curve," Mr. Nauman said.

The dispersion between shorter-term and longer-term rates, known as the yield curve, indicates sentiment to-

Head of the Class

Financial stocks lifted the S&P 500 on Wednesday after Morgan Stanley reported earnings.

Performance, minute by minute



Source: FactSet

THE WALL STREET JOURNAL.

ward the prospects for economic growth. Investors monitor the curve because short-term rates have exceeded longer-term ones before each recession since at least 1975—a phenomenon known as an inverted yield curve.

"The merry-go-round isn't going to last forever, so we're kind of watching this," said Josh Markman, managing director at Bel Air Investment Advisors.

The yield on the 10-year U.S. Treasury note rose to 2.875% Wednesday after settling at 2.862% Tuesday. Yields move inversely to bond prices.

In his remarks to the House on Wednesday, Fed Chairman Jerome Powell affirmed the Fed's plans to raise interest rates gradually "for now" during his second day of testimony on Capitol Hill.

The Fed chairman has mostly sidestepped recent questions on trade policy because he said it is outside the Fed's responsibilities. But he cautioned Tuesday that open economies have fared better than closed ones.

"Perhaps it's just too early to see anything on" the impact of trade disputes, said Keith Wade, chief economist at Schroders. Mr. Wade said he had hoped the testimony would reveal more of the Fed's thinking on trade but added that interpreting economic indicators so far has been challenging.

The Fed's beige book, a report published by the central bank on economic conditions in its 12 regional districts, showed that 11 of the districts were growing modestly or faster, but that worker shortages and rising costs for raw materials weighed on businesses. Manufacturers in many of the districts reported higher prices and supply-chain disruptions following new trade policies.

Eric Aanes, founder of Titus Wealth Management, said his firm is overweight in small companies that are less sensitive to interest rates and

tariffs. But he said that could change as the markets get more clarity on how the trade disputes will play out.

"We believe once the tariffs settle out that foreign markets will be a good place to put your money," said Mr. Aanes, whose firm manages about \$610 million.

The dollar continued to strengthen, a potential headwind for corporate earnings, especially at multinational companies. The WSJ Dollar Index, which measures the U.S. currency against a group of 16 others, was up less than 0.1% Wednesday to a new 52-week high.

Mr. Nauman said investors are looking to the commentary in earnings reports for indications of how the rising dollar, wage growth and trade tensions are weighing on companies. **Microsoft**, **Philip Morris** International and **Union Pacific** are among the companies reporting earnings Thursday.

Elsewhere, the Stoxx Europe 600 rose 0.5%, boosted by gains in technology and auto stocks. In Asia early Thursday, Japan's Nikkei was up 0.4% and Hong Kong's Hang Seng was up 0.6%.

Yields Up As Powell Reiterates Rate View

BY AKANE OTANI

U.S. government-bond prices edged lower Wednesday as Federal Reserve Chairman Jerome Powell reiterated that the central bank would gradually raise interest rates "for now."

CREDIT MARKETS The yield on the benchmark 10-year U.S. Treasury note settled at 2.875%, compared with 2.862% Tuesday.

Yields, which fall as bond prices rise, drifted lower after Commerce Department data showed housing starts slid 12.3% in June from the prior month—the largest monthly percentage drop since November 2016. Economists surveyed by The Wall Street Journal had expected housing starts to fall 2.2%.

The yield on the 10-year note then erased initial declines to edge higher as analysts looked to Mr. Powell's House testimony for additional hints about monetary policy.

Analysts had noted any signs trade disputes were hampering U.S. economic growth could push the Fed to rethink its approach to its rate increases. But there were few signs this week that the central bank was at that point. While Mr. Powell acknowledged that "a more protectionist economy is an economy that's less competitive, less productive," he said gradual rate increases remain appropriate for the time being with U.S. economic growth looking solid.

Investors have "fully digested the Fed Chair's comments, and don't seem to have a problem with where the Fed is headed," said Kevin Giddis, head of fixed-income capital markets at Raymond James, in a note. "The [Federal Open Market Committee] knows where the weaknesses lie, and have communicated the relative 'fixes' for them."

Oil Rises Despite Jump in U.S. Stockpiles

BY DAN MOLINSKI
AND SARAH MCFLARNE

Oil prices gained for a second-straight session despite data that showed U.S. inventories of crude oil increased sharply last week.

Light, sweet crude for August delivery ended 1% higher at \$68.76 a barrel on the New York Mercantile Exchange.

COMMODITIES Brent crude, the global benchmark, also closed 1% higher, at \$72.90 a barrel, on ICE Futures Europe.

The U.S. Energy Information Administration said in its weekly report that crude-oil stockpiles jumped by 5.8 million barrels to 411.1 million barrels. Analysts surveyed by The Wall Street Journal had forecast crude supplies would fall by 3.3 million barrels from the previous week. The report also showed U.S. oil production jumped to a record 11 million barrels a day.

"Overall a very bearish report, especially in comparison to expectations," said Kyle Cooper, a consultant for ION Energy.

U.S. oil prices retreated as expected immediately after the report's release, falling toward a one-month intraday low at \$67.04 a barrel. But prices, which are off 7.3% this month after hitting a multiyear high above \$74 a barrel in late June, turned positive in the afternoon and remained firm.

The market's bullish turn was driven partly by investors shifting attention away from rising crude-oil inventories and



Crude-oil inventories increased by 5.8 million barrels to 411.1 million barrels in the latest week. Workers at a Gulf of Mexico oil facility.

LUKE SHARRETT/BLOOMBERG NEWS

toward an unexpectedly large, 3.2-million-barrel decline in U.S. gasoline stockpiles last week. The EIA report also showed a price-supportive, 433,000-barrel-a-day weekly increase in motor gasoline supplied to the U.S. market, to 9.7 million barrels a day. That number, used by investors as a proxy for demand, points to an active sum-

mer driving season. Among refined products, gasoline futures rose 0.9% to \$2.0444 a gallon.

The International Energy Agency in its latest monthly report forecast global demand growth would slow to 1.3 million barrels a day in the second half of 2018 from 1.5 million in the first half.

Slowing demand growth

could partly come from China, whose economic expansion slowed slightly in the second quarter from the first quarter, the statistics bureau reported on Monday. The trade conflict between China and the U.S. could cause a further slowdown going forward, hitting oil demand, analysts said.

Increasing expectations that

Iranian oil would still find its way to the international market after U.S. sanctions are implemented in November was also bearish for prices.

Rising production from Russia, Saudi Arabia and other members of the Organization of the Petroleum Exporting Countries has also weighed on prices in recent weeks.

Dollar Climbs to Highest Level in More Than a Year

BY DANIEL KRUGER

The U.S. dollar rose after Federal Reserve Chairman Jerome Powell signaled the central bank remains confident it can continue to gradually raise interest rates.

The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, rose less than 0.1% to 88.71, closing at its highest

level since June 26, 2017. The dollar has gained recently as investors have flocked to the safety of the currency amid trade tensions.

The dollar got a boost as Mr. Powell affirmed the central bank's plans to gradually raise interest rates "for now" but warned of risks from an escalation of trade friction.

Higher interest rates typically attract investors to a currency.

During Mr. Powell's testimony before Congress on

Tuesday and Wednesday, lawmakers expressed concerns regarding President Donald Trump's decision to impose tariffs on imports to wring trade concessions from countries such as China, Germany and Canada.

Mr. Powell provided some words of caution, while noting that the outcome of the trade disputes remain uncertain.

"The bottom line is a more protectionist economy is...less competitive. It's less produc-

tive," he told the House Financial Services Committee on Wednesday. "So it's not a good thing if that's where this goes."

Interest rates that are higher in the U.S. than in Europe and other developed economies give investors a strong incentive to stick with the dollar, said Mazen Issa, a strategist at TD Securities.

The higher yield offered by the U.S. currency compared with the euro makes it expensive for investors to bet in favor of

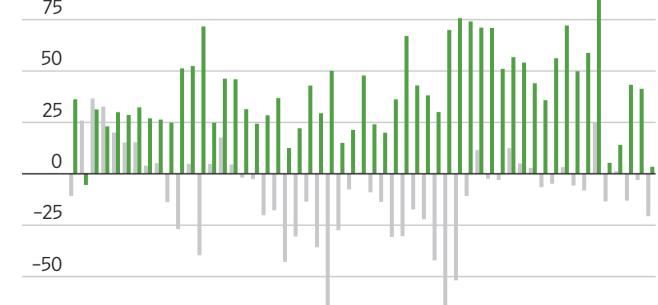
the 19-nation European currency and against the dollar, he said. "In the absence of a macro catalyst, the market is happy to be owning dollars," Mr. Issa said.

Federal-funds futures, which investors use to bet on the direction of interest-rate policy, late Wednesday showed a 61% probability that Fed officials will raise rates at least two more times this year, up from 58% a week ago, according to CME Group data.

Passive Surge

Investors have favored index-tracking funds over stock pickers.

Monthly net flows



Note: U.S. exchange-traded funds and mutual funds, including obsolete funds.
Source: Morningstar

ETFs Ruffle Markets

Continued from page B1 interview.

The \$3.6 trillion U.S. ETF industry has faced particular scrutiny. Like mutual funds, ETFs package stocks, bonds or other assets into a single share. But unlike mutual funds, ETFs can be bought and sold on an exchange just like shares of Amazon.com Inc.

In February, ETFs that bet against the Cboe Volatility Index were blamed for a price

spike in volatility futures contracts. Last year, a flood of cash into funds that invest in small mining companies was linked to price gyrations in gold stocks from Sydney to Toronto.

"They attract investors that want to trade fast," said Francesco Franzoni, professor of finance at USI Lugano and the Swiss Finance Institute, who co-wrote research showing that stocks included in ETFs become, on average, more volatile.

Mr. Sandberg and his colleagues tried to measure the impact of money pouring into and out of passive strategies, and focused particular attention on ETFs. The research was prompted by S&P clients, mostly large institutional in-

vestors, who are increasingly concerned that the rapid growth of index-tracking funds may be distorting stock prices.

"Clients are asking, 'How big do ETFs have to get before we get concerned?'" said David Pope, a managing director at S&P Global Market Intelligence. "It's everyone's underlying fear, that one fund gets so powerful that it starts to move prices in a disruptive manner."

They found that some stocks are more vulnerable to price moves driven by surges of investor cash. Like many traditional indexes, the S&P 500 is divided up based on the stock-market value of the underlying companies. But market value has little to do with

the availability of the stock, according to the S&P report.

For example, **Walmart Inc.** accounts for 0.5% of the assets in an S&P 500 index fund, but only 0.1% of the average daily trading volume of S&P 500 stocks in June, according to S&P. By contrast, **Netflix Inc.** is 0.7% of the benchmark's assets, but 3.3% of trading.

ETFs may buy more of a stock than is readily available, forcing prices higher to find more willing sellers. Or they may sell more than the market has an appetite for, pushing prices lower to attract buyers.

"There's not much cause for concern for systemic risk," Mr. Sandberg said. "But we have been able to quantify that there's some minimal impact."

THE WALL STREET JOURNAL.

MARKETS

Bitcoin Roars to Life After Summer Lull

Cryptocurrency adds more than 11% in a single day, breaking out of a trading range

By ALEXANDER OSIPOVICH

Bitcoin broke out of the summer doldrums this week with a sudden jump that cheered investors who have watched the digital currency lose more than half of its value since December.

But the outlook for bitcoin is still poor: light trading volumes, no clear catalyst for another rally, and little interest from the retail investors who fueled the last one.

Bitcoin shot nearly \$700 higher in one hour Tuesday afternoon, ending weeks of relative tranquility. It reminded investors that cryptocurrencies remain a Wild West marketplace, where it is often difficult to know what is driving price moves.

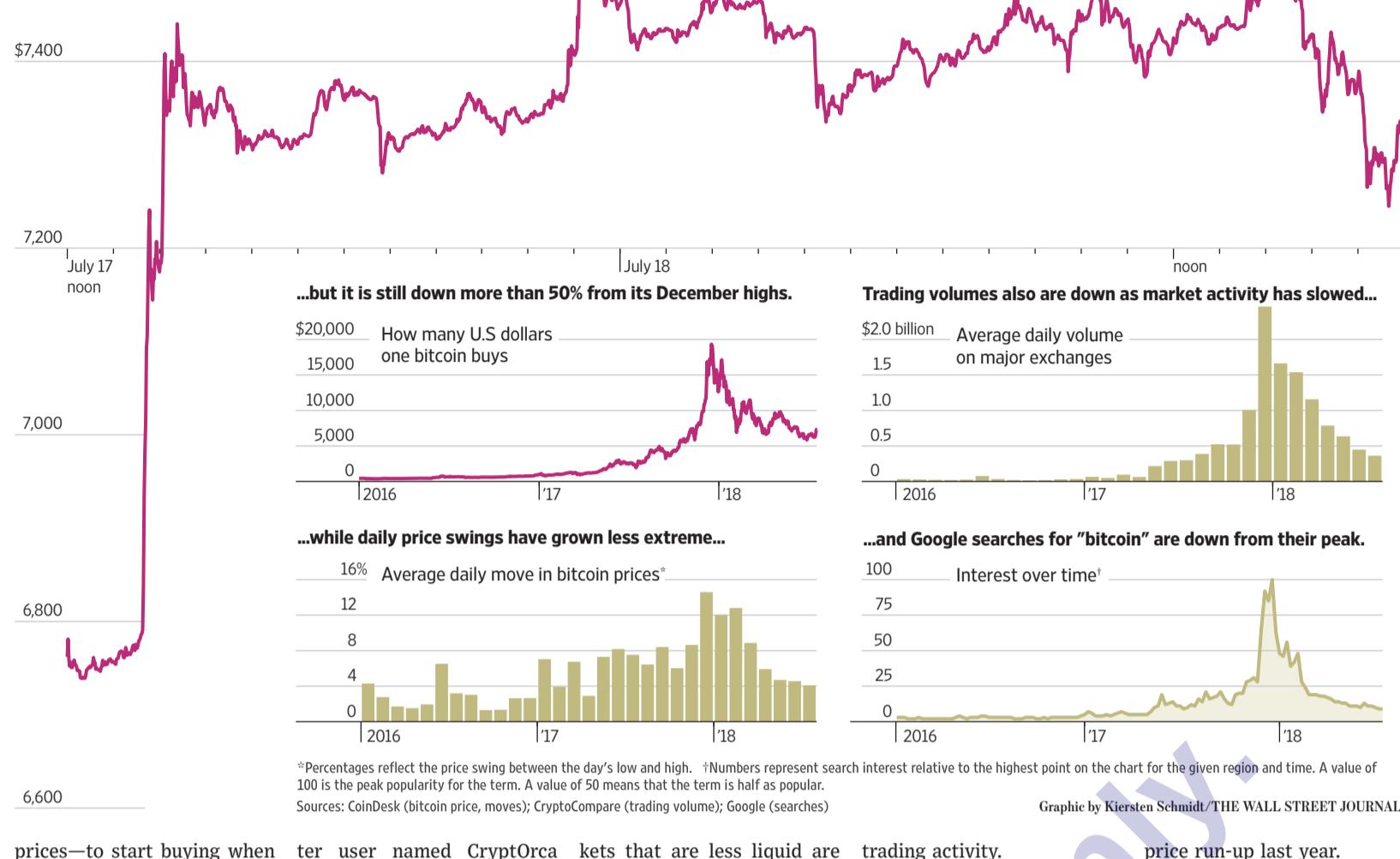
Bitcoin spiked from below \$6,800 to above \$7,400 in minutes, leaping more than 11% from where it had been trading the day before. Until Monday, the digital currency had spent 15 consecutive days hovering between \$6,000 and \$7,000. It has since held on to most of its gains, trading at \$7,336.86 late Wednesday afternoon.

No clear news development drove Tuesday's rally. The move came after bitcoin had been creeping up for much of the day and accelerated when it touched \$6,800, which suggests traders had set up stop-loss orders that automatically started buying once that level was breached.

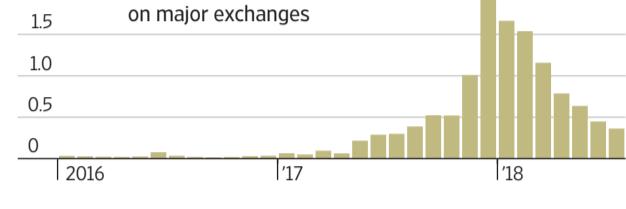
Stop-loss orders, which exist in stocks as well as bitcoin, kick in once prices reach a particular threshold. They are often used by investors to limit losses by selling when asset prices drop too far. But they can also be used by short sellers—who bet on falling

The digital money is up this week after a sudden rally on Tuesday...

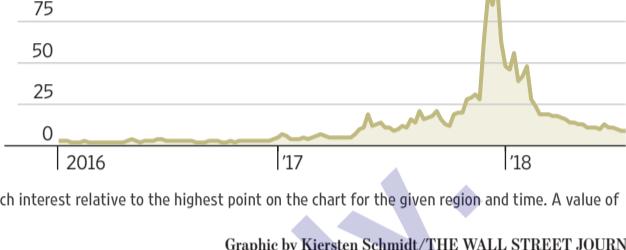
How many U.S. dollars one bitcoin buys



Trading volumes also are down as market activity has slowed...



...and Google searches for "bitcoin" are down from their peak.



Graphic by Kiersten Schmidt/THE WALL STREET JOURNAL.

prices—to start buying when prices rise too much.

To support that theory, some traders pointed to a large "short squeeze" on BitMEX, a popular cryptocurrency derivatives exchange, which coincided with Tuesday's surge.

In a short squeeze, short sellers cover their losses by buying the underlying asset, whether it be stocks or bitcoin. That can result in a sudden rally.

Some social-media accounts marveled at the heavy trading on BitMEX. "Seriously...carnage @ bitmex today," a Twitter-

ter user named CryptOrca wrote.

BitMEX chief executive Arthur Hayes said in an email that he "would not be able to offer any definitive comments in absence of clear data."

The exchange, which is legally incorporated in the Seychelles, was recently in the news after it parked three Lamborghinis outside a virtual-currency conference in New York.

One reason for the abruptness of the move, traders said, was a lack of buyers and sellers ready to step in and trade—a lack of liquidity. Mar-

kets that are less liquid are more prone to abrupt moves.

"Insufficient liquidity in the market added to the rapid increase in price," one U.S. cryptocurrencies trader said in an email.

In a sign of thinning liquidity, bitcoin trading volumes have slumped from the go-go days of late 2017. So far this month, around \$363 million of bitcoin has changed hands on an average day on major exchanges, down from nearly \$2.5 billion a day in December, according to CryptoCompare.

That reflects the fall in bitcoin's price as well as slower

trading activity.

It has been a while since bitcoin had a drastic price move. In December, the average daily price move in the digital currency was 14.6%, according to an analysis of CoinDesk data by the WSJ Market Data Group. But since then, such big price swings have become more unusual: So far in July, daily moves have averaged 4.1%.

It remains to be seen whether the swift rally will draw retail investors back into bitcoin or scare them off. Inflows from small investors were pivotal to bitcoin's huge price run-up last year.

But in recent months, bitcoin has been out of the headlines, and many investors have shifted their attention elsewhere. World-wide Google searches for "bitcoin" peaked the week starting Dec. 17. Last week, Google searches for "bitcoin" were 9% of that record level.

"If the news media isn't covering it and there isn't price direction, people mostly stay on the sidelines," said Kevin Beardsley, a London-based managing director at cryptocurrency-trading firm B2C2.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

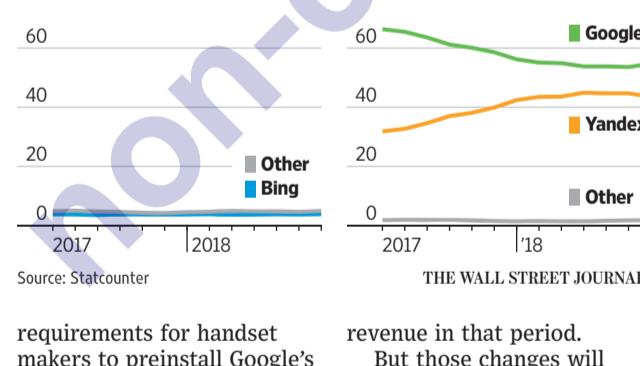
WSJ.com/Heard

Email: heard@wsj.com

Google's Grip on Search Becomes Costly

Piece of the Pie

Market shares for mobile search



Corp. for bundling various services with its Windows operating system. But an EU competition commissioner called a 2007 legal victory against Microsoft "bittersweet" because the suit hadn't actually improved customer choice. The software giant's dominance ended only with a change in technology: Software moved into the cloud, and consumers to mobile phones.

EU Competition Commissioner Margrethe Vestager

might find her crusade

against Google similarly frustrating.

In the absence of a mass-market rival—Apple's iPhone will only ever reach

an affluent consumer base—no amount of unbundling is

likely to erode Google's dominance of services within Android, which is the heir to Windows.

Only a shift in technology, possibly to voice-activated services, is likely to dominate their businesses.

In the PC era, the EU imposed a total of \$2.6 billion in fines against Microsoft

Yandex, which dominates desktop search in Russia, has the scale to compete with the U.S. giant in the mobile world.

Its share of search in the Russian mobile market

has soared since it won a similar court case against Google's bundling of search and Android last year.

But the EU has no comparable company, and Google's overall scale simply makes the company very difficult to dethrone.

Android powers 85%

of the world's smartphones,

according to IDC.

And Google still accounts for more than 90%

of the world's internet search activity, according to Statcounter.

Still, the ruling is a good example of the regulatory risk faced by the world's largest tech companies that

have so far benefited from relatively lax government oversight.

Google's business will survive, but its cost of doing business will rise.

—Dan Gallagher and Stephen Wilmot

OVERHEARD

Waiting at a railroad crossing for a CSX train to pass? Consider grabbing a book—you're going to be there for a while.

CSX reported earnings late Tuesday that came in well above estimates as lower costs allowed more of its revenue to drop to the bottom line.

One big factor behind the cost reduction is that its trains got even longer, allowing train crews to move more freight.

The railroad reported that its average train length rose 13% to 7,241 feet, or about 1.4 miles long. At an average train speed of 17.4 miles an hour, that means it would take about four minutes and 44 seconds for that train to pass you by.

Of course some trains are longer than average, and on some sections of track they run a lot slower. Here's hoping the novel you're reading is a page-turner.

China Groupon Is on Offer—at Full Price

Shopaholic

Pinduoduo's annual active buyers*



than three times the number a year earlier.

So far, scale hasn't translated into returns: Pinduoduo

has yet to make an annual profit. Revenue, mostly from

advertisements on its app, jumped 37 times to \$221 million in the first

quarter. But sales-and-marketing expenses, its biggest cost, more than wiped out gross profit.

That ought to change, given Pinduoduo's rapid user growth. As its brand becomes more recognized, marketing costs will decline.

Still, Pinduoduo's future isn't without risks. Its price-conscious users are unlikely to be loyal if better deals emerge elsewhere. Tencent's

rival Alibaba launched a similar app in March, though it

has yet to do damage.

Investors looking to join the IPO buying group will be paying full price: At \$21 billion, Pinduoduo would trade at 24 times annualized first-quarter sales, well above Alibaba's 13 times.

—Jacky Wong

Morgan Stanley's Reboot Looks Complete

Morgan Stanley is outshining its rivals, justifying its premium valuation.

Major Wall Street banks all generally did well in the second quarter, but Morgan Stanley stood out for its across-the-board performance.

Chief Executive James Gorman's yearslong restructuring and repositioning of the bank has worked.

In the second quarter, net income rose 39% from a year earlier to \$2.4 billion. Fixed income and equity trading both recorded double-digit revenue increases from a year earlier, as did merger advisory and equity underwriting.

This, of course, was all helped by a positive market backdrop, but the sheer consistency of Morgan Stanley's

numbers suggests superior execution over rivals. Return on equity was a solid 13%, at the top end of the company's target range.

Meanwhile, the firm's wealth-management business continued to be a steady earner, collecting more assets and fee-generating flows, and growing revenue by 4% from a year earlier. This provides the company with a certain degree of insurance against a market downturn.

Morgan Stanley, along with Goldman Sachs Group, did suffer an embarrassing setback in this year's Federal Reserve stress tests, and was forced to limit capital returns to last year's level. But within the Fed's strictures the bank chose to raise its

dividend while reducing buybacks, a pro-shareholder move that signals confidence in the stability of earnings.

Morgan Stanley shares aren't cheap at 1.3 times book value, compared with 1.2 times book for rival Goldman.

Goldman remains more geared to cyclical market activity, but Morgan Stanley's recent performance shows its stock has plenty of upside when markets are cooperating, while offering more downside protection when they aren't.

With big uncertainties looming from trade tensions to Fed tightening, Morgan Stanley's steady hand is understandably more appealing to investors.

—Aaron Back

Pinduoduo broke into China's e-commerce scene by offering discounts, but buying its growth won't come cheap.

China's answer to Groupon, the three-year-old company is looking to raise as much as \$1.6 billion—a sum that would peg its value at \$21 billion—though an initial public offering on Nasdaq. Founded by an ex-Goolger, Pinduoduo offers group discounts on consumer goods.

The model has proved to be a raging success, especially in China's poorer cities.

As of June, Pinduoduo had 344 million annual active buyers—that is, users who had bought at least one item in the past 12 months—more