

THE WALL STREET JOURNAL.

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DJIA 25306.83 ▼ 144.23 0.6% NASDAQ 7630.00 ▼ 1.4% STOXX 600 390.92 ▼ 0.3% 10-YR. TREAS. ▼ 4/32, yield 2.975% OIL \$70.13 ▲ \$1.44 GOLD \$1,221.30 ▼ \$1.70 EURO \$1.1707 YEN 111.06

What's News

Business & Finance

GE is seeking a buyer for key parts of its digital business as it unwinds a signature initiative of ex-CEO Immelt that loses money despite billions in investment. A1

◆ The NYSE FANG+ Index, a stock gauge that tracks 10 global technology giants, sank 2.8% and entered correction territory. B1

◆ U.S. stocks fell amid the tech slide, with the Dow losing 144.23 points to 25306.83. The Nasdaq dropped 1.4%. B1

◆ AmEx's foreign-exchange unit recruited business clients with offers of low currency-conversion rates before quietly raising their prices, people familiar with the matter say. B1

◆ CBS's board was in the process of picking an outside law firm to handle an investigation into sex-harassment allegations against Moonves. B1

◆ The cumulative level of Chinese investment in the U.S. dropped in 2017, according to a new report from the Commerce Department. A3

◆ Samsung posted flat second-quarter net, as a big drop in mobile phone profits dragged down results. B3

◆ Caterpillar raised its profit outlook, predicting higher prices and strong sales will cover increased materials costs tied to tariffs. B2

◆ Investors in Puerto Rico's bankrupt electricity monopoly have struck a debt-restructuring deal, inching it closer to privatization. B10

◆ Vivendi said it will try to sell up to 50% of its Universal Music unit in an attempt to cash in on a resurgent recording industry. B4

World-Wide

◆ Trump said he would be willing to meet with Iran's Rouhani without first demanding any diplomatic concessions, an overture that came just a week after the two traded threats. A1

◆ Iran's rial hit a record low against the dollar, extending a slide on concerns about new U.S. sanctions due to be imposed next week. A6

◆ The president has privately agreed to put off a potential government shutdown or any fight over border-wall funding until after the midterm elections, an administration official said. A4

◆ Pompeo said the U.S. is committed to expanding trade and investment in Asia and that it seeks partnership, not domination. A5

◆ North Korea has erected two new buildings at a missile facility in a Pyongyang suburb and appears to be continuing production there. A5

◆ Zimbabweans voted in the first election without ousted强人 Mugabe's name at the top of the ballot. A18

◆ A Malaysian probe into the 2014 disappearance of an airliner had no explanation for what happened. A18

◆ The Koch-founded donor network won't support a GOP contender in a close midterm race in North Dakota. A3

◆ Sixteen universities filed a brief supporting Harvard in a closely watched affirmative-action lawsuit. A2

◆ Eight states sued to block a pro-gun group from distributing files online for making firearms with 3D printers. A3

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U.S. NEWS

Schools Support Harvard on Admissions

BY MELISSA KORN

Sixteen prestigious U.S. universities argued in a court filing that any prohibition on considering race in admissions decisions would be an "extraordinary intrusion" by the federal government, as the schools expressed support for Harvard University in a closely watched affirmative-action lawsuit.

The schools—including all seven other Ivy League institutions and Duke, Emory, George Washington, Johns Hopkins and Stanford universities—filed a friend-of-the-court brief Monday encouraging a Boston federal court to decide in favor of Harvard a 2014 lawsuit that alleges it discriminates against Asian-American applicants.

The case is scheduled to go to trial in October.

The Justice Department is also investigating allegations of discrimination against

Asian-Americans at Harvard.

Admissions decisions are protected by the First Amendment because they are "essentially educational judgments," the schools wrote, and individual institutions have long been granted the right to determine their own parameters of academic freedom.

"Educational institutions have the requisite expertise and the right to make the inherently academic judgments on how to set criteria for their student admissions and in particular, what kind, quality, or extent of diversity will best enhance the educational experience of students and allow those students to flourish," they wrote. "It would be an extraordinary infringement on universities' academic freedom to decree that institutions of higher education cannot consider race at all in seeking to obtain that diversity," they said.

The suit was filed by Students for Fair Admissions, a nonprofit whose members include Asian-Americans denied admission to Harvard. It claims Harvard's admissions process is unconstitutional and illegal under federal civil rights law because it intentionally discriminates against



Harvard's commencement in May. A suit should be decided in Harvard's favor, 16 universities said.

that goal, as the school does, is misguided. In the filing, the plaintiffs reiterated an earlier accusation that Harvard hasn't given serious consideration to race-neutral alternatives for admission, which they say wouldn't be as damaging as the school projects.

Others who filed in support of Harvard on Monday include 37 higher-education associations representing research universities, law schools, private colleges and others.

The Justice Department filed in support of Students for Fair Admissions this spring urging the court to make public a number of documents and data points pertaining to Harvard's admissions policies. A spokeswoman said the Justice Department's probe continues and it "retains the ability to participate in the litigation, as appropriate, to ensure that all individuals are protected from any form of illegal race-based discrimination."

Band Members Toot Their Own Horns in Texas



WITH OR WITHOUT YOU: Members of the Permian High School band set their instruments and water bottles aside while rehearsing in Odessa, Texas, on Monday.

Lawyers Evade Allegations

Continued from Page One

sis, poaching top partners has become one of few ways to boost revenue.

Many firms ask about prior complaints in new-hire questionnaires but do nothing to vet the answers, lawyers say. Firms rarely ask partners for references at their old firm, for fear of alerting competitors that a star lawyer is in play.

"It can be particularly difficult to find out about misconduct in the legal industry," said Christine Chung, a partner at New York-based law firm Selendy & Gay who has been involved with hiring lateral partners from big law firms for almost a decade. "If the person left the old firm for a bad reason, you may not figure it out."

Gibson Dunn & Crutcher partner Jeffrey Reeves departed in December after an investigation into sexual-harassment allegations, the firm said.

Mr. Reeves was the partner in charge of the firm's Orange County, Calif., office in October 2015 when co-workers saw him making out with a junior associate at a Las Vegas nightclub during an office retreat, current and former Gibson lawyers said.

The incident prompted the office to hold mandatory sex-

ual-harassment training and stop serving alcohol at monthly partner lunches, some of the lawyers said. The firm stripped Mr. Reeves of his leadership role in early 2016, though he stayed a partner.

In August 2017, Mr. Reeves called a female associate into his office after going to lunch with her and having several glasses of wine, people familiar with the matter said. He locked the door, dropped his pants, pushed her into a chair, put his hand on the back of her head and made her perform oral sex, they said, adding that she emerged crying after a partner knocked repeatedly on his office door.

An attorney for Mr. Reeves said Mr. Reeves "adamantly denies that any such incident occurred and is shocked by the allegation."

A Gibson Dunn spokeswoman said the firm "promptly investigated allegations when they were brought to our attention in December and acted swiftly" in response, resulting in Mr. Reeves's departure.

Mr. Reeves, who had worked at Gibson Dunn for 26 years, quickly joined litigation boutique Umberg Zipser in January. The next month he moved to a different boutique, Theodora Oringer.

Dean Zipser and Thomas Umberg, founders of Umberg Zipser, didn't respond to requests for comment.

Theodora Oringer Chief Executive Todd Theodora said Mr. Reeves has always been candid and knows his new firm's policies around how to treat col-



leagues. "Jeff has been living up to his strict and solemn promises to us," he said.

While firms often have human-resources departments and anti-harassment policies, partners—more than 75% of whom

are male across the industry—control the workflow and career development of those beneath them. "Too often, those doing the harassing are in positions of power, making it unlikely that the harassment will ever be reported," said Jamie Quaint, who spent a year as president of a San Diego women's bar associa-

tion campaigning against law-firm harassment.

Many firms strive to dole out

fair punishments for misbehavior,

and partners have had ca-

reers derailed because of ha-

rassment allegations.

Yet as in other industries, law-firm management can be

reluctant to punish partners

who generate millions of dollars

in business. Mr. Tanenbaum

was considered a rainmaker

during his long career.

Women who worked with

Mr. Tanenbaum in the past two

decades at Stroock and Morri-

son & Foerster said in inter-

views he created an uncomfor-

table work environment by

giving them impromptu shoul-

der massages, kissing them on

the forehead and, according to

some at Morrison & Foerster,

asking them to "spin around"

for him while commenting on

their bodies and clothing.

Mr. Tanenbaum's spokesman

said he denied giving massages

and that he touched colleagues'

foreheads with his hand or fore-

head if they said they might

have a fever. Mr. Tanenbaum

asked female colleagues to turn

around if he saw an "interesting

detail on the side and back of a

new dress" and complimented

men and women on their ap-

pearance because clients ex-

pected them to be dressed ap-

propriately, the spokesman said.

At Stroock, a female associ-

ate accused Mr. Tanenbaum

of unwanted touching and mak-

ing sexual comments, said people

familiar with the matter. The

complaint resulted in a settle-

ment he personally paid and led

to his 2003 departure from Stroock, said a Stroock spokes-

man.

Soon after, he started at Morrison & Foerster, whose top management had no knowledge of the settlement or prior allega-

tions, said Keith Wetmore, the firm's then-chairman.

Mr. Tanenbaum's spokesman declined to confirm whether he paid a settlement, and said the "alleged accusations" were "untrue." He said Mr. Tanenbaum left Stroock for business reasons.

He provided a list of former colleagues to the Journal,

most of whom said they never

saw Mr. Tanenbaum behave inappropriately and that he helped promote women.

"He never made me feel uncomfortable," said Lailey Rezai, who worked with Mr. Tanenbaum as an associate for two years.

Morrison & Foerster disci-

plined Mr. Tanenbaum at least

twice after formal complaints

about his behavior, a person fa-

miliar with the matter said.

The firm said it hired an out-

side law firm late last year to

investigate after receiving addi-

tional complaints. The firm

asked Mr. Tanenbaum to leave

after the investigation, it said,

adding it has "no tolerance for

that kind of behavior."

Mr. Tanenbaum's spokesman said investigators didn't inter-

view women who worked closely

with him. He said Mr. Tanen-

baum believes the firm's intent

was to get him to retire and pre-

vent him from competing at an-

other firm, which Morrison &

Foerster strongly denied.

ECONOMY

Pending Home Sales Rose 0.9% in June

The number of U.S. existing homes going under contract rose in June, but fell on an annual basis for the sixth straight month.

The National Association of Realtors on Monday said its pending home-sales index, which tracks contract signings for purchases of previously owned homes, increased 0.9% to 106.9 in June from May.

Sales, unless they fall through, typically close within a month or two of signing. The index was down 2.5% in June from a year earlier.

—Sharon Nunn

PENNSYLVANIA

Sex-Abuse Charges For Pediatrician

A Pennsylvania pediatrician faces dozens of child-molestation charges after police say more victims have come forward to allege he sexually abused them, in some cases as their unaware parents were in the room.

The attorney general's office on Monday filed 69 new counts against Johnstown physician Johnnie Wilson Barto, whose license was suspended after his January arrest. The 70-year-old is in Cambria County Prison. His attorney hasn't returned messages seeking comment.

—Associated Press

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CORRECTIONS & AMPLIFICATIONS

Consumer spending contributed 3.1 percentage points to U.S. gross domestic product in 2014's fourth quarter, the highest amount since the beginning of the current economic expansion. A U.S. News graphic Saturday that illustrated contributions from consumer spending to GDP incorrectly said the highest

contribution was 5.1 percentage points in second quarter 2014.

Reuters provided a U.S. Watch article Saturday about gun-control groups' efforts to block access to blueprints for 3-D printable guns. The article was incorrectly credited to the Associated Press.

U.S. NEWS

China's Total Investment In U.S. Falls

Drop in 2017 contrasts with rise in overall value of the American assets that foreigners hold

By JOSH ZUMBRUN

The cumulative level of Chinese investment in the U.S. declined in 2017, according to a new Commerce Department report, showing Chinese investors' enthusiasm for American assets was waning even before trade tensions ramped up.

China's total direct investment position fell to \$39.5 billion in 2017 from \$40.4 billion the year before, according to the report.

China's appetite for U.S. investment had picked up in recent years, nearly quadrupling from 2014 to 2016. Yet despite some high-profile transactions and rapid growth, China isn't a large investor in the U.S., making up less than 1% of the more than \$4 trillion of foreign direct investment in the country last year.

Beijing maintains tight controls on capital that have held down outward investments from China and tightened those controls last year.

Still, China's decline stood out for two reasons. First, because of rising trade tensions

between the two nations. Second, because the overall foreign direct investment position in the U.S. continued to increase last year, rising by \$260.4 billion in 2017, according to Monday's report, leaving China an outlier. The Commerce Department said the overall increase "mainly reflected" increased investment from Europe, "primarily Ireland, Switzerland and the Netherlands."

Investment in the U.S. from Canada also rose last year, by about \$72.4 billion, and increased by smaller amounts from the Middle East and Latin America. Despite declining investment from China, investments in the U.S. from the rest of Asia rose by \$56.7 billion, driven by increases from Japan and South Korea.

The total stock of investment was 6.9% higher in 2017 than a year earlier, a marked deceleration from double-digit increases in 2015 and 2016, but on par with the pace of increase earlier this decade. Preliminary data for the first quarter of 2018 have indicated that new investment may be slowing further this year, though the data can be choppy.

The U.S. increased its investments in the rest of the world, too, with U.S. direct investment abroad rising by \$427 billion. U.S. investments internationally mainly went to Europe. And U.S. investment increased in China, rising by about \$10.3 billion to \$107.6 billion.

Although investment from China to the U.S. is small overall, it has been of special concern for the White House and Congress. The administration considered a plan this year to restrict Chinese investment into the U.S., ultimately deferring to a congressional initiative to bulk up the committee that reviews proposed foreign takeovers of U.S. businesses and can recommend the president block such takeovers.

"We've never had enough women" in the House, said Rep. Susan Brooks (R., Ind.), who is backing Mrs. Nickloes. "Our challenge often—which was my challenge in 2012—is getting through a crowded primary," she said, referring to when she was first elected to the House.

Despite their efforts, the gender gap between the two parties in the House is expected to widen regardless of the outcome.

Rep. Cramer noted that

our numbers tick up," Ms. Stefanik said.

Defending Main Street, the super PAC affiliated with the Republican Main Street Partnership, a group that champions pragmatic Republicans, is spending around \$100,000 on digital and television ads that went on air this month touting Mrs. Nickloes. And Winning for Women, a group that sup-



House Republican women have rallied around Ashley Nickloes, who is running to succeed retiring GOP Rep. John Duncan in Tennessee.

GOP Women Try to Stem Declines

By KRISTINA PETERSON

ALCOA, Tenn.—With more than a quarter of the current 23 House Republican women leaving Congress after this year, GOP women are working to replenish their ranks in primary elections like Thursday's show-down in this Knoxville district.

House Republican women and groups aiming to get more of them elected have rallied around GOP candidate Ashley Nickloes in eastern Tennessee. They have donated money, doled out advice and funded ads on behalf of Mrs. Nickloes, an aircraft commander in the Air Force and Tennessee Air National Guard member who is running to succeed retiring GOP Rep. John Duncan.

"We've never had enough women" in the House, said Rep. Susan Brooks (R., Ind.), who is backing Mrs. Nickloes. "Our challenge often—which was my challenge in 2012—is getting through a crowded primary," she said, referring to when she was first elected to the House.

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Rep. Cramer noted that

come in Tennessee this week. Far more Democratic women are running—and winning—in primaries so far this year.

In House primaries this election cycle with at least one woman and one man running, and without an incumbent, 66% of Democratic women have so far won their races, or 70 out of 106 contests, according to the nonpartisan Cook Political Report. By contrast, only 38% of GOP women have won open primaries this year, or 11 out of 29 races.

Already, female lawmakers make up 33% of the House Democratic caucus, while white men are just under 40%, according to GOP lobbyist Bruce Mehlman's analysis of data from LegiStorm, which tracks Congress. By contrast, white men make up almost 87% of the House GOP.

"While it's not clear Democratic women will overtake white men as a share of their caucus this November, they will soon. The Democratic Party is increasingly reflecting the broader American population," Mr. Mehlman said. "We Republicans are lagging behind."

Rep. Cramer noted that

their recruitment of female candidates has increased. In this election cycle, 120 female GOP candidates filed to run for House seats, compared with 47 in the 2016 elections, said an aide to Rep. Elise Stefanik (R., N.Y.), the first female recruitment chair of the House Republicans' campaign arm.

"Given in particular some of the retirements, I think it's really important to make sure

ports female GOP candidates, began airing digital ads backing her on Friday.

When Sherri and George Crum saw Mrs. Nickloes' lawn signs at a Blount County GOP rally last week, they weren't entirely sure who she was. After talking to her, they said they walked away impressed.

"I love that she's currently in the military and that she's a pilot," Mrs. Crum said. "She has a very good chance of getting our vote."

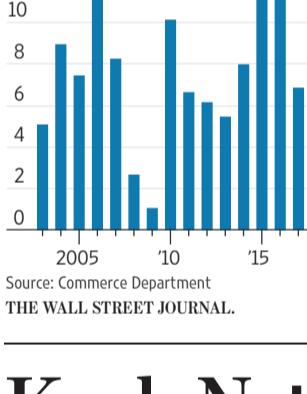
Her most serious rivals include Jimmy Matlock, a member of the Tennessee state House; businessman Jason Emert, who recently aired an ad showing him building a symbolic border wall in his backyard; and Tim Burchett, the outgoing Knox County mayor.

Mrs. Nickloes is hoping her military experience can help her carve out a niche in the crowded GOP field.

"My view from 18,000 feet [flying] over Iraq, Syria and Afghanistan is much different than the view from Washington," she said in an interview last week. "It's much different from the view of the individuals I'm running with in this race."

Slowing Down

Annual percent change in the total foreign direct investment position in the U.S.



◆ China's plans for tech homecoming stall..... B10

Source: Commerce Department
THE WALL STREET JOURNAL.

up to lead, that makes it hard to support him," said Tim Phillips, president of Americans for Prosperity, the Koch network's political arm, on the final day of a semiannual gathering of more than 500 donors at a luxury resort here. "We're raising the bar."

There has been a lot of talk about the political price paid by Republicans for not hewing to President Trump's agenda. This is a rare case of a threat from adherents of the GOP orthodoxy Mr. Trump has upheld.

A White House representative wasn't immediately available to comment.

Mr. Cramer said in a statement that he respects the Koch network decision.

He said that he has sup-

ported "tax cuts, jobs creation, patient-centered health care, strong borders, free, fair and reciprocal trade, and a strong military and veterans' care."

"My voting record may not be exactly what every national organization wants, but it is exactly what the majority of North Dakotans expect," he said.

Mr. Cramer, a three-term congressman, campaigns as a strong ally of Mr. Trump. He recently tweeted in favor of the Trump administration's announcement that it would give \$12 billion to farmers following retaliatory steps by U.S. trading partners over tariffs imposed by the president on a range of imports.

A Koch network official called the aid a "bailout of bad

policy," and the Koch network said Sunday it has launched a radio ad campaign against it. Koch aides also said Mr. Cramer bucked Koch views on spending.

Although Mr. Cramer was singled out Monday, Charles Koch and his top aides signaled at the three-day event that they were unhappy with a number of Republicans, and said GOP candidates shouldn't automatically count on the network's support.

Koch network officials are still weighing which Republicans to support and the Koch political arm is currently active in only three—Tennessee, Florida and Missouri—of the eight toss-up Senate races, according to details released by the network.

Koch Network Won't Back Republican

By JENNIFER LEVITZ

COLORADO SPRINGS, Colo.—The conservative donor network founded by the billionaire Koch brothers won't support a GOP contender in a close congressional midterm race, saying he doesn't follow Koch ideology on spending and tariffs.

Network leaders, who promote small government and are against tariffs, said Monday the group will sit on the sidelines in North Dakota, where the prospect of a trade war is worrying export-dependent farmers. Democratic Sen. Heidi Heitkamp is vying for a second term in a race against Republican Rep. Kevin Cramer there.

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up to lead, that makes it hard to support him," said Tim Phillips, president of Americans for Prosperity, the Koch network's political arm, on the final day of a semiannual gathering of more than 500 donors at a luxury resort here. "We're raising the bar."

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States Sue to Block 3-D Printed Gun Files

By ZUSHA ELINSON

Eight states filed suit Monday to block a pro-gun group from distributing files online for making firearms with 3-D printers.

A recent settlement between the group, Defense Distributed, and the State Department that allowed the files to be posted has spurred outcry from gun-control groups and Democratic lawmakers. They say it will allow people to avoid background checks by using 3-D printers to make their own guns at home.

"These downloadable guns are unregistered and very difficult to detect, even with

metal detectors, and will be available to anyone regardless of age, mental health or criminal history," said Bob Ferguson, Washington state's attorney general who filed the suit on behalf of the other states.

The suit was filed in federal court in Seattle and seeks a temporary restraining order to block the files from being posted online.

Cody Wilson, who runs Defense Distributed, said the group will fight the suit. For years, Mr. Wilson has sought to make it possible for anyone to make their own gun, telling The Wall Street Journal in 2013 that it "represents the total liberation of access to firearms."

Missouri Boat Operator Is Accused of Ignoring Warnings

By KRIS MAHER

The relatives of nine family members killed in a Missouri boating accident sued the operators of the duck-style tour boat, saying the companies failed to heed warnings about the vessels.

The estates of Ervin Coleman, who was 76 years old, and Maxwell Coleman, who was 2, filed a 43-page federal lawsuit Sunday against Ride the Ducks Branson and its parent company, **Ripley Entertainment Inc.**, in the U.S. District Court for the Western District of Missouri Southern Division.

Lawyers for the family said the companies ignored a National Transportation Safety Board safety recommendation to the industry following a 1999 accident in Arkansas in which 13 people were killed. The agency said at the time that companies should provide more buoyancy, such as water-

tight compartments, to ensure boats remained upright and afloat in the event of flooding, according to the lawsuit.

The lawyers said the defendants were also told in August 2017 by an inspector that their boats might fail in bad weather because of the placement of their bilge pumps and exhaust systems. "Despite countless explicit warnings, Defendants repeatedly chose to value profits over the safety of their passengers," the lawyers wrote.

The family is suing for wrongful death and negligence, among other claims, and is seeking punitive damages.

Suzanne Smagala, a spokeswoman for Ripley Entertainment, said the company couldn't comment on the lawsuit while the NTSB investigation into the accident was under way. "We remain deeply saddened by the tragic accident that occurred in Branson and we are supportive of the affected families," Ms.



The duck-boat sinking on Table Rock Lake in Branson, Mo., this month killed 17 of 31 people aboard.

NATHAN PAES/S/SPRINGFIELD NEWS-LEADER/ASSOCIATED PRESS

U.S. NEWS

Lessons on Civil Discourse From Duluth, Minn.

**CAPITAL JOURNAL**

By Gerald F. Seib

The decline of civility in political debate was alarming. Harsh rhetoric was getting in the way of resolving bitter disputes.

Worse yet, the nasty tenor of political discourse was so turning off young people that they were walking away from it, saying they didn't want to get involved in such a nasty process.

Sounds like Washington today, right? Actually, it was Duluth, Minn., more than a decade ago as tensions rose over local budget strains. Then, as now on the national political stage, nastiness was becoming

the norm, preventing well-intentioned people from coming together to solve problems.

The difference is that Duluth decided to do something about it. Civic leaders launched something called Speak Your Peace: The Civility Project. They drew up a list of nine guidelines for civilized debate so simple they could and did fit on a wallet card.

Then, a funny thing happened. People took the idea to heart. All six major units of regional government—city and county boards and school districts—adopted the guidelines. As debate improved, so did the process of addressing problems.

Today, Duluth's mayor, Emily Larson, credits the civility project for helping the city work through an emotional, two-year debate over a new ordinance requiring employers to offer paid sick leave, which was adopted in May.

Is it naive to think that the experience of a city of 86,000 can be useful on a national scale? Perhaps. And maybe

Minnesotans are just nicer than the rest of us.

But something like this is needed on a national scale. It is a sign of the declining tenor of national debate that people can't even agree on when the slide into true nastiness began. Republicans like to say it started with the trashing of Supreme Court nominee Robert Bork in the 1980s. Democrats like to say it started with the televised jihad backbencher Newt Gingrich launched against Democratic House of Representatives leaders shortly thereafter.

There is no denying the slide accelerated when presidential candidate Donald Trump turned insult into art form in the 2016 campaign, with "Lyin' Ted Cruz" and campaign rally chants declaring that his opponent shouldn't merely be defeated but thrown in jail.

Now Trump appointees are being verbally accosted in public places, and the press covering President Trump was treated so rudely by the crowd at a Veterans

of Foreign Wars convention last week that the VFW felt the need to publicly disavow the behavior. We haven't reached the point of mob violence, but sometimes it doesn't seem far off.

So Duluth's experience is worth a look, if only because it shows that such a slide is neither inevitable nor un-

The goal, local leaders in Duluth say, is decidedly not to stifle debate.

stopable.

The city's problems, as is so often the case, were rooted in economic anxiety. At the turn into the new millennium, the region was feeling the same kind of decline that was affecting the nation's Rust Belt. A steel plant had closed. The arrival of immigrants had exacerbated tensions.

Economic trouble landed

the city on precarious financial terrain. There was talk of bankruptcy. Most immediately, a generous health-insurance plan for city workers seemed unsustainable.

The debate over whether and how to end that insurance plan and take other belt-tightening measures turned rancorous, including nasty exchanges at open public meetings. "Rather than working on solutions we started fighting with each other," says Rob Karwath, former executive editor of the Duluth News Tribune. "I thought, 'Jeez, Garrison Keillor didn't tell me about this part of Minnesota!'"

The incivility threatened to actually drive people away from the area, some feared. So a regional development group, the Duluth Superior Area Community Foundation, stepped in to try to calm the waters.

It convened a group of local leaders who came up with nine core principles that it declared should prevail in public debate. They are easy

to list: Pay attention, listen, be inclusive, don't gossip, show respect, be agreeable, apologize, give constructive criticism, take responsibility.

Those ideas grew into a broader civility program that has spread around the country. The goal, local leaders say, is decidedly not to stifle debate. "This is not a campaign to end disagreements," says the Speak Your Peace website. "It is a campaign to improve public discourse by simply reminding ourselves of the very basic principles of respect."

In fact, Mayor Larson says the key effect may not even lie in how people talk. "To me," she says, "civility is about truly listening." By actually listening, she says, people discover they have some common ground, which "lays the groundwork for the next conversation."

It isn't nirvana; a recent visit by Mr. Trump to Duluth proved divisive in the community. Still, as the tenor of debate improved, so did Duluth's prospects and finances.



Judge Brett Kavanaugh, who has been nominated to the Supreme Court, headed to a meeting Monday with Sen. Joe Manchin (D, W.Va.).

Trump Agrees To Delay Fight On Funding Wall

BY PETER NICHOLAS AND KRISTINA PETERSON

WASHINGTON—President Trump has been threatening to close down the government if Congress doesn't meet his immigration priorities, but he has privately agreed to put off a potential shutdown or any fight over border-wall funding until after the midterm elections, an administration official said Monday.

In recent days Mr. Trump has been warning that he will accept a shutdown when government funding expires on Sept. 30 unless Congress toughens the nation's immigration laws and comes up with more money for a wall on the Mexican border.

Speaking at a news conference on Monday, he said: "I would have no problem doing a shutdown." Asked how much would be an appropriate amount to spend, Mr. Trump said he would "leave room for negotiation."

His comments followed a tweet he sent out Sunday issuing a similar threat.

Mr. Trump discussed the budget standoff last week in an Oval Office meeting with top aides and Senate Majority Leader Mitch McConnell (R, Ky.) and House Speaker Paul Ryan (R, Wis.). Mr. Trump supports a plan to avert a shutdown before the election by passing some less-controversial spending bills and a short-term patch that would keep the rest of the government running, the administration official said.

"The president made it very clear to the leadership that a

fight was coming and he's done putting it off," the administration official said. Still "he understands the political practicalities of having to put it off until after the election but it's coming in early November and early December." He added: "The president sees merit in having this battle after the election."

One possibility under discussion is coupling more modest immigration law changes with some of the near-term spending bills needed to keep the government running, to show some progress on the issue.

Mr. Trump promised during the campaign to build a wall along the country's southern border as part of his plan to be tougher on immigration. The president said Monday he had no "red line" on what would satisfy his funding demands, but has previously indicated he wants \$5 billion in the next fiscal year for the wall.

Republicans have privately pleaded with the president to avoid triggering a shutdown before the midterm elections. GOP leaders fear their party would be blamed for shutting down the government, potentially costing them votes during a year in which the party risks losing control of the House and defends a narrow majority of 51 out of 100 seats in the Senate.

Mr. Trump's comments were made during a joint news conference at the White House with Italian Prime Minister Giuseppe Conte, who was in Washington for private talks and an expanded bilateral meeting.

Baker Hughes.

The two businesses, together with a railroad unit that is being sold, accounted for a third of GE's \$122 billion in revenue last year. GE has said its yearlong portfolio review is complete and it is essentially done with plans to sell \$20 billion in assets.

Other industrial companies like Honeywell International Inc. and Siemens AG, along with smaller firms, are using software to help customers get more life out of heavy machinery—while avoiding unplanned outages—by using complex data and models to predict how the equipment will perform.

"It is imperative to have some kind of differentiated digital industrial strategy and capability," said UBS analyst Steve Winoker. It both helps sell the equipment and brings in lucrative recurring revenue that comes from maintenance and service.

But at GE, "the hype engine went faster than their ability to deliver," he said. "The first priority should be using the software to help drive your own sales."

—Steven Norton contributed to this article.



RICHARD DREW/ASSOCIATED PRESS

Since taking the helm at General Electric, CEO John Flannery has scaled back the mission for GE Digital.

Other software companies and other industrial players seeking to become more digital-focused, one of the people said.

GE's digital push included ramping up research spending and hiring thousands of programmers to develop software for the massive machinery it sells. In 2016, the company

spent more than \$4 billion developing tools like analytics and machine-learning software. The effort was also at the heart of the company's advertising, which touted GE as a driver of a new "digital industrial" age.

Unlike most manufacturers, GE initially built its own oper-

ating system from scratch rather than partner with a tech firm.

The company designed software to crunch data from its jet engines and power turbines to avoid outages and schedule maintenance, then set out to sell similar tools to its customers and other manufacturers.

GE later partnered with Amazon.com Inc. and Microsoft to run its software on their cloud services.

Trying to build out its own cloud infrastructure, essentially replicating the expertise of companies like Amazon or Microsoft, was challenging, said Chris Voce of Forrester Research.

Running such a large-scale operation "both cheaply and effectively is no small task," Mr. Voce said. "When trying to build a software platform on the side, that's a tremendous undertaking."

GE is now embarked on a companywide restructuring, sparked by a precipitous decline in its shares last year that hasn't let up in 2018. The company said in June it would spin off its health-care division and sell its ownership stake in oil-services company

Nominee, Democratic Senator Meet

BY BYRON TAU

WASHINGTON—Supreme Court nominee Brett Kavanaugh had his first meeting with a key Senate Democrat on Monday, as Republicans and their allies ratcheted up the pressure on the most vulnerable of their opponents up for re-election in GOP-leaning states.

Judge Kavanaugh spent about two hours on Capitol Hill behind closed doors with Sen. Joe Manchin, a West Virginia Democrat running for re-election in a state President Trump won by 42 percentage points in the 2016 election.

So far, other Senate Democrats have declined to meet with the nominee to succeed retiring Justice Anthony Kennedy, saying they wanted a

commitment from Senate Republicans to turn over tens of thousands of pages of documents from Judge Kavanaugh's career before they agreed to participate in the bipartisan courtesy meetings that are a traditional part of a Supreme Court nomination.

Mr. Manchin is one of a handful of Senate Democrats who have expressed openness to supporting Judge Kavanaugh despite a fierce campaign from progressive activists urging the Senate to reject Mr. Trump's nominee over his jurisprudence on hot-button issues like campaign finance, labor law, abortion rights and corporate power.

"I think it's irresponsible to announce your position minutes after the nominee is announced," Mr. Manchin said in

a statement after the meeting. "I will not make a final decision on Judge Kavanaugh's nomination until I complete a thorough and fair examination of his candidacy."

Republicans and their allies are running their own pressure campaign designed to win over wavering Democrats to support a nominee that they say is highly qualified and mainstream. Other Democratic targets in the Senate include Heidi Heitkamp of North Dakota, Joe Donnelly of Indiana, and Bill Nelson of Florida. Conservative groups have been airing ads against the trio, urging them to support Judge Kavanaugh.

Mr. Manchin, along with Ms. Heitkamp and Mr. Donnelly, crossed party lines last year to confirm Mr. Trump's

nominee to the court, Neil Gorsuch.

On the Republican side,

only two senators are still seen as possible swing votes.

Sens.

Lisa Murkowski of Alaska and Susan Collins of Maine both support abortion rights and have said they want clarity on Judge Kavanaugh's position on the issue before committing to support him.

Judge Kavanaugh shored up his GOP support Monday after Sen. Rand Paul endorsed his nomination. Mr. Paul, a Kentucky Republican with a libertarian streak who occasionally defies his party on major votes, had expressed concerns about Judge Kavanaugh's views on civil liberties and privacy and suggested that he might not support the nominee.

GE to Shed Parts of Digital Unit

Continued from Page One to make GE a top-10 software company by 2020.

In the fall of 2016, GE acquired several companies to bolster its GE Digital unit. It paid \$495 million for Meridium, a Roanoke, Va., company whose software predicts when machinery might fail, and \$915 million for ServiceMax, a Pleasanton, Calif., company whose software helps with inventory management and workforce scheduling. Executives predicted at the time that GE Digital would hit \$15 billion in software sales by 2020 with half of that coming from providing Predix applications for the electricity industry.

But the unit, which GE poured billions into, competes in an increasingly crowded marketplace of companies offering digital tools to control major industrial operations.

Other competitors in the field include cloud-software providers like Microsoft Corp., business-software makers like International Business Machines Corp. and startups such as C3 IoT and Uptake Technologies Inc.

Since taking over for Mr. Immelt, GE's current CEO, John Flannery, has scaled back the mission for GE Digital. The company has cut jobs in the division and said it planned to focus on software for its existing customers and core businesses, rather than catering to other industries. Mr. Flannery said earlier this year that he expected revenue from Predix products would double this year to about \$1 billion and that he wanted GE Digital to break even by 2020.

The company has said its digital business generated \$4 billion in revenue last year, up 12% from 2016. Not all of that activity would go to a buyer as GE is expected to continue providing software and services to its aviation and power customers.

It isn't clear what exactly is for sale and how much a deal could generate.

While the process is at an early stage, possible buyers in

clude software companies and other industrial players seeking to become more digital-focused, one of the people said.

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—Steven Norton contributed to this article.

WORLD NEWS

U.S. Aims to Boost Asia Trade Ties

Pompeo says Trump administration is committed to deeper regional engagement

By COURTNEY McBRIDE

WASHINGTON—Secretary of State Mike Pompeo said the U.S. is committed to expanding trade and investment in Asia, while assuring potential strategic and trade partners the U.S. wanted partnership, not domination.

In a speech at the Indo-Pacific Business Forum hosted by the U.S. Chamber of Commerce, Mr. Pompeo called for the region to remain “free and open,” an implicit challenge to China’s approach to its neighbors.

“The Trump administration is committed to expanding our economic engagement in the Indo-Pacific region,” the secretary said Monday. “We believe in strategic partnerships, not strategic dependency.”

The secretary made his case to a business community that has been skeptical of the administration’s position on trade. Prior to Mr. Pompeo’s remarks, Chamber President and CEO Thomas Donohue emphasized the importance of trade with and investment in the Indo-Pacific, describing the area as “the fastest-growing and most-dynamic region on earth.”

Mr. Donohue said there had been more than 150 bilateral or regional trade agreements among Indo-Pacific nations, in contrast with “just three free-trade deals” by the U.S. in the region, a reference to bilateral agreements with Australia, Singapore and South Korea.

“If we don’t get busy inking more deals and opening back up to the region, we’ll be left on the outside looking in,” Mr. Donohue said before introducing Mr. Pompeo. He touted the willingness of the private sec-



Secretary of State Mike Pompeo, seen arriving at the Indo-Pacific Business Forum, said the U.S. won’t seek dominance in the region.

The American business community has been skeptical of President Trump’s tack on trade.

tor to collaborate with the administration in negotiating “new trade agreements with high standards.”

Immediately after taking office, President Trump withdrew the U.S. from the Trans-Pacific Partnership, or TPP, a pact that would have governed commerce among the U.S., Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico,

New Zealand, Peru, Singapore and Vietnam.

The remaining 11 countries in the TPP subsequently formed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which incorporates much of the original agreement.

The secretary acknowledged that some may question the U.S. role in the region in light of the TPP withdrawal, but assured the audience the administration is committed to the Indo-Pacific and is working “to craft better, higher-standard bilateral trade agreements.”

Mr. Donohue called for the United States to “recommit to openness,” bolstering existing

agreements and overcoming barriers to trade erected by countries in the region. He noted “the [TPP] is moving forward without us,” while the European Union and Japan have signed a trade agreement that eliminates billions in bilateral tariffs.

Addressing the audience of business leaders, diplomats and senior administration officials, Mr. Pompeo said that the U.S. “has played a foundational role in enabling the growth and wealth that we see across the entire Indo-Pacific today.”

The U.S. “will not seek dominance in the Indo-Pacific, and will oppose any country that does,” he said.

That work will continue, he maintained, as “it is clearly in America’s strategic interest to deepen engagement in the Indo-Pacific region.”

The references to the Indo-Pacific region reflect the U.S.’s ongoing symbolic nod toward India.

In May, the U.S. military changed the name of the military headquarters covering Asia and the Pacific Ocean from Pacific Command to Indo-Pacific Command. The Trump administration began using the term “Indo-Pacific” last year for the region known for many years as the Asia-Pacific, though it also has previously been called “Indo-Pacific” as well.

Pyongyang Expands Missile Site Facilities

By JONATHAN CHENG

SEOUL—North Korea has constructed two new buildings at a missile facility in the northern suburbs of Pyongyang and appears to be actively continuing production there, according to an analysis of newly available commercial satellite imagery, the latest sign of continued progress in the country’s nuclear and missile program.

The satellite imagery, which was captured Sunday by San Francisco-based imagery provider **Planet Labs** Inc. and analyzed by experts at the Middlebury Institute of International Studies at Monterey, Calif., shows two buildings—believed to be an administrative building and a museum—newly erected at the site.

On June 5, days before North Korean leader Kim Jong Un flew to Singapore for a meeting with President Trump, the site of the two buildings was vacant, suggesting that most of the construction took place following the summit.

In addition to the construction activity, analysis of more than 40 satellite images taken this year shows consistent vehicle traffic at the site, which suggests that “the North Koreans continue to show up for work,” said David Schmerler of the Middlebury Institute.

Signs of continued routine activity at the facility, located in the Sanum-dong neighborhood in northern Pyongyang, were reported Monday by the Washington Post, based on satellite imagery analyzed by unnamed U.S. intelligence officials in recent weeks. The Post also quoted unnamed intelligence sources as saying Pyongyang was actively constructing new intercontinental ballistic missiles at the site.

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WORLD NEWS

Italy Threatens EU-Canada Trade Accord

Antiestablishment government vows to seek a parliamentary veto of the deal

By GIOVANNI LEGORANO

ROME—Italy's new government wants to reject a painstakingly negotiated trade deal between the European Union and Canada, and that is welcome news to Ettore Prandini, a small farmer in Italy's fertile north.

Mr. Prandini, who sells milk to producers of the famed Grana Padano cheese, says his revenue is set to fall by a fifth this year compared with last. He blames the Comprehensive Economic and Trade Agreement, or CETA, which late last year eliminated tariffs between the EU and Canada on many products.

The dairy farmer objects to his Canadian counterparts now being able to compete more aggressively in Europe by offering cheeses similar to Italy's. "The food industry is a key asset for this country," Mr. Prandini said. "It must be protected."

Such complaints from small farmers have prompted Italy's new government, a coalition of the antiestablishment 5 Star Movement and the nativist League, to say it will vote down CETA in Parliament, although it has set no date for doing so. The agreement came into provisional and partial effect in September. To make the trade deal permanent and fully effective, all EU member states must ratify it. If one EU country rejects it, the whole deal is annulled.

CETA continues to be in effect for now, but the threat looms that Italy's dominant



Italians protested in Rome last month against the Comprehensive Economic and Trade Agreement between Canada and the EU.

populist parties could shoot it down. The failure of the accord would deal a heavy blow to the EU's hopes of strengthening rules-based global trade by reaching similar agreements with other partners.

The 5 Star Movement and League have long expressed skepticism toward free trade, globalization, multilateralism and the EU, though neither party is pushing for Italy to leave the bloc. The two parties have vowed to protect small Italian producers such as Mr.

Prandini from trade deals they say more likely benefit big corporations. They are also challenging the EU's attachment to open, competitive markets by pledging greater government intervention to protect Italy's airline and banking sectors.

"The narrative goes that if you look after Italian products on markets, if you try to defend a sector, you are populist, anti-European and anti-West," the 5 Star Movement's leader Luigi di Maio said this month

at a meeting of Italian farmers' association Coldiretti, which has campaigned fiercely against CETA. "Other countries do their job. It is we who have to defend Italy and the Italian economy."

EU data suggest Italy is already benefiting from CETA. Overall Italian exports to Canada have risen by 2% in the eight months since the trade pact came into provisional effect, compared with the year-earlier period. Italian exports of food and livestock to Can-

ada have fared even better, growing by 12%.

Italy's main business lobby Confindustria supports the trade agreement and is lobbying the government to help the EU stand up for free trade at a time when the U.S. has raised tariffs on some imports and is threatening to raise others.

But Coldiretti, which represents farmers exporting around €40 million (\$46.8 million) worth of goods to Canada out of total Italian exports to Canada of €3.9 billion last year, says

PATRIZIA CORTELESSA/PACIFIC PRESS/ZUMA PRESS

Growing Bounty

Change in exports from Italy to Canada from Oct. 2017-May 2018 and the same period the previous year

Food

11.9%

All items

2.1%

Source: Eurostat
THE WALL STREET JOURNAL.

there are already signs the trade deal is penalizing its members.

Exports to Canada of cherished Italian cheeses Parmigiano-Reggiano and Grana Padano dropped by 10% in value in the first quarter, compared with a year earlier, Coldiretti says. Total Italian cheese and dairy exports to Canada fell 2% over the period.

Of all 28 EU countries, Italy has the largest number of food products with so-called protected designations of origin. CETA recognized more than 40 of these Italian protected labels, out of a total of around 250. Coldiretti says that isn't enough and that CETA lets Canada sell cheeses in Europe with Italian-sounding names such as "Parmesan" or "Gorgonzola."

Mr. Prandini says competition from Canadian Parmesan has led to a 15% price drop for high-quality Grana Padano, which in turn has pushed down the price of milk.

—Emre Peker in Brussels contributed to this article.

Trump Would Talk With Tehran

Continued from Page One

dent Xi Jinping, after accusing Beijing of manipulating its currency and "raping our country" on trade. He privately met for more than two hours with Russian President Vladimir Putin in Helsinki earlier this month after his top intelligence officials identified Moscow as responsible for attempting to disrupt U.S. elections in 2016 by hacking into emails of American citizens and aiming to undermine state election processes.

In a national-security document, unveiled in December, the president identified Russia, China, North Korea and Iran as among the main threats to American security, prosperity and allies.

"I'll meet with anybody," Mr. Trump said at a news conference with Italian Prime Minister Giuseppe Conte, when asked about his willingness to sit down with Mr. Rouhani. "I believe in meeting."

Asked if he would set any conditions before sitting for such talks, Mr. Trump said, "No. If they want to meet, I'll meet."

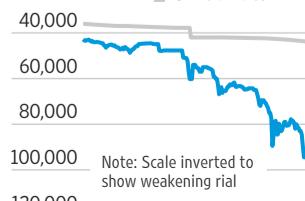
Iranian officials in Tehran and at the United Nations didn't immediately respond to a request for comment. Mahmoud Vaeiz, Mr. Rouhani's chief of staff, told reporters this month that Mr. Trump was repeatedly rebuffed at the U.N. General Assembly last year when he sought meetings with the Iranian president, according to the semiofficial Mehr news agency.

He also said Iranians "will not yield to pressure," unlike North Korea.

Currency Crisis

Economic turmoil and upcoming U.S. sanctions have driven Iran's rial to a record low.

How many Iranian rials \$1 buys



Sources: Bonbast.com (free-market rate); Iran's central bank (official rate)

THE WALL STREET JOURNAL.

Italy's Leader, Trump Discuss North Africa Security



President Trump met on Monday with Prime Minister Giuseppe Conte, the leader of a new government in Italy that has pledged to stop mass migration. The two leaders discussed working jointly on security in the Mediterranean and efforts to stabilize Libya and North Africa.

grab the news cycle. But Supreme Leader Ali Khamenei isn't big on reality TV, or meeting with Americans. He won't bite."

Last week, Messrs. Trump and Rouhani swapped public taunts, escalating security concerns between the two nations when Mr. Rouhani warned the Trump administration against continuing hard-line policies against Iran. In comments that were tougher than usual for an Iranian president seen as a moderate, Mr. Rouhani said that "war with Iran is the mother of all wars."

Mr. Trump responded with his own post on Twitter, emphasizing that Iran would "SUFFER CONSEQUENCES THE LIKES OF WHICH FEW

THROUGHOUT HISTORY HAVE EVER SUFFERED BEFORE."

During Monday's news conference, Mr. Trump drew a parallel between his summits with Messrs. Kim and Putin and a potential meeting with Iranian officials, saying that Pyongyang hasn't fired a missile in months and that he made progress with Moscow over "protecting Israel and protecting everybody."

"Especially when you're talking about potentials of war and death and famine and lots of other things, you meet," Mr. Trump said.

Mr. Trump repeatedly has insisted that he is prepared to engage diplomatically with Iran and appeared to be modeling policy toward Tehran on

the maximum pressure campaign that brought Pyongyang to the bargaining table.

But the demands the Trump administration has presented for any new Iran nuclear deal would require Iran to cease its support for militant groups in the Middle East and stop enriching all uranium, a stipulation that is stricter than the 2015 Iran accord.

Some experts outside government believe that while Mr. Trump talks of diplomacy, the goal of other senior officials is to use sanctions to weaken and perhaps even destabilize the Iranian regime.

Mr. Pompeo and national security adviser John Bolton have said Washington doesn't have a policy of regime change

but rather is reimposing sanctions to persuade the regime to pull back from its aggressive posture in the region—the deployment of forces in Syria to support President Bashar al-Assad and, U.S. officials say, the provisions of weapons to the Houthis in Yemen.

Mr. Trump's attack on the nuclear deal has undercut Iran's moderates, who were the driving force behind that diplomacy within the Iranian system. They saw the easing of sanctions that came along with that deal as key to the country's prosperity, over the objections of hard-liners suspicious of the U.S. and the West.

Mr. Trump's antagonism toward Iran and withdrawal from the nuclear deal has also led Mr. Rouhani to amplify hard-line rhetoric as he tries to salvage his political career. Mr. Rouhani threatened early this month to disrupt oil shipments through the Strait of Hormuz if the U.S. cut off its oil exports—the sort of invective often unleashed by hard-liners but rarely by moderates like Mr. Rouhani.

Before the Trump administration pulled out of the nuclear deal, it tried to establish a back channel with Iran to negotiate over the release of other prisoners still held by the nation. Iran didn't respond.

Iranian officials have quietly met with American officials many times to negotiate backroom deals. Such talks were a hallmark of the diplomacy that led to the 2015 nuclear deal. The Obama administration reached a prisoner-swap deal with Iran as the nuclear pact took effect and settled a long-running financial dispute about an arms deal by transferring \$1.7 billion in cash to Iran.

—Peter Nicholas and Michael R. Gordon in Washington contributed to this article.

Iran's Rial Falls Sharply as U.S. Sanctions Near

Iran's currency hit another record low against the U.S. dollar, extending its slide on concerns about U.S. sanctions due to be imposed next week.

By Asa Fitch in Dubai and Aresu Eqbali in Tehran

Scrambling to put a floor under the rial, the central bank Sunday promised measures to restore calm. It didn't say what those measures were, but they will likely be the first major moves for the new central bank governor Abdolnaser Hemmati.

The rial traded around

119,000 to the U.S. dollar Monday, according to Bonbast, which tracks unofficial currency-market rates. The currency fell through the 100,000 per dollar level for the first time Sunday and has almost halved since early May.

The rial's slump and a spike in demand for gold were "not proportional to economic realities," the central bank said.

U.S. sanctions set to take effect Aug. 6, covering Iran's trade in gold and other precious metals, its purchases of dollars, metals, software and its automotive sector, have stoked an investor flight to

safety. Sanctions on oil and shipping are set for November.

The sanctions follow President Trump's withdrawal from the Iran nuclear deal on May 8. That deal, agreed between Iran and six nations in 2015, gave Iran relief from international sanctions in exchange for curbs on its nuclear program. The Trump administration saw the deal as inadequate because it didn't prevent Iran from expanding its military footprint in the Middle East.

Iran has tried a raft of measures to stem the currency's fall. In April, Iran announced the rial would trade at 42,000

to the dollar and made it illegal for anyone to trade outside the official rate. In July, Iran opened a secondary foreign-exchange market for importers of nonessential goods that aren't eligible to receive the central bank's preferential rate, which is around 44,000 rials to the dollar. However, the secondary market hasn't led to any strengthening of the currency.

Meanwhile, the huge gap between the official and market rates has encouraged cheating and led to accusations that people closely connected to the regime are profiting from the situation.

Authorities have arrested dozens of people in recent days for what a judiciary spokesman called "economic disruptions." Some were accused of buying identification cards and using them in faked deals that allowed them to receive dollars from the central bank at the preferential rate.

The crisis comes at a trying time for Iran's leaders. While the weakened currency is often blamed on corruption and speculation, Iran is also grappling with rapidly rising prices for meat, medicine and other staples that have had a bigger impact on ordinary Iranians.

I SERVE LUNCH
AT MY CHILD'S
SCHOOL, BUT
STILL CAN'T
AFFORD TO PUT
FOOD ON OUR
TABLE.

Melissa, Michigan

HUNGER
IS A
STORY
WE CAN
END.

FEEDINGAMERICA.ORG



IN DEPTH

A Gourmet Seeks 100 Of the Best

Continued from Page One
hasn't been easy. Mr. Grinberg has tried contacts at McKinsey & Co., Boston Consulting Group, Deloitte and PricewaterhouseCoopers. He has tapped pals at Goldman Sachs, Morgan Stanley and other investment banks. He's tried contacts at American Express, Japanese car makers and hedge funds. No luck.

He tried showing up at Sushi Saito and pleading, but was turned away. Mr. Grinberg can't understand it. To reach his Top-100 goal, he said, other restaurants and chefs have gone out of their way to accommo-

date him by staying open after hours or squeezing him into a fully booked room.

Sushi Saito has no website and no listed email. The restaurant answers the phone only on the first day of the month.

Mr. Grinberg documents his meals on Instagram, where he also has begged for a hookup: "Can anyone help me with #100 Sushi Saito?"

A publicist who works with Sushi Saito said the restaurant was aware of Mr. Grinberg's requests.

Some of the other spots on Mr. Grinberg's list weren't so easy either.

Once he drove three hours for lunch and three hours back. Then for dinner, he drove three hours to another restaurant. During a particularly busy visit to France, Mr. Grinberg dined at 10 three-star Michelin restaurants in five days.

He has lost phone service

while navigating and had to knock on doors in small towns. "People may not know where the local train station is, but they know the chef," Mr. Grinberg said. "Oh, chef is right over there!"

Once in Istanbul, after dining at Mikla, number 51 on his list, he found himself upgraded to a W Hotel suite that occupied the top floor and featured a 10-foot round bed, ceiling mirrors, a stripper pole and a DJ station—complete with mixers, turntables, speakers and neon lights. Then there was the room in Madrid beneath the fitness center, with weights slamming at all hours.

A number of food fanatics have dined at the world's top 50 restaurants. None have bagged the top 100 compiled in

"The World's 50 Best Restaurants," published by William Reed Business Media based on a poll of 1,040 culinary experts. Despite the title, the list comprises 100 establishments, split into two groups of 50.

The list changes slightly each year, and Mr. Grinberg has had meals at every restaurant added since he began his culinary crusade seven years ago.

Among the highlights were Heston Blumenthal's meat disguised as fruit and a first course at El Celler De Can Roca in Girona, Spain, which was served on a miniature olive tree placed on the table. He declined to name the lowlights, preferring generally to complain about establishments with long tasting menus that wait 15 minutes or more

between sometimes 20 courses.

All that eating hasn't added much to his 5-foot-6 140-pound frame, in part because of regular workouts. He was raised in an Orthodox Jewish family that kept kosher and rarely went out for meals.

Today, he rebels against his frugal upbringing with extravagant tasting menus that can feature as many as 20 courses. "When I do something, I'm all in," he said. "Obsession is part of my personality."

He said he can't decide on his favorite dish but his favorite food is toro sushi, or tuna belly. At home, the father of three cooks Asian-style seafood dishes.

In April, Mr. Grinberg paid \$62,000, about \$550, for help from a restaurant concierge service specializing in hard-to-get reservations in Tokyo. Then he checked obsessively for a response. "I dreaded clicking the

button on my computer and seeing a rejection," he said.

Finally, the email arrived. "Hi Paul Grinberg! Your membership has been rejected due to the following reason: Your profile picture does not fit our requirement, please kindly upload a photo that shows your own face (facing front)," the concierge service said, his wish blocked on a technicality.

Mr. Grinberg caught a break a few days later. The restaurant concierge service secured him a seat at Sushi Saito for Saturday, July 14.

"I'm hoping it lives up to the high expectations I have," he said ahead of the meal. "Even if it's not as great as I expect it to be, I'll make it great."

On the day of his reservation in Tokyo, Mr. Grinberg was stuck in Taipei in the middle of super typhoon Maria.

"Sad," he said, "I'm still at 99."



Paul Grinberg

Pension Woes Start To Bite

Continued from Page One
escape insolvency. The fiscal situation of the city, which filed for bankruptcy in 2011, has improved, but the retirees aren't getting their full pensions back.

"It's not only a financial thing," said 73-year-old former Central Falls firefighter Paul Grenon, who retired from the department after a falling wall punctured his lung, broke his back and five ribs, and left him unable to climb ladders. "It really gets you sick mentally and physically to go through something like this. It's a betrayal, as far as I'm concerned."

Uncertainty over public pensions is one reason some Americans are reaching retirement age on shaky financial ground. For this group, median incomes, including Social Security and retirement fund receipts, haven't risen in years. They have high average debt, and are often using savings for their children's educations and to care for their elderly parents.

The public pension arose from the aftermath of the U.S. Civil War. New York was the first city in the U.S. with a pension fund for injured police officers in 1857 and then for firefighters in 1866. The concept of a public pension plan for government workers became widespread in the early decades of the 20th century. The understanding was employees would accept relatively lower pay in exchange for richer, guaranteed benefits once they retired.

Extended lifespans

When times were flush, politicians made overly generous promises. Public-employee unions made unrealistic demands. High-profile municipal employees, such as coaches at public universities, have drawn fire for what some consider too-rich retirement benefits, while some first responders scored rich early retirement and disability arrangements.

Extended lifespans caused costs to soar, as did increasingly expensive medical care, which unions put at the center of contract negotiations, among other benefits.

A technology-led stock market boom in the late 1990s produced a brief period of surpluses in pensions, according to figures from Pew, before deficits began to creep higher in the mid 2000s. Deficits accelerated following the 2008 financial crisis, which caused steep losses for many funds just as large numbers of baby boomers began to retire.

State and local pensions lost roughly \$35 billion in assets between 2008 and 2009, according to Pew. Liabilities, meanwhile, ballooned by more than \$100 billion a year, widening the difference between the amount owed to retirees and assets on hand. Not even a nine-year bull market in stocks could close that gap.

Officials, taxpayers and public-sector employees are increasingly at odds as they figure out what comes next. The board overseeing Puerto Rico, which filed for the largest-ever U.S. municipal bankruptcy in 2017, this year certified an average 10% cut in certain retired pensions as part of a plan to restore the



GRETCHEN ERTL FOR THE WALL STREET JOURNAL

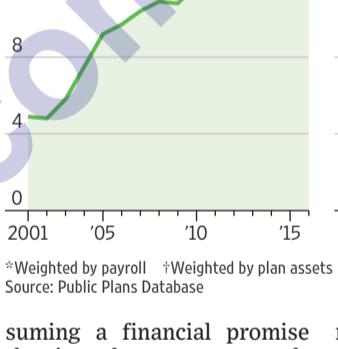
'I never used coupons before, but I know about coupons now.'

Retired Central Falls firefighter George Aissis

Climbing Cost

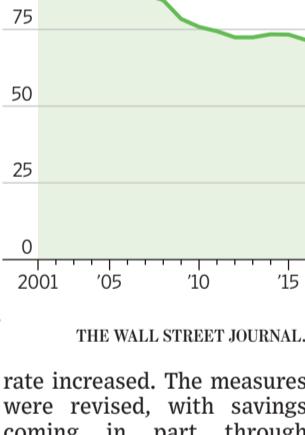
Public pensions are becoming a growing burden for many states and cities across the U.S.

Employer contribution* as a percentage of payroll for state and local pensions



Source: Public Plans Database

Funded ratio† for state and local public pension funds



Source: Public Plans Database

suming a financial promise that is no longer guaranteed.

There are few easy solutions. Cities and states can either raise taxes, cut services or become more aggressive about reducing benefits to retirees. For many years governments were unwilling to take these steps because they weren't politically palatable, although public appetite to cut public-employee benefits is emerging, in states including Wisconsin. Many governments opted to change benefits for new employees, which in some cases didn't fully alleviate funding woes.

In San Jose, Calif., voters approved cuts to police pensions in 2012 only to roll back those changes after hundreds of officers quit and the crime

rate increased. The measures were revised, with savings coming in part through changes to retiree health care.

San Jose Mayor Sam Liccardo said the bulk of the police departures took place before the pension revamp as a result of earlier hiring freezes, layoffs and pay cuts. He doesn't see the pension changes as a factor in the crime rate.

'Our medicine'

San Jose has taken "our medicine perhaps earlier than others have," said Mr. Liccardo. "This is medicine that hundreds of cities and many states are going to have to take," he added.

Retirees in other cash-

strapped states said they expect to lose some of what they have been promised. "It may sustain itself before I die," Len Shepard, 68, a retired teacher in Pennsylvania said of the pension system in his state. "But I don't see how it can continue to do so."

Central Falls, which sits 7 miles north of Rhode Island's capital, is one of several former industrial towns that speckle the Blackstone River Valley.

It provided for public workers under a number of pension plans. Under one, firefighters hired after July 1972 could retire after 20 years of service, essentially in early middle age, receiving half of their final base salary. They could earn another 2% a year for up to five additional years of work and 1% a year after that, up to 65% of their end salary if they retired after 30 years.

The city's required contribution to its police and fire pensions was about \$4 million in fiscal year 2011, the last fiscal year before its bankruptcy, or 20% of the total, said Finance Director Leonard Manganis.

Central Falls didn't pay that year, or in either of the previous two, given the severity of the city's economic woes. Rhode Island officials then took the rare step of passing legislation that put bondholders ahead of other creditors and pensioners in the event of a municipal bankruptcy.

After the 2011 bankruptcy, an event that received national attention amid predictions of widespread municipal failures, retirees agreed to 55% cuts because they feared facing even deeper cuts later.

The concessions helped Central Falls emerge from bankruptcy in 2012 and create a "rainy day fund" that now holds \$2 million. The town hired a grant writer to help secure money for a new firetruck with smaller wheels custom-made for the town's narrow streets. The truck is emblazoned with an image of Yosemite Sam dressed as a firefighter that reads "The Wild Mile," the city's nickname.

Even though the town is on a better fiscal footing, and state contributions blunted the full impact of the cuts, retired workers are still grappling with how their lives

were altered in matters big and small. Two men lost their homes to foreclosure after falling behind on their mortgages. Others had problems paying medical bills as they fought terminal illnesses.

Mr. Grenon, the firefighter who retired after he was injured, says the pension reduction left him without enough money each month to cover a \$300 prescription lung medication. He has medical coverage but said the medication is beyond what is covered.

George Aissis, a retired Central Falls firefighter, says he has so little left in his checking account he has to buy groceries when they are on sale and use as little power or gas as possible.

The pension settlement cut his income by \$1,200 a month to about \$2,600, including an additional state contribution. On one recent Wednesday, he said there was \$6.01 in his checking account.

"I never used coupons before, but I know about coupons now," Mr. Aissis said. "You gotta cut back on things when the money is not there."

Central Falls Mayor James Diossa, in an interview, called the 2011 pension cuts "unfortunate" but said they did alleviate long-term budget pressures for the city. "These aren't big pensions, but a lot of these folks built their lives around it," he said. "To see them get cut was devastating."

Working longer

Under the changes, many current workers have to work longer than they thought when they signed up and some will get a lower percentage of their final salary than they would have under the old plan. Some retirees whose income was cut are now arguing their benefits should be restored to prebankruptcy levels.

The person in charge of that effort, 52-year-old former firefighter Don Cardin, acknowledged he and his colleagues have no legal recourse to restore lost benefits since they signed them away in the settlement.

One of his bleaker arguments contends that firefighters tend to have shorter lifespans because of smoke inhalation and other workplace hazards. That means the town, which also covers some health benefits, is unlikely to have to pay the added benefits for more than a decade.

Despite the city's surplus, the mayor said Central Falls is unlikely to restore the pensions.

What happened in Central Falls is "certainly not going to be a one-off," said Robert Flanders, who acted as the city's state-appointed receiver. "Because other cities and towns, not just in Rhode Island but across the country, are still in bad shape."



Retired firefighter Paul Grenon, 73, started at the Central Falls Fire Department in 1967.



GRENON FAMILY (2)

LIFE & ARTS

TURNING POINTS | By Clare Ansberry

After Tragedy, How Survivors Cope



GWENDA KACZOR

TIA COLEMAN lost her husband, their three children and five other members of her husband's family when an amphibious tour boat sank during a storm.

In the days following the July 19 accident, she wondered how she would go home to an empty house. "I don't know how I am going to do it," she said.

How does anyone survive a loss so great?

Everyone experiences loss, but it usually follows the natural order, with death coming at the end of a long life, says Robert Neimeyer, a professor at the University of Memphis and practicing psychologist who specializes in grief. When people face multiple, untimely losses, assumptions about being able to protect those we love, about fairness and, if religious, about God's mercy are called into question.

"There are the terrible tangible losses of the presence of people in their lives, but also the intangible losses of a sense of security, justice and control," he says.

Susan Burns lost her mother, her daughter-in-law and 6-month-old granddaughter in a 2016 car crash that critically injured her father. Her mother, Lois Burke, had lived nine-tenths of a mile away and was her best friend, Ms. Burns says. Her daughter-in-law, Cortney, and granddaughter, Paisleigh, were living with her while her son was in the military.

Her hometown Portal, Ga., a small community, rallied around the family. The local grocery store delivered a truckload of paper goods. A friend lent a camper for

visiting relatives. The owner of Pepper Jack's Deli & Grill, who called her parents Mom and Dad, brought over dinners. That was comforting. So, too, was her faith. Ms. Burns says her mother always told her not to weep when she died because she would be where she "strived to be."

Still, in the months that followed, Ms. Burns became depressed and withdrawn. Her father spent 35 days in a Savannah hospital, 80 miles away. During that time, she woke, took her other son, then 12, to school, drove to the hospital, came home in time to pick up her son, got dinner and went to bed, exhausted and not wanting to talk to anyone.

Her husband, who drove a truck, would call to see how she was and ask if she wanted to talk about anything. "No, I'm good," was her standard reply. She worried about distracting him while he was driving and burdening him with her own pain. "He was trying his best to be there for me," she says. "I shut him out." Finally, on Valentine's Day, driving home from church, he said he wanted

her to talk to him. "I cried and cried and cried," she says, telling him everything she was feeling. Her advice to others: "Don't shut out the people who care and love you."

About 10% of the bereaved might experience prolonged grief disorder, a clinical diagnosis describing people who are so preoccupied by those who have died that it makes it hard for them to function, Dr. Neimeyer says. Many people, though, realize

- ### Recovering From Loss
- Take care of yourself. Grief, especially from multiple losses, is mentally, physically and emotionally draining. Get enough sleep and eat well. Don't turn to drugs or alcohol to relieve pain.
 - Ask for help and accept it. If you need someone to pick up the kids, ask. If a neighbor offers to cut the grass, grocery shop, wash clothes, say yes. People often want to help but don't know what to do.
 - Talk. Find someone—a friend, partner, family member, religious, professional—you can confide in

and will be patient and willing to listen to your deepest feelings.

■ Spend time thinking about the special relationship with each person who died, grieving them individually. Share stories and photos. Find a project that in some way honors their lives.

■ Talk positively to yourself. Say over and over, "I will get through this, I can do this."

■ Take a break. Be willing to step away from grief, go for a walk, garden, sketch, ride a bike.

Source: Louis LaGrand, Robert Neimeyer, WSJ

their own strength, having survived the very worst, he says. Often, they become more empathetic and wiser, with a deeper appreciation of what matters most in life, especially those around them.

Resilient people share certain traits, Dennis Charney, a psychiatrist and expert in neurobiology, and Steven Southwick, a psychiatry professor at Yale University, found in their book "Resilience: The Science of Mastering Life's Greatest Challenges." Among them are: optimism, altruism, spirituality and acceptance of what can't be changed.

Deborah Derman was with her 16-month-old son waiting at a local airport to greet her parents when the small plane piloted by her father crashed in front of her. Her parents and two passengers were killed. She doesn't remember how she made it home. Four years later, in 1992, her husband died of a heart attack while playing rugby, leaving her a young widow with two small children and pregnant with her third. She remembers being despondent, lying in bed and

calling her sister, who told her, "One day this will be your past." At that moment, she says, she decided to begin trying to think of life's possibilities.

She earned a doctorate, specializing in grief and bereavement, remarried, and raised her three children. A professional grief counselor in suburban Philadelphia, she counseled families who lost loved ones in 9/11 and published an adult coloring book, "Colors of Loss & Healing." Each picture contains a single word, such as "tears" and "determination" that helped her get through her own grief. Across from each picture is a blank page for keeping a journal, something she did after her husband died.

Having a purpose, even in the midst of tragedy and profound grief, often helps sustain people who have experienced unspeakable losses.

Madonna Badger found such purpose, and with it hope and an ability to love again. Ms. Badger, a Manhattan advertising executive, lost her three daughters and her

parents in a Christmas morning fire in 2011 that she escaped, the tragedy heavily covered in the media. She was divorced at the time.

She was suicidal and treated at several trauma and psychiatric centers before going to the Psychiatric Research Institute at the University of Arkansas for Medical Sciences in Little Rock. There, she met a doctor who helped her understand the depth of her loss. The bond between mother and child, he told her, is the strongest there is and like a giant nerve. Hers was severed three times. She didn't need to be in a mental institution, he said. She needed time. "That gave me something I could hold onto," she says. "That was the beginning of my whole journey."

She met with monks, priests and rabbis, among other spiritual leaders, and realized that she wasn't being punished. The fire happened. She was still the mother of her three girls, Lily, and twins Grace and Sarah, and the daughter of Lomer and Pauline Johnson. Their love didn't perish and she needed to live life with purpose to honor them.

After returning to Badger & Winters, the firm she co-founded, Ms. Badger launched a campaign #WomenNotObjects, to stop objectification of females in advertising and marketing. "I want to make a difference in the world for girls and women," she says.

Seven years after her loss, Ms. Badger, says the pain never goes away, but she has learned to cope and not let it fill her days. She stays away from parks filled with children.

Having for so long shut people out for fear of loving and losing them, she has allowed her friends and love back into her life. Ms. Badger remarried four years ago.

Losing one family member is hard enough. How does anyone deal with multiple losses?

her to talk to him. "I cried and cried and cried," she says, telling him everything she was feeling. Her advice to others: "Don't shut out the people who care and love you."

About 10% of the bereaved might experience prolonged grief disorder, a clinical diagnosis describing people who are so preoccupied by those who have died that it makes it hard for them to function, Dr. Neimeyer says.

Many people, though, realize



Above, Madonna Badger, right, and her ex-husband Matthew Badger, at the January 2012 funeral of their three daughters, who died with her parents in a Christmas morning fire. Right, Ms. Badger in 2017 at the Women in the World Summit in New York.

ASSOCIATED PRESS (2)



After the July 19 duck boat accident, Tia Coleman, left, spoke about the loss of nine family members. Ms. Coleman, at left in back in the photo below, and her nephew Donovan Hall, center right in red shirt, were the only two who survived.

FROM TOP: ZUMA PRESS; THE COLEMAN FAMILY

TEMASEK



Shaping Tomorrow

Temasek Review
Highlights 2018
as at 31 March 2018

Delivering Sustainable Value Realising Inclusive Growth

Agility, Alignment and Accountability are our watchwords, as we shape our portfolio steadily for a better, smarter and more connected world.

Our net portfolio value was a record S\$308 billion as at 31 March 2018, up S\$33 billion from a year earlier. Two-thirds of our underlying exposure is to Asia.

Investing for a Sustainable Tomorrow

As an active investor, we are constantly shaping our portfolio for tomorrow by investing into emerging long term trends.

Six Global and Secular Trends Changing Business and Society



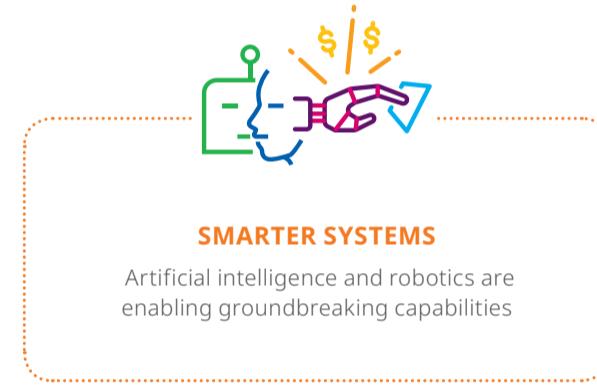
LONGER LIFESPANS

Markets and industries are developing to meet growing needs as we live longer



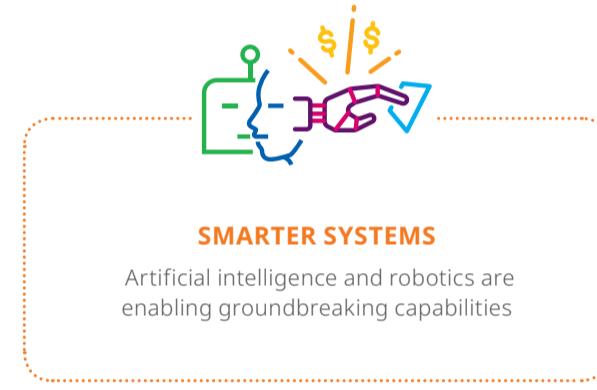
SMARTER SYSTEMS

Artificial intelligence and robotics are enabling groundbreaking capabilities



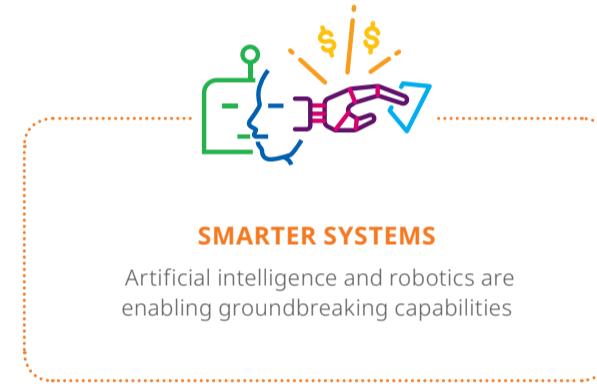
RISING AFFLUENCE

The combination of rising affluence and technology is redefining consumption patterns and attitudes in emerging markets



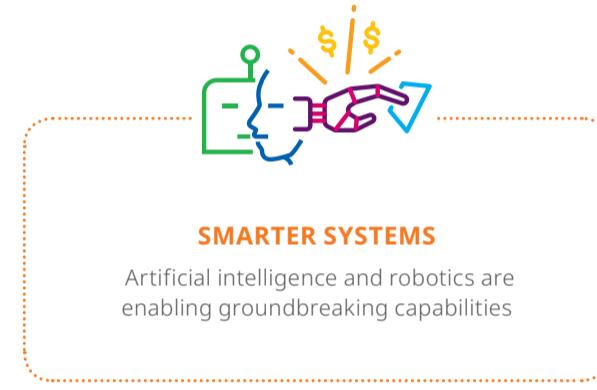
SUSTAINABLE LIVING

Increasingly eco-conscious solutions will create up to US\$12 trillion¹ of business opportunities by 2030



SHARING ECONOMY

Peer-to-peer networks are promoting more efficient use of resources and greater convenience for businesses and consumers



MORE CONNECTED WORLD

Digital connectivity and solutions are redefining how we communicate and interact around the world

Committed to Do well

Acting Today with Tomorrow in Mind

As a forward looking institution, the reputation and character of Temasek depend on the values and conduct of our people and institution, as we strive for a better tomorrow.

Determined to Do right

The DNA of Temasek is rooted in our ethos of integrity, financial discipline and ownership as an investor, institution and trusted steward.

Our Board has a fiduciary duty towards Temasek and is not directed by the President of Singapore or the Government of Singapore.

We do not manage the foreign reserves of Singapore, the budget surpluses of the Singapore Government or Central Provident Fund savings.

Relating to the President of Singapore
We are required to seek the President's approval before drawing on our past reserves.

Relating to Our Shareholder²
We declare dividends to our shareholder, according to our dividend policy.

Relating to Our Portfolio Companies
Temasek does not direct our portfolio companies; they are steered by their respective boards.

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Inspired to Do good

Over the decade, our six Foundations have touched over 800,000 lives.



Building human and social capital



Uplifting the underprivileged in Singapore



Facilitating dialogues among people and nations



Fostering learning and growth for our young



Developing innovative solutions to improve lives



Championing sustainable solutions

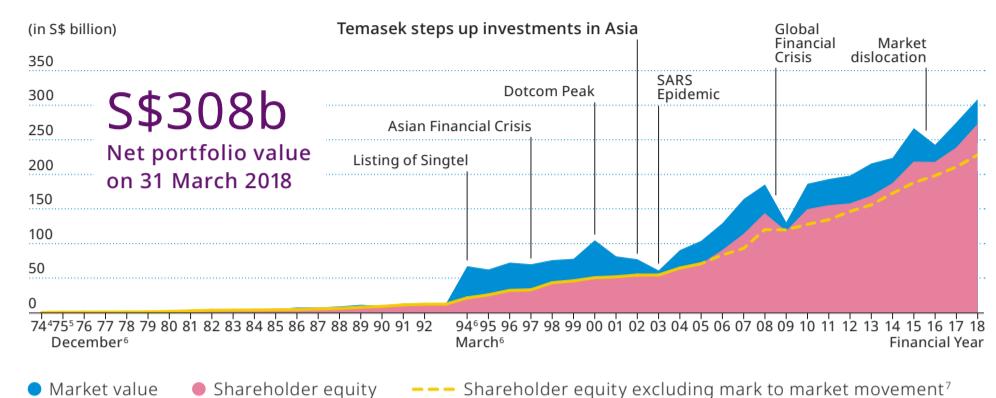


Promoting sound stewardship and good governance

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Temasek Net Portfolio Value since Inception

\$5,000 invested in the trough of the SARS epidemic in 2003 would be worth S\$4,665 in March 2018.³



Net Portfolio Value¹⁰ (\$b)

Up S\$123b

Over the decade



S\$ Total Shareholder Return⁸ (%)

12%

One-year return to shareholder



Global Exposure^{8,9}

North America, Europe, Australia & New Zealand 29%

Asia ex-Singapore 41%

Latin America, Africa, Central Asia & the Middle East 3%

Performance

Singapore 27%

Europe 16%

North America 10%

Australia 3%

New Zealand 1%

Latin America 1%

Africa 1%

Central Asia 1%

the Middle East 1%

Others 1%

100% 100% 100%

Financial Services 26 25 23

Telecommunications, Media & Technology 21 23 25

Consumer & Real Estate 16 17 17

Transportation & Industrials 16 17 18

Life Sciences & Agribusiness 6 4 4

Energy & Resources 3 3 3

Multi-sector Funds 8 8 7

Others (including Credit) 4 3 3

2018 2017 2016

Sector^{9,10} (%)

S\$308b Portfolio

Financial Services 26

Telecommunications, Media & Technology 21

Consumer & Real Estate 16

Transportation & Industrials 16

Life Sciences & Agribusiness 6

Energy & Resources 3

Multi-sector Funds 8

Others (including Credit) 4

Single Name¹⁰ (%)

US\$235b Portfolio¹³

Singapore 9

Telecommunications Limited 12

DBS Group Holdings Ltd 5

China Construction Bank Corporation 4

Rest of portfolio 78

2018 2017 2016

Singapore dollars 53 60 58

US dollars 24 19 19

Hong Kong dollars 12 12 13

Korean won 2 * 1

Indian rupees 2 2 2

Others 7 7 7

* Less than 0.5%.

Currency^{10,14} (%)

£167b Portfolio¹³

Singapore dollars 53

US dollars 24

Hong Kong dollars 12

Korean won 2

Indian rupees 2

Others 7

2018 2017 2016

Liquid & sub-20% listed assets¹⁵ 36

Listed large blocs (> 20% and < 50% share) 10

Listed large blocs (> 50% share) 15

Unlisted assets 39

33

31

20

20

20

20

20

20

20

20

20

20

LIFE & ARTS

BONDS: ON RELATIONSHIPS | By Elizabeth Bernstein

Stop Competing With Your Spouse

Rivalry with your partner is often a sign of envy, which can fester and create resentments in relationships



FROM TOP: BRIAN STAUFFER; SHANEL SMITH

WHEN FILA and Jason Antwine sat down to play Monopoly a while back with their young son, they had a goal in mind: to show their child how to have fun and compete while being a good sport.

Then they forgot he was there.

Early on, Ms. Antwine built several hotels on her properties. "You are going to be devastated!" she told her husband. After buying the railroads, she threw her fake cash in his face: "I am going to make it rain money!"

Mr. Antwine then purchased Park Place and Boardwalk. "You are going down now," he taunted back. When his wife landed in jail, he shouted in her face: "Game over!"

Spouses are supposed to operate as a team. But sometimes they compete instead.

Who do the kids like more?

Who has better friends, makes a tastier pizza, lost more weight on the diet, can do more burpees at the gym? The opportunities for comparison are endless. The Antwines, who describe themselves as "headstrong and Type A," say they have always competed with each other—over everything from whose business is doing better to who did more repetitions weightlifting in the gym.

Marriage therapists say that most often when spouses compete it's about work. Many couples met in the office or graduate school

and are in the same field. Even when they are not, work provides clear measures of success—promotions, raises, awards—that provide easy opportunities for comparison.

Often, the emotion underlying competition is envy, which can fester and create resentments in a relationship. Envy is a feeling of discontent, inferiority and sometimes even hostility that we feel when someone has something we want but can't immediately have. Unlike jealousy, which typically is more intense and includes a third person—we fear losing something to a competitor—envy involves just two people: the envious and the envied.

Marriage therapists say that most often when spouses compete it's about work.

Spouses may have a particularly hard time admitting to feeling envious, says Richard Smith, a professor of psychology at the University of Kentucky who has studied the emotion for 30 years, because it means you are essentially admitting to feeling inferior or lacking in some way. "You're not supposed to envy your loved one—that is the

undermining of the very special love you are supposed to have for your spouse," he says. "On the contrary, you are supposed to feel good about your spouse's success."

And yet research shows we are most envious of those who are close to us, says Abraham Tesser, distinguished research professor emeritus at the University of Georgia, who is known for developing a psychological theory of envy called the "self-evaluation maintenance model." It holds that when you are in a close relationship with another person, their success has an implication for you. You might feel proud. Or envious. The result depends on how much you want what they have now. And the closer you are, the more competitive you are likely to be.

"If a stranger wins a big science prize, it's nice to know that the work was done, but there is nothing personal in it," Dr. Tesser says. "But if it's your spouse, you think: 'What happened to me?' You have some negative self-evaluation."

Often, spouses mask their envy—and it turns into resentment. "You would never have gotten that promotion if I didn't take care of the kids every night so you could work late." The solution, Dr. Tesser says, is for partners to find distinct things they are good at. Or, use envy to motivate you. "If your spouse is doing well, you



Jason and Fila Antwine have competed with each other over everything from business success to workouts.

might need to invest more time in what you are doing," he says.

After their Monopoly battle, Mr. Antwine asked his wife to talk. "I think you take these games too seriously," he said. "What's going on?"

Ms. Antwine says she had been feeling envious and resentful, as she did when their son seemed more excited to hang out with his dad, even though she did most of the child care. Mr. Antwine then admitted to having taunted her about how their son preferred him. "It's easy to boast when you're winning," he says.

Ms. Antwine had quit her job at

New York's Metropolitan Transportation Authority to launch a coaching business, but it was struggling. Meanwhile her husband, who was a mailman for the U.S. Postal Service, had also created a lucrative online company selling T-shirts and hats. "I was really frustrated because it seemed like I was working hard and wasn't making any money, and he was just casually succeeding," says Ms. Antwine, a 39-year-old relationship coach for women who lives in Valley Stream, N.Y. "It felt like I wasn't contributing to the household like he was and that this was a competition and he was indeed winning."

This competition was causing a lot of arguing, and the couple talked about that. Mr. Antwine admitted that sometimes when he felt unappreciated by his wife, he would work a little harder just to get noticed. And he reassured her that she was doing more than enough. "I always tell her: 'We contribute in different ways; you contribute in ways around the house that are just as beneficial as me contributing financially,'" says Mr. Antwine, 36, who now owns an online jewelry retailer.

The spouses devised a plan: They would each focus on what they were good at and work as a team. Mr. Antwine is better at time management, budgeting, and organization, so he took on those roles in both the family and their two businesses.

"He helped me structure my day, and this helped me become more efficient and successful," says Ms. Antwine. And Ms. Antwine is better at seeing the big picture, so she helps her husband identify his next projects and lets him know when he needs to take a vacation so he

doesn't burn out.

The Monopoly game was several years ago, and since then the couple says they have argued much less. "We're still strong personalities, but we don't let it get to a point where the problem becomes serious," says Ms. Antwine.

But game night is still heated. Recently, while the family was playing UNO, the couple's 5-year-old daughter told her 12-year-old brother: "Bro, you are going down!" "A little trash-talking is left because it's fun," says Ms. Antwine. "But we don't let it get hurtful. And now we never let it leave that space."

FILM

THE MAN WHO SPEAKS FOR 'WINNIE THE POOH'

BY DARRYN KING

WHEN JIM CUMMINGS performs the voice of Winnie the Pooh, his body language changes, something he didn't realize until he saw a photo of himself doing the characterization.

"I sort of slouch a bit and let my tummy protrude," he says in his own gentle speaking voice. "I'm standing there in Pooh formation, so to speak." In a voice-acting career spanning more than 30 years, Mr. Cummings, 65 years old, has spoken for more than 400 animated characters on such movies as "Who Framed Roger Rabbit" and "Aladdin."

But two characters have proved to be the roles of a lifetime: Winnie the Pooh and his companion Tigger. Mr. Cummings has voiced the two characters, who were created by author A.A. Milne and illustrator E.H. Shepard in the 1920s, in about 30 years' worth of films, television series, video shorts, videogames and toys.

Most recently, Mr. Cummings voiced the characters for Disney's hybrid live-action/CGI movie "Christopher Robin," due out Friday. In the movie, Pooh, Tigger and the other denizens of the Hundred Acre Wood come to the rescue of a grown-up Christopher Robin (Ewan McGregor), who has lost touch with his inner child.

That theme resonates with the Los Angeles-based Mr. Cummings, who has heard variations on "you



Winnie the Pooh, flanked by friends Eeyore, left, and Piglet, is voiced in 'Christopher Robin' by Jim Cummings, above.

were the voice of my childhood" for much of his Pooh career. "A 40-year-old, tattooed truck driver will come up to me and say"—Mr. Cummings assumes a gruff, gravelly tone—"Yeah, definitely, man, you raised me."

"Christopher Robin" director Marc Forster describes Mr. Cummings's portrayal as "a warm blanket." "Pooh is about safety and about love. When you have a child who's scared, Pooh is something to hold on to and feel love," Mr. Forster says. "That's why it was so important for Jim Cummings to do the voice. Because it evokes in me my childhood memories."

Born and raised in Ohio, Mr. Cummings occasionally got into

trouble when he imitated the sounds of dolphins and squirrels in class, but his family was more encouraging. At one point his father pointed out the voice actor Mel Blanc when he appeared on "The Jack Benny Program."

"He said, 'You see this guy right here? He's the guy who does Bugs Bunny, Daffy Duck, Tasmanian Devil, and all those cartoons you love,'" Mr. Cummings recalls. Years later, he remembers, he teased his little brother for his fondness for a character named "Pooh."

"Now the joke's on me," he says.

After working as a riverboat deckhand in New Orleans and then a video-store clerk in Anaheim, Calif., Mr. Cummings devoted his en-

ergy to getting off-camera, "microphones-only" acting work.

Gravitating toward the Disney Channel, which launched in 1983, he got his big break playing a lion with a Brooklyn accent on "Dumbo's Circus" and auditioned for "The New Adventures of Winnie the Pooh" a little more than a year later.

He tried out for four roles, he says: Owl, Eeyore, Pooh and Tigger. "I thought I had a pretty good Eeyore. Apparently I was wrong."

As Pooh, Mr. Cummings replicates the melodious, feather-light tone of Sterling Holloway, who voiced the character in the '60s and '70s and died in 1992. The voice is "between a falsetto and my tenor voice," Mr. Cummings

says, "and you sprinkle sand on it. I've often thought that Pooh's voice sounds like the wind blowing through cattails."

It didn't take long for Mr. Cummings to feel so familiar with the characters that he felt protective of them. Voicing Pooh in a 1990 drug-abuse TV special, he objected to lines like "well, if somebody hands you a joint" that he felt were too in-the-know for a naive, amiable bear. "Give it to a Ninja Turtle," he remembers suggesting.

He has, however, worked with Mr. Forster on a slightly more down-to-earth portrayal of Pooh for "Christopher Robin."

"When I first met Jim, I said, we're not making a cartoon here, we're making an origin story. It's the same voice—the warm blanket—but a voice that belongs in a richer world," Mr. Forster says. "We're finding a different Pooh here that's more low-key, not as cartoony and more real, because he has to fit in this live-action reality."

Still, Mr. Cummings is pleased to be so linked to such enduring characters, who are associated with such positive traits as good-naturedness (Pooh) and indomitable optimism (Tigger).

He just has to keep looking after his vocal cords. "I don't think I've had the equivalent of one cigarette my entire life. You take care of yourself, minimal abuse, you stay hydrated," he says, then, not missing a beat, switches to his Pooh voice: "And a smackerel of honey doesn't hurt."

LIFE & ARTS

EXHIBITION REVIEW

Bringing A World To Life

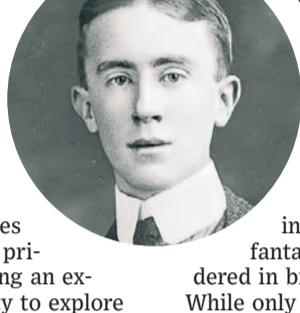
BY MICHAEL FITZGERALD

Oxford, England

J.R.R. TOLKIEN'S annotations on a recently discovered map reveal that Hobbiton was located at the approximate latitude of Oxford. During the next few months, visitors to "Tolkien: Maker of Middle-Earth" at the Bodleian Libraries' Weston Library of Oxford University can immerse themselves in Tolkien's world through the most extensive exhibition of his life and work since the 1950s.

Filled with memorabilia ranging from family photographs and fan letters to Tolkien's pipes, the exhibition vividly evokes his professional and private life while offering an exceptional opportunity to explore the decades-long evolution of Tolkien's creations. Among the documents on view are the logs he used to plot his characters' day-by-day journeys, draft manuscripts of his major and minor works, and the illustrations and maps that contribute so much to the visual impact of his stories. For those not able to undertake a pilgrimage to Oxford, the exhibition will travel to New York's Morgan Library in January 2019.

Although Tolkien is best known for his invention of ancient races of Elves, Orcs, Dwarves, men and wizards (not to mention their lan-



guages), the surprise of the exhibition is Tolkien's visual art—the dozens of drawings and watercolors he made to accompany his stories. Moreover, his visual designs are radically different from his writing because they do not depict Bilbo, Gandalf, Ringwraiths, or his other characters. Instead they capture the mountains, forests and rivers of Middle-Earth.

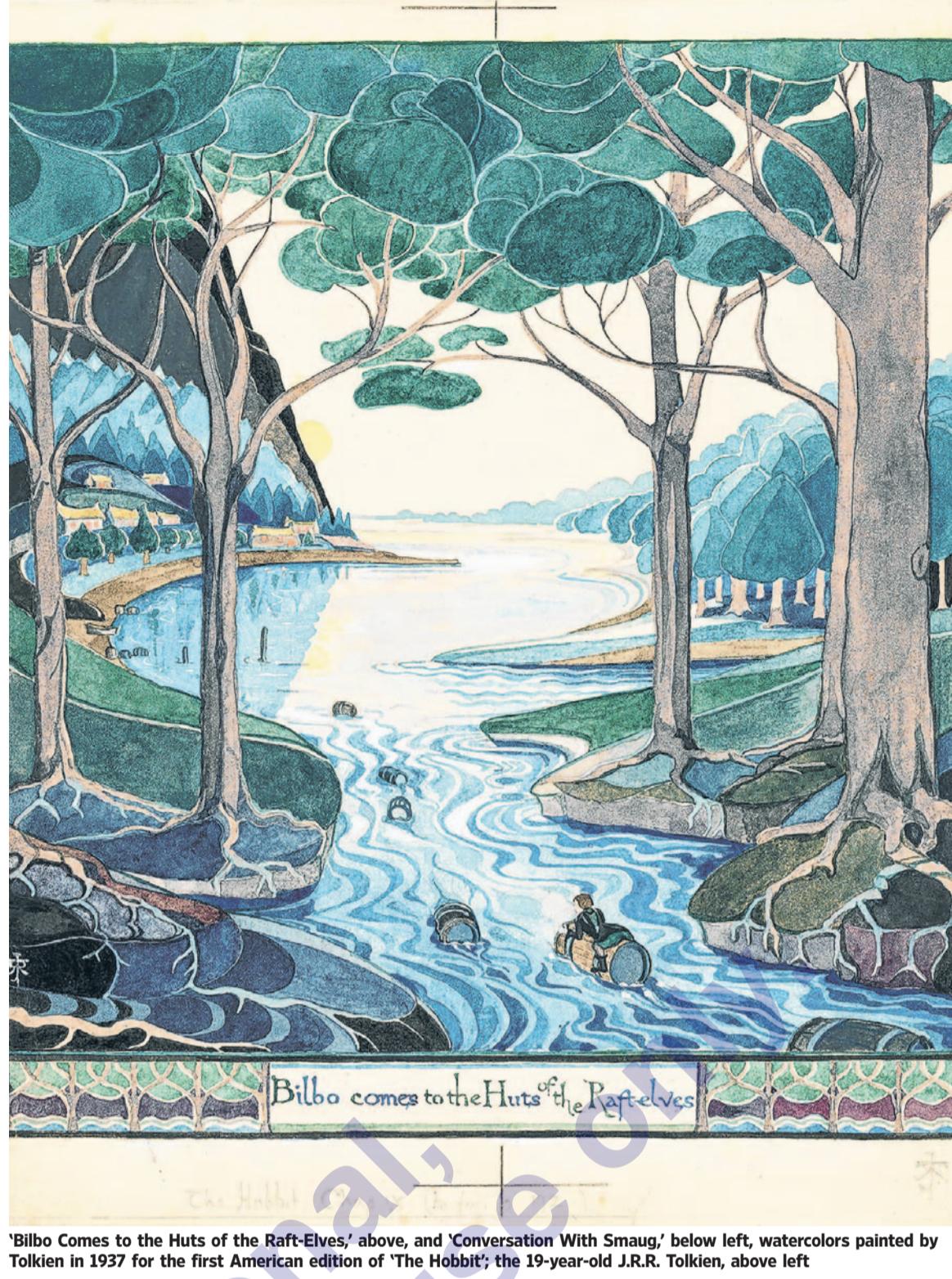
Under the guidance of his mother, who came from a family of engravers, Tolkien began drawing and painting as a child. By the time he entered Oxford's Exeter college in 1911, he was an accomplished amateur, whose skill ranged from architectural renderings of the city's historical buildings to nearly abstract, fantastical landscapes rendered in brilliant watercolors. While only the daydreams of an undergraduate, these imagined views were among the first seeds of his mature creations.

In fact, Tolkien was a consummate amateur. He never received professional training as an artist or a writer of fiction. He earned a living as a professor of English at Leeds and Oxford.

As he began composing "The Hobbit" in the late 1920s and '30s, Tolkien relied on his skills as a visual artist to bring to life the places his characters inhabited.

Readers of the novel are familiar with the intricately finished watercolors he painted in 1937 for the

first American edition of the book. His style benefitted from the work of Arthur Rackham and other artists in a great age of illustration, but Tolkien also infused his images with the sinuous lines and scintillating patterns of Art Nouveau. Most famously, "The Hill: Hobbiton-Across-the-Water" presents an image of tilled fields, blossoming trees and pristine architecture bordering a road that meanders to Bilbo's round front door high on a hill. The abundant detail of this scene conveys a fuller impression of the Shire than any description in



'Bilbo Comes to the Huts of the Raft-Elves,' above, and 'Conversation With Smaug,' below left, watercolors painted by Tolkien in 1937 for the first American edition of 'The Hobbit'; the 19-year-old J.R.R. Tolkien, above left

"The Hobbit." Sometimes Tolkien's visual imagination surpassed his verbal descriptions.

Thanks to the extensive Tolkien archive at the Bodleian, the exhibition includes sketches he made to plan the topography of his world. Unlike the polished illustrations published in most editions of "The Hobbit," these rough renderings allow us to enter his creative process as he shaped his landscapes, locating the Elvish city of Rivendell nearly hidden in sheltering mountains or mapping the caverns, passages and peaks of the Lonely Mountain.

The most fascinating objects in the exhibition are the maps Tolkien created to chart his tales. As he said about "The Lord of the Rings" trilogy, "I wisely started with a map and made the story fit."

Among the few pages of Tolkien's first draft of "The Hobbit" that survive, one is largely devoted to Thror's treasure map, the document that was inherited by the

Dwarf king Thorin and guides the company to the hoard of the dragon Smaug. Tolkien recalled that the story began with a sentence he scrawled on an exam book while reading student papers—"In a hole in the ground there lived a hobbit"—yet "for some years I got no further than the production of Thror's Map." Its imagery of a spiky hand rising from lines of mysterious runes and pointing to the outline of the mountain immediately captures the danger of the adventure.

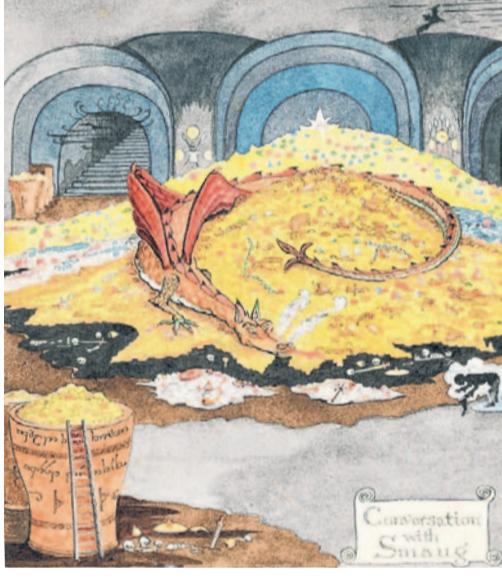
The Bodleian contains 30 maps Tolkien drew while preparing "The Lord of the Rings," all part of his "working map" centered on the horse kingdom of Rohan. For Tolkien the writer, this map was the One Ring. He expanded the original sheet many times by attaching surrounding pages with brown packing tape. His inscriptions in pencil and pen have abraded until they are barely legible and are sometimes obscured by small

holes burned by sparks from his pipe. Unlike the simplified map that appeared in the books, this chart displays the challenges Tolkien faced during the 12 years he spent writing the trilogy.

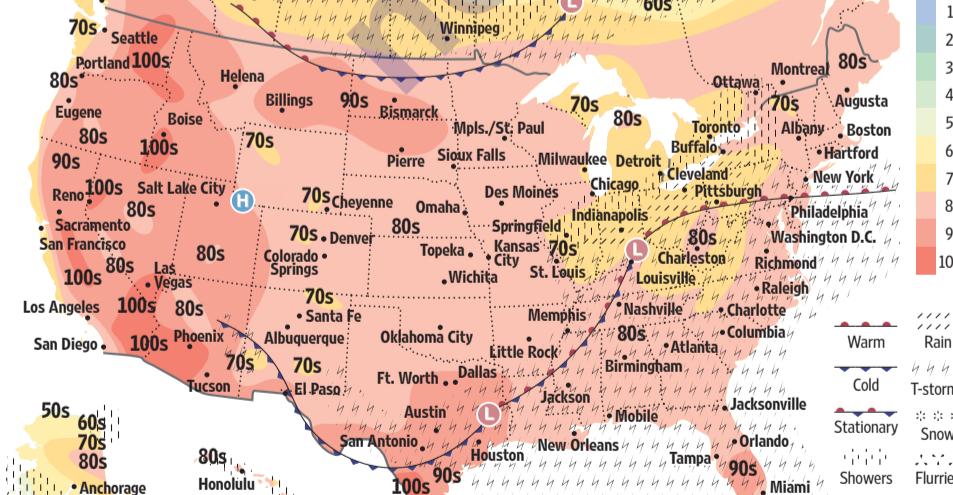
While these documents enthrall adults, the curator of the exhibition, Catherine McIlwaine, the Bodleian's Tolkien archivist, has included plenty of ways for children to engage Tolkien's world. A three-dimensional map and touch screens allow visitors to learn some Elvish phrases or follow the routes of major characters as they journey across Middle-Earth. Even if Tolkien would have been appalled by this high-tech equipment, its interactive features help guide a new generation into his books.

Tolkien: Maker of Middle-Earth
Bodleian Libraries' Weston Library, through Oct. 28

Mr. Fitzgerald teaches art history at Trinity College.



Weather



U.S. Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers; t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

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SPORTS

BASEBALL

Throw Anywhere but the Strike Zone

Across baseball this year, pitchers are attacking opposing hitters by throwing more pitches out of the strike zone—on purpose

BY JARED DIAMOND

EVERY BASEBALL FAN has heard an announcer espouse the merits of a pitcher “pounding the strike zone.” It is an accepted truth—that for a pitcher to thrive, he must throw strikes aggressively, rather than nibble at the corners.

There’s just one problem: That indisputable fact, passed down through the generations, is no longer true.

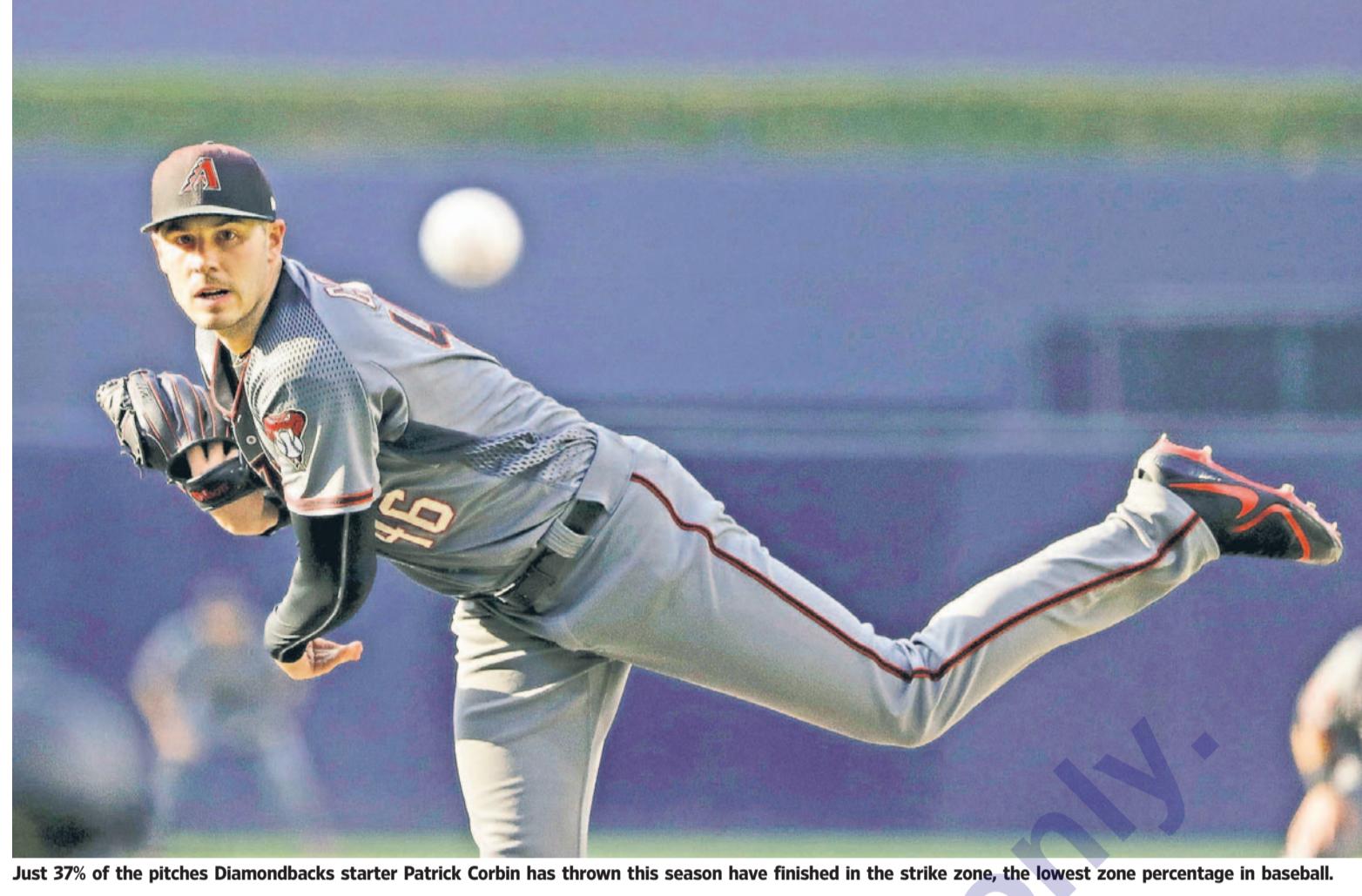
Across the major leagues this season, pitchers are having unexpected success by throwing more pitches out of the strike zone—on purpose. About 47% of pitches thrown this season have been located in the strike zone, the fewest since PITCHf/x data became available in 2007 and down from more than 50% a decade ago.

No team better encapsulates what’s happening better than the Arizona Diamondbacks. They throw fewer pitches that end up in the strike zone than anybody else in the sport, yet they rank second in the National League in ERA. Their secret? They get batters to chase pitches out of the zone more often than anybody in the NL, a strategy that has them in position to reach the playoffs for the second consecutive season.

“Guys are trying to launch and hit more fly balls. They’re trying to beat shifts,” Diamondbacks pitching coach Mike Butcher said. “Deceptive pitches are an equalizer to all those things.”

Consider the case of Patrick Corbin, the poster child of the Avoid the Strike Zone Club. He’s having the best season of his six-year career with the Diamondbacks, posting a 3.26 ERA in his first 22 outings, three-quarters of a run better than 2017. That performance earned the 29-year-old left-hander a spot on the NL All-Star roster.

Corbin has accomplished this by completely changing how he attacks opposing batters. Just 37% of the pitches he has thrown this season have finished in the strike zone, the lowest zone percentage in baseball and down from close to 44% just last season. Yet he’s walking fewer batters than he has in years, while striking out more than 30% of the hitters he has faced, up from 22% a season ago. Batters are swinging and missing at 32% of his pitches, compared



GREGORY BULL/ASSOCIATED PRESS

Just 37% of the pitches Diamondbacks starter Patrick Corbin has thrown this season have finished in the strike zone, the lowest zone percentage in baseball.

with 24% just last year.

“With so many home runs and strikeouts being up, they’re not being protective and trying to put the ball in play,” Corbin said. “Sometimes it leaves bigger holes in their swings.”

Take Kyle Gibson of the Minnesota Twins. He posted a 5.07 ERA in each of the last two seasons. This year, he has a zone percentage of 37.8%, second lowest in baseball only to Corbin. He has also excelled, putting up a 3.42 ERA in 21 starts and striking out a career-high 8.8 batters per nine innings.

Gibson’s turnaround started in May 2017, when the Twins demoted him to the minors following a dismal April. As he departed, members of Minnesota’s front office implored him to work on commanding his fastball better, so he could then emphasize throwing his off-speed pitches out of the strike zone to induce more swings and misses.

Ultimately, the Twins cared less about his zone percentage and more about what Gibson described as a “competitive pitch percentage.” In other words, how often he executed his pitches well enough to generate a whiff or weak contact. A year later, it appears Gibson received the message.

“When 80% of your pitches are competitive, but only 30% are in the strike zone, it’s incredibly tough for them to lay off,” he said. “When it’s so close to the strike zone and moving out of the strike zone so late, it will eventually lead to them expanding the strike zone.”

This newfound willingness to live outside the strike zone reflects the latest philosophies about how to approach pitching, ones that defy years of conventional wisdom.

Decades ago, pitchers aspired to keep their pitch count down in order to last deep into games, which meant throwing lots of fastballs

for batters to put in play early in counts. Today’s pitchers want to rack up strikeouts and keep the ball out of play at all costs, especially with offenses built around the home run.

“Money follows strikeouts,” Gibson said. “We’re trying to get strikeouts and take advantage of hitters trying to hit home runs.”

That explains why fastball usage in baseball continues to decrease to record lows every season in favor of breaking pitches that dart out of the strike zone. The goal, pitchers say, isn’t necessarily to throw strikes, but to throw balls that look like strikes until the last possible moment.

Houston Astros right-hander Lance McCullers famously threw 24 straight curveballs to close out Game 7 of last year’s AL Championship Series. Now, McCullers throws fewer pitches that end up in the strike zone than any AL

pitcher besides Gibson. More than 46% of his pitches are curveballs.

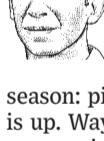
McCullers declined an interview request, believing that discussing the topic would reveal a competitive advantage. But clearly, others are following in his footsteps. Two years ago, Corbin threw breaking balls about a quarter of the time. This season, he’s throwing them on nearly half his pitches, a complete overhaul of his approach. He even added to his repertoire a slower version of his slider that travels about 75 mph, a new weapon that has baffled hitters.

Corbin is doing the exact opposite of what pitchers have been taught for a century—and it has turned him into one of the best in baseball.

“It’s got to look like a fastball to these guys,” Corbin said. “When the spin looks just like a fastball, it’s tough to pick up a breaking ball. The reaction time isn’t there.”

BASEBALL | By Jason Gay

How to Save Baseball: Let the Fans Pitch



THE OTHER DAY, the Journal’s outstanding baseball writer, Jared Diamond, had a fun story about an odd trend in the sport this season: pitching by position players is up. Way up. With modern managers using their relievers like chess pieces, resting arms is crucial, so in blowout situations, losing teams are content to send infielders and outfielders to the mound for mop-up duty.

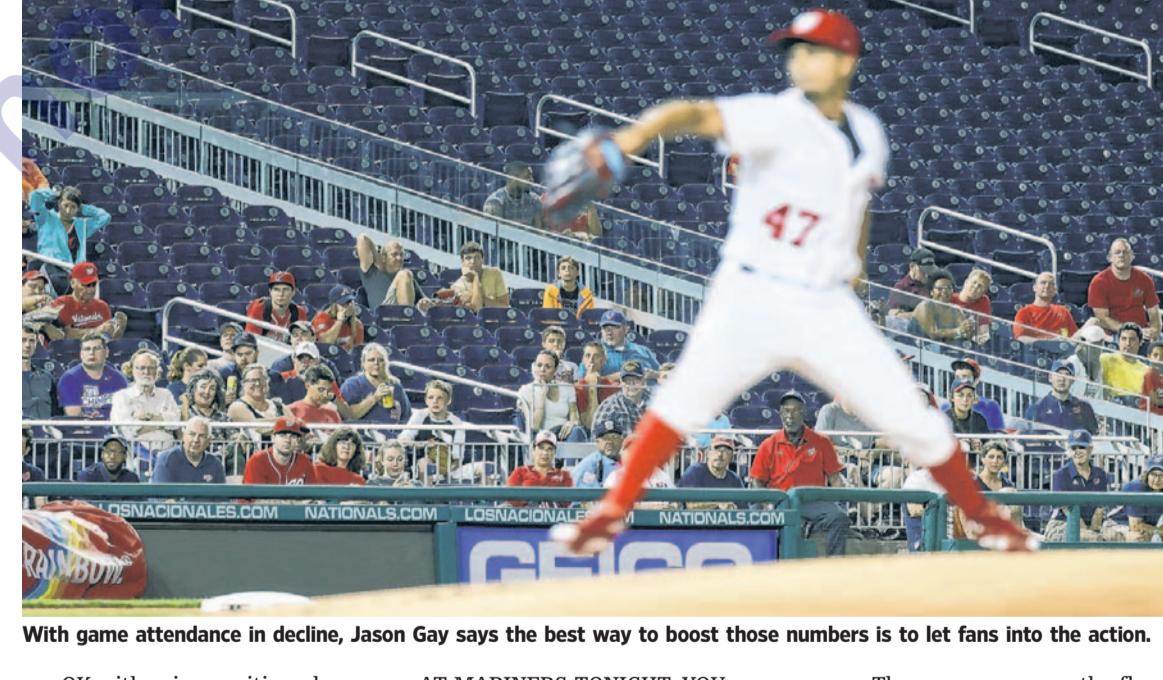
Traditionally, it’s been embarrassing to use the backup third baseman as a pitcher. No longer. Nothing’s sacred in baseball in 2018. If it’s a smart idea—and the data says position players don’t get hurt pitching as often as previously thought—teams are inclined to try it.

Jared’s story got me thinking. Another big topic in baseball these days is diminishing audience. Game attendance is dipping, and baseball people are concerned. You can blame some of the drop on bad early-season weather, and some of it on all the lousy teams in the league. (Baltimore Orioles, what are you doing?) But underneath, there’s an existential fear: Do fewer people want to go to baseball games?

We’ve written about this downturn a lot. There are multiple theories: Baseball games are too long, too boring, or too expensive when you get through paying for tickets, parking, drinks and all those over-size hot dogs. There’s an anxiety that a younger generation is getting disconnected from a game that laughs at the shortened attention span.

Baseball’s a business, however. How do we make more people want to go to a game? is the challenge.

So work with me here, gang. When I read that today’s managers



ROB CARR/GETTY IMAGES

With game attendance in decline, Jason Gay says the best way to boost those numbers is to let fans into the action.

are OK with using position players to burn innings, that they really don’t care who they send out there in garbage time...

Are you thinking what I’m thinking?

Umm-hmmm.

YES: LET THE FANS PITCH.

You may think this is a ridiculous idea. I say it’s ridiculous not to consider it. This isn’t the time for gentle tweaks, my friends.

Baseball is timidly tinkering with pitch clocks and whatnot, and here I am, offering nothing less than the most fan-friendly change in the history of sports—one that will allow baseball to leapfrog over basketball and football and return to its place as the true national pastime:

YES. FANS CAN PLAY IN THE GAME.

Imagine this billboard: YANKEES

AT MARINERS TONIGHT. YOU MIGHT PITCH. YOU NEVER KNOW.

I know what you’re thinking: Jason, are you writing this column at night? It smells a little like the kind of thing you’d come up with after two rum cocktails.

To which I say: NO, I AM WRITING THIS IN THE BRIGHT LIGHT OF DAY. I MAY HAVE HAD TOO MUCH COFFEE, HOWEVER.

Now I know some of you Chicken Littles will have questions about how this will work. What fan will get to pitch? After all, there can be upward of 35,000 people at a baseball game—or six at a Marlins game.

Settle down. I’ve thought this all through.

Consider this scenario: Your local nine has fallen down 19-2 in the 7th inning. The game is effectively

over. The manager waves the flag of surrender, tells the bullpen to take the night off, and then:

1. They bring out a giant raffle drum.

You know, like the one they use at the school fundraiser to give away the fancy dinner at the rotating restaurant. Entering the game, you will have the option of putting your name in the drum, so if you’re in there, there’s a chance your name will get called.

2. The manager picks a name from the drum.

Think of the suspense! Section 234 Row 11 Seat D...come on down and pitch! Hmmm, OK, it appears the person sitting in Section 234 Row 11 Seat D left already...who’s next? Let’s see. Section 103 Row 3 Seat G...

3. Quick uniform change in the dugout!

I go back and forth on this—on one hand, it’d save time to

have the fan go out in street clothes, but don’t you want to give the fan a uniform experience? Do you really want a fan wearing a I LOVE MY RESCUE CATS T-shirt pitching for your team? Maybe you do! I’ll leave this up to your team.

4. You can have six warm-up pitches. Come on. You’re not Felix Hernandez. Everyone wants to go home. You’re warm.

5. Don’t worry: We’re going to use that protective net they use in batting practice. Nobody wants to see the poor fan from Section 103 Row 3 Seat G take a Mike Trout line drive off the forehead.

6. THIS IS KEY: WHEN A FAN PITCHES, THERE ARE NO WALKS. ONE STRIKE IS AN OUT. A FOUL IS AN OUT.

Do you want to watch a fan walk the bases full with no outs? Me neither. Plenty of Major League pitching staffs can do that already.

7. If the first fan can’t get the job done, we will go to the raffle drum for a second fan. If the second fan can’t get the job done, the manager has to pitch. If the manager can’t get the job done, they’re fired, and the general manager must pitch.

So there you go. I’ve saved blowouts and I’ve also saved baseball. Who wouldn’t want to watch a game now? You’ll actually start rooting for one-sided games, just for the chance to get on the hill. Managers will appreciate the rested arms, and the front office will go giggly from the increased attendance.

It’s only a matter of time before the fans-pitch idea gets ripped off by football (fans can quarterback!) and basketball (fans can shoot free throws!). Maybe the WSJ will turn to subscribers to step in and write this sports column from time to time.

Hey, it couldn’t get any worse!

GREATER NEW YORK

Senator Aims to Expand Gifted Programs

BY LESLIE BRODY

A new bill in the New York state Senate aims to require New York City to expand its gifted programs at elementary and middle schools to help more students better compete for selective public high schools.

The effort draws support from groups pushing to preserve the current admissions system for Stuyvesant High School and seven other specialized high schools that determine entry by a single exam. They argue that the city

should do more to support gifted children from disadvantaged communities rather than changing the admission exam known as the Specialized High School Admissions Test.

Mayor Bill de Blasio is seeking to eliminate that test, saying it has become an unfair barrier to black and Latino students, who are vastly underrepresented at these prestigious high schools. He wants top students to be admitted through a mix of course grades and state tests.

Sen. Tony Avella, a fellow Democrat running for re-elec-

tion who represents many Asian constituents in Queens, introduced the bill on Friday. The measure would require that each of the city's 32 school districts offer a middle-school gifted program in addition to the elementary-school one, which usually admits students through the city's standardized gifted-and-talented test.

Currently the city offers gifted elementary programs in every district, but in some districts the programs start in third grade and admission isn't standardized with a test.

Tony Avella introduced a bill that would broaden special programs at middle and grade schools.

The bill also calls for elementary and middle schools with at least four classes per grade to offer an advanced class for top performers, with students admitted by their academic records.

Jaclyn Rothenberg, a City Hall spokeswoman, said the de Blasio administration is focused on making specialized high schools admissions more fair, and is "confident that getting rid of this arbitrary test will strengthen our schools."

Backers of the new bill cite research showing the specialized high schools were more integrated in the 1980s, when nearly all middle schools city-wide had honors programs, which helped talented students of all backgrounds get into the sought-after high schools.

Separating students into different classes by achievement has waned across the U.S., as critics say such tracking within schools unfairly isolates students of lower ability. A June report in the Atlantic by researchers Syed Ali and Margaret M. Chin said that while some honors classes still exist in New York City, "the top students at many of today's segregated schools aren't getting the kinds of opportunities that could launch them into a specialized high school."



Michael Matos, 27 years old, flew his mini quad drone during a Drone Days event at a Manhattan gallery space last week.

Drone-Racing Takes Flight in Unusual Spots: Offices, Restaurants

BY MAYA SWEEDLER

El Original doesn't always close down for the night after the last round of margaritas. Occasionally, the Tex-Mex restaurant in Manhattan's Hell's Kitchen keeps humming—as a late-night venue for drone races.

After the chairs and tables are removed from one of its dining rooms and hexagonal gates strung up, the restaurant transforms into a racing track for the remote-controlled aircraft. Twice in the past year, it has hosted races for a class of micro drones. Small enough to fit into the palm of a hand, the micro drones are colloquially known as "Tiny Whoops," the name of the company that trademarked the miniature devices.

The temporary track at El Original is one of a handful of informal drone-racing locations around New York City. Others include a digital-imaging studio in Chelsea and the fifth floor of a building on the Lower East Side.

The Lower East Side track opened earlier this month, drawing a handful of pilots—most of whom met through the online drone-racing community—to test it out. A half-dozen pilots took turns flying devices known as first-person view, or FPV, drones. The pilots wear goggles that allow them to look through a camera mounted on the drone. They navigate the track from a drone's-eye perspective in real time, using video-game-like consoles to control the height and speed.

"It's really a hobby that brings people together," said Steve Crespo, 29 years old. "It's more relaxed, family-oriented."



Steve Crespo built a mini quad drone from scratch during a Drone Days event in Chinatown.

Like the broader drone-racing community, the New York City scene has expanded rapidly since the Federal Aviation Administration loosened restrictions on hobbyists in late 2015.

In the city, there are 14,225 personal drones registered to 665 owners, according to FAA data.

"For most of its life, [drone racing] lived in this underground, totally secretive environment," said Nicholas Horbaczewski, founder and CEO of the professional Drone Racing League. "By 2015, almost every country had an amateur drone-racing league."

The city prohibits outdoor flying of drones outside five designated model-aircraft fields at Calvert Vaux, Marine, Flushing Meadows Corona, Forest and La Tourette parks.

A dedicated drone field was recently unveiled at Cedar

Creek Park in southeastern Nassau County. Frank Costello, founder of an amateur drone-racing chapter called Safety Third, which has more than 240 members in the tri-state area, spent 18 months getting the necessary permits for the field, which is certified by the Academy of Model Aeronautics. These fields aren't always easily accessible to pilots with full-time jobs or anyone hoping to fly in the winter.

Urban pilots must deal with space constraints. Many have turned to smaller drones. "The larger drones are awesome, but definitely more dangerous," said Matt Caputo, 33, who designed the Lower East Side track. "So the access makes up for what [micro drones] lack in power and aerodynamics."

The micro drones, powered by batteries that last two to

three minutes on a single charge, are built by each pilot. With top speeds of 25 miles an hour, they are agile enough to steer through the track's gates and elevated tunnels.

The barrier to entry is high, acknowledged Brian Pichardo, a friend of Mr. Crespo's who competes under the name VelcroFPV. A quality set of goggles costs between \$300 and \$500, and the radio that transmits between the drone and controller is about \$250, he said.

Several pilots said they have set up racing tracks in their homes. Clint Hild, 38, even installed a track in his office. Mr. Hild runs Bitfire Inc., a digital-imaging studio in Chelsea. He tries to open his studio for "fun flies" at least once week, sometimes installing as many as 37 gates around his small office.

In New Jersey, Warehouse Rents Hit a Fresh High

BY KEIKO MORRIS

Asking rents in New Jersey's hot warehouse market hit a high in the second quarter as e-commerce businesses expand and industrial tenants devour new space even before it hits the market.

New Jersey's average asking rent rose to \$7.80 a square foot, increasing 7.4% from the same period last year and marking the 10th consecutive quarter rents hit record levels, according to a report from real-estate services firm Transwestern.

Despite the higher rents, there is more room for prices to go up, analysts and real-estate brokers said.

E-commerce and logistics firms have been willing to absorb the higher rent to get in close to New York City and the surrounding, densely populated areas, research analysts and real-estate brokers said. Even after rent increases, real-estate costs make up a far smaller portion of expenses than labor, transportation and other supply-chain costs.

Companies need to be as close as possible to New York City to reach customers faster, said Alex Previdi, a Transwestern managing director.

"You break your computer or want a new pair of shoes, you expect [help or a replacement] to be there that day, if not that afternoon. From a logistical perspective, to be able to do that anywhere further west than New Jersey is not realistic," he said.

Rental increases occurred across the board, with 21 of 25 New Jersey warehouse submarkets recording rises in asking prices, according to Transwestern.

Vacancy rates also have been falling, notching record lows for the past four quarters. The state's vacancy rate hit 3.9% in the second quarter, down from 5% last year and lower than the five-year average of 6.5%, Transwestern's

report said.

New construction has been unable to keep up with demand. Developers supplied the market with 5.7 million square feet of new warehouse space, but 80% of that space was leased before completion. About half of an additional 7.3 million square feet under construction already is committed, according to Transwestern.

"When you have such a supply-and-demand imbalance, you end up with a lot of the pricing power in the landlords' hands," said Iggy Armenia, director of research for real-estate services firm JLL.

Finding development sites also has been difficult. For example, only 7.1% of the 95 million square feet of warehouse space in the Meadowlands submarket was built in or after 1997 and has newer features such as 30-foot-high ceilings, said Tom Monahan, vice chairman at CBRE Group Inc.

Developers also are more willing to clean up contaminated sites they hadn't considered in the past, in part because the increased rents could help recuperate such expenses, brokers said.

Developers are pushing further south and west, boosting markets in places such as Burlington, Phillipsburg and Piscataway. Tenants looking for newer facilities have followed, filling those spaces and helping to boost rents in those markets, Mr. Monahan said.

Companies looking for space have had to get creative, he said, splitting operations into two locations and taking larger or smaller spaces than they need.

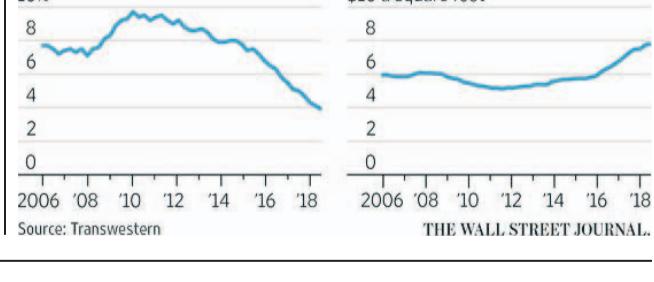
These conditions have boosted industrial real-estate values.

The average capitalization rate for top-tier warehouse properties in New Jersey has fallen to 4.26% in 2018, from 6.02% in 2014, according to JLL. Falling capitalization rates mean rising prices.

Filling Space

New Jersey's warehouse asking rents have hit highs for the past 10 quarters with more increases expected.

Vacancy rates



Source: Transwestern

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QUEENS

Four Fatally Shot In Astoria Home

Four people, including a 5-year-old boy, have been shot and killed at an apartment building in New York City.

Detectives are investigating whether the deaths Monday night may have been a murder-suicide.

Officers were called shortly before 9 p.m. to the building in the Astoria section of Queens. They found two women, a man and the boy.

It wasn't immediately clear if they were related. Police continue to investigate the circumstances.

TV news video showed a cluster of police cars and officers around the low-rise brick building and officers in heavy gear walking around it.

—Associated Press

CRIME

Suspect Probed In More Killings

Investigators are looking into whether a man suspected of killing a woman he met on a dating app in New York City might be responsible for other deaths, two law-enforcement officials said Monday.

Danuel Drayton, 27 years old, was arrested last week in Los Angeles after police say he sexually assaulted a woman and tried to strangle her. He pleaded not guilty Monday to attempted murder, rape and false imprisonment charges and was held on \$1.25 million bail.

After his arrest, Mr. Drayton talked about killing at least five others in Connecticut and New York, the officials said. Investigators are trying to determine whether his claims are true.

The officials said Mr. Drayton didn't admit killing Samantha Stewart, a nurse found dead July 17 in her Queens apartment, though police believe he is responsible.

The name of his attorney in California wasn't immediately known.

—Associated Press

Dockless Ride-Share Bikes Roll in the Bronx

BY PAUL BERGER

Dockless bikes rolled out in the Bronx on Monday, fulfilling New York City's goal of expanding bike sharing to all five boroughs and setting the stage for a competition among some of the nation's leading bike-share companies.

The 200 bright-red bikes from Jump, part of Uber Technologies Inc., include a technology that could entice more people to ride—an electric motor that whirs into action as soon as the bike detects that its rider needs a boost.

During a news conference, Bronx Borough President Ruben Diaz Jr. said "pedal assist" would be a boon to riders who take on the steep hills in the Fordham area. The program offers residents an alternative to unreliable subway and bus service "without having to sweat too much," he added.

Garry Reynolds, a 61-year-old self-employed caterer who lives in the area and makes deliveries on foot, was intrigued. "I can deliver my meals and get there quicker," said Mr. Reynolds, who has an arthritic knee.



New York City Transportation Commissioner Polly Trottenberg, center, and Bronx Borough President, Ruben Diaz Jr., left, were among those who rode dockless bikes in the Bronx on Monday.

PETER FOLEY FOR THE WALL STREET JOURNAL

The Jump bikes cost \$2 for the first 30 minutes and 7 cents for each additional minute.

During the four-month pilot period, they won't be permitted to be taken outside an area that stretches from the Cross Bronx Expressway to Bedford Park Boulevard and that includes the Bronx Zoo, New

York Botanical Garden and Fordham University. The bikes' location is monitored by GPS.

Users are warned that if bikes are left outside the pilot zone they will be charged a \$25 fee.

The Bronx pilot was supposed to include bikes from Chinese company Ofo Inc. But Ofo said it was pulling out of most

of North America. The city replaced Ofo with Citi Bike, which will launch its first dockless bikes in the Bronx in August, but they won't have pedal assist.

Citi Bike members will be able to take unlimited 45-minute rides on the dockless bikes. Nonmembers will pay \$2 per half-hour.

cording to the Box Office Mojo website. The story revolves around a Hollywood prostitute finding her way into high society through a well-heeled suitor.

It may not be easy for the show to sustain the box-office momentum after an initial period of curiosity, says Bruston Manuel, chief operating officer of RWS Entertainment Group, a New York-based company specializing in theater and live events.

The show's title "will pull people into the door," said Mr. Manuel. But ultimately the musical will succeed or fail based on its quality and how critics receive the show, he said.

Reviews won't come until soon after opening night.

'Pretty Woman' Attracts Big Broadway Audiences

BY CHARLES PASSY

Broadway's newest musical is sitting pretty in previews.

"Pretty Woman," the show based on the 1990 romantic comedy that starred Julia Roberts and Richard Gere, played to 98% capacity and grossed slightly more than \$1 million in its first full week of previews, according to the Broadway League, the trade group that tracks the industry.

The sales figure represented 89% of the show's potential take at the box office, a more-than-respectable figure by Broadway standards.

"It shows people want to see their beloved story musicalized for the stage," said Paula Wagner, the show's lead



Richard Gere and Julia Roberts in the movie. Andy Karl and Samantha Barks in the musical.

GLOBE PHOTOS/ZUMA PRESS
ANDREW ECCLES

producer.

"Pretty Woman," which features music and lyrics by the Grammy Award-winning singer and songwriter Bryan Adams in partnership with Jim Vallance, formally opens on Aug. 16.

Producers declined to reveal the startup costs for the

show, which is playing at the Nederlander Theatre.

The musical also topped such long-running shows as "A Bronx Tale," "Anastasia," "Chicago," "Kinky Boots" and "Waitress" in grosses this past week.

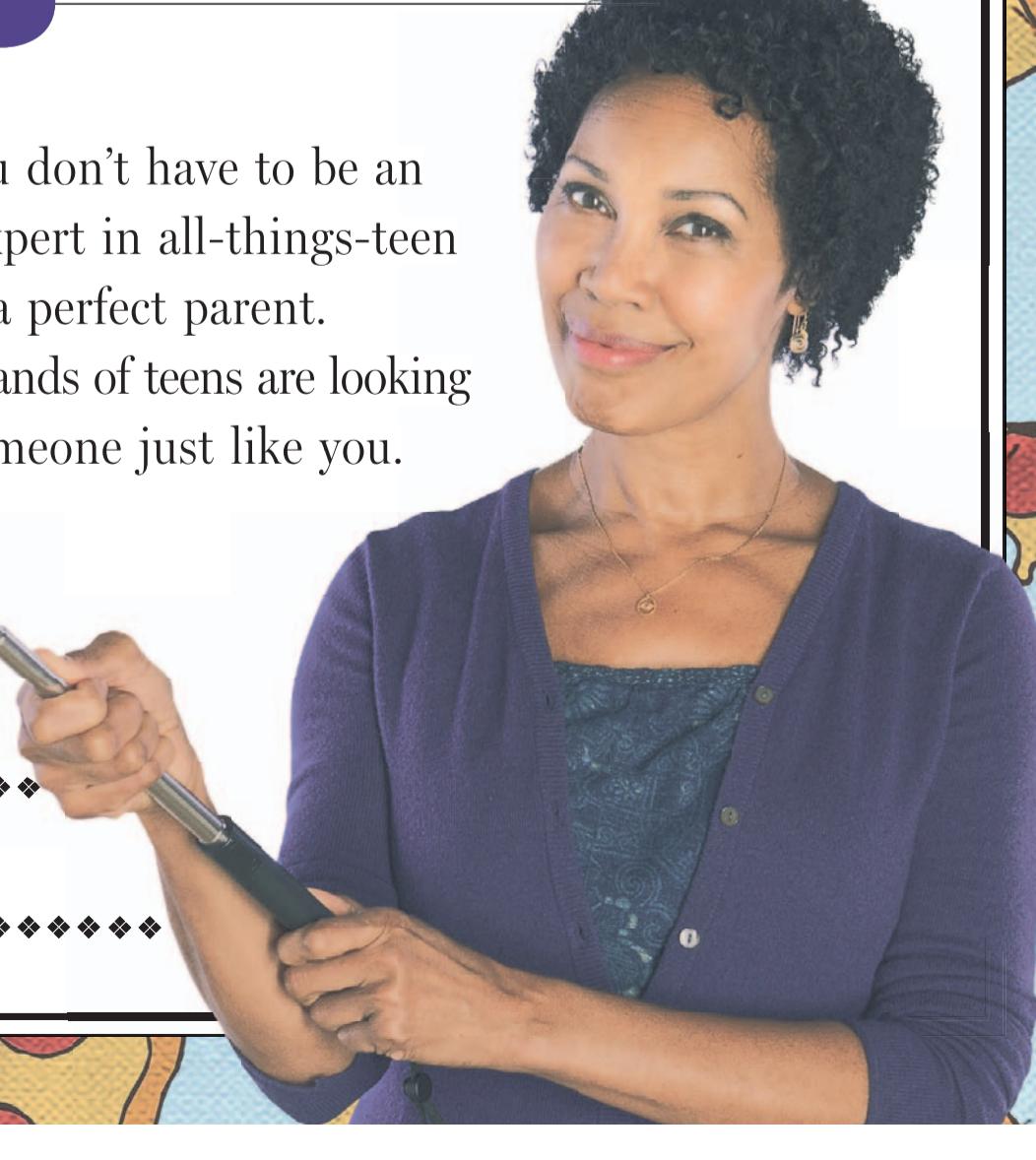
And it far eclipsed the struggling "Head Over Heels,"

the jukebox musical featuring the songs of the Go-Go's, which took in just \$320,745.

Industry experts agree with Ms. Wagner that the strong early showing for "Pretty Woman" speaks to the enduring popularity of the movie, which garnered \$463 million globally at the box office, ac-

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OPINION

When the Cardinal Sins

MAIN STREET
By William McGurn

Theodore McCarrick isn't the first prince of the Catholic church to have lived a private life scandalously at odds with the red hat he wore.

Nor is he the first to have been booted from the College of Cardinals, as he was this past Saturday after disturbing allegations—that as a priest he had molested an altar boy as well as another teen he had baptized as an infant, and that as a bishop had invited seminarians to his bed—had become public.

Yet the McCarrick affair may ultimately prove something far more than another disgusting case of sexual abuse, if only because the scandal breaks at a moment of tremendous cultural transition.

Think of it as akin to the Reformation, except here it will not be Protestant Christianity but some materialist orthodoxy that will likely move in after the church takes this latest hit. For rising generations weaned on the absolutes of science and safe sex, Archbishop McCarrick offers the perfect meme for a corrupt and hypocritical church out of touch with reality.

In this sense the bishop may resemble the hapless Johann Tetzel, a 16th century German Dominican friar whose name has become synonymous with the corrupt sale of indulgences. Though the reality is

OPINION

REVIEW & OUTLOOK

Trump's Lose-the-House Strategy

Does President Trump care if Republicans lose the House of Representatives this November? If that seems like an odd question, consider that Mr. Trump is running a campaign strategy that puts the House at maximum risk while focusing on the Senate. The latest evidence is Mr. Trump's threat to shut down the government in September if he doesn't get money for his border wall.

* * *

It's always risky to use the word "strategy" about Mr. Trump because he's so impulsive and capricious. Only last week GOP leaders thought they had his agreement to delay a wall-funding brawl until after the election. Then on Sunday Mr. Trump tweeted that "I would be willing to 'shut down' government if the Democrats do not give us the votes for Border Security, which includes the Wall!"

Did Mr. Trump pop off on a whim, or did he consult Stephen Bannon, his former White House aide and strategist from 2016? The shutdown threat fits Mr. Bannon's midterm election strategy, which is to stress issues that polarize the electorate to drive voter turnout among the Trump base. This means muting talk of tax cuts and the economy and talking up immigration and trade policies that bash foreigners.

"Trump's second presidential race will be on November 6 of this year. He's on the ballot, and we're going to have an up or down vote. Do you back Trump's program, OK, with all that's good and all that's bad? Do you back Trump's program, or do you back removing him?" Mr. Bannon said recently, though Mr. Trump's name won't be on any ballot.

A shutdown brawl fits this polarize-and-hope-to-conquer strategy. Mr. Trump may figure that shutdown pressure would force Senate incumbents running for re-election in Trump-leaning states into a corner on voting for the wall. One problem with this strategy is that Senate Democrats have enough votes to block wall funding even if they give eight of their incumbents a pass to vote for it.

The bigger problem is that what works in Senate races in Trump states might boomerang in House districts where the majority will be won or lost. These are swing districts where moderate Republicans and independents determine who wins. Think Miami-Dade, northern Virginia, the Denver and Philadelphia suburbs. Hillary Clinton carried 23 of those seats in 2016, and Democrats need to gain only 23 seats to take the House.

Hostility to immigration and trade aren't popular in those districts by and large, and a shutdown wouldn't be either. Voters know Republicans control the Congress. While the polls typically show that voters blame both sides in a shutdown, the GOP risk is that they'd hold the party in power more responsible. This is all the

more likely if President Trump is inviting a shutdown on Twitter.

The Bannon belief that this is a "base election" may work in Senate races in North Dakota or Missouri, where Republicans have a party advantage. But the opposite is probably true in swing House seats. A constant focus on immigration and

making this a referendum on Donald J. Trump will drive up Democratic turnout.

Take Loudoun County in the Virginia suburbs of Washington, D.C. Republican Ed Gillespie carried Loudoun by 456 votes in his Senate race in 2014 that he narrowly lost. Mr. Gillespie increased his Loudoun vote by 795 in the Governor's race in 2017 but lost the county by an astounding 23,432 votes as Democrats poured out of the subdivisions to register unhappiness with Mr. Trump. This bodes ill for Barbara Comstock, who represents Loudoun in Congress.

Mr. Trump might not welcome a Democratic House, but he also might not fear it as long as Republicans keep the Senate. More than ever most politicians, Mr. Trump always needs a foil, and Speaker Nancy Pelosi would be from central political casting.

A Democratic House would mean the end of most of Mr. Trump's agenda of the last two years. But Mr. Trump's policy alliance with House Republicans has been in part one of convenience. Mr. Trump could cut deals with Democrats on paid family leave, public-works spending and trade protectionism.

House Democrats would start up the impeachment machinery, and once underway the momentum would be hard to stop. But as long as he's safe from conviction by the Senate, Mr. Trump might figure he could benefit from a backlash against impeachment the way Bill Clinton did. The President and Mr. Bannon also might think a Democratic House improves Mr. Trump's chances for re-election as Republicans and independents conclude he's the only barrier to a left-wing government led by a President Elizabeth Warren.

* * *

The biggest loser in all this would be a genuine conservative agenda. Judges aside, the House has been essential to Mr. Trump's main achievements that have lifted the economy—corporate tax reform, deregulation—and whatever government-reform victories they've had. If they lose the House this year, Republicans aren't likely to get it back until the end of the Trump Presidency.

The Bannon strategy is an incitement to Democrats to vote in precisely the places where House Republicans are most vulnerable. The more the election is a referendum on Donald Trump and his polarizing political style, rather than on a reform agenda for the next Congress, the better for Democrats.

Kavanaugh's Confirmation Progress

Politico doesn't charge for access to its website, and one reason is headlines like this from Monday: "Inside Democrats' strategy to defeat Kavanaugh: Schumer is pushing red-state Democrats to stay neutral for as long as possible and raising pressure on moderate Republicans."

So Minority Leader Chuck Schumer wants Democrats to delay declaring for or against Supreme Court nominee Brett Kavanaugh until Republicans prove they have the votes to confirm the judge. This strategy has been obvious from the start, and its goal is less to defeat Judge Kavanaugh than to protect incumbent Democrats running for re-election. The wrath of the Democratic left in November might be less severe if Judge Kavanaugh's confirmation is assured before North Dakota's Heidi Heitkamp and Indiana's Joe Donnelly let the voters in on their decision.

Meanwhile, Judge Kavanaugh's march to con-

firmed advanced Monday when Kentucky Senator Rand Paul announced his support. Mr. Paul had expressed some misgivings about the judge's views on collecting metadata and other libertarian hobby-horses.

"In reviewing his record on other privacy cases," Mr. Paul said in a statement, and "through my conversation with him, I have hope that in light of the new precedent in *Carpenter v. United States*, Judge Kavanaugh will be more open to a Fourth Amendment that protects digital records and property." *Carpenter* is the recent 5-4 decision in which Chief Justice John Roberts and the four liberals extended the Fourth Amendment to certain cellphone site records.

We hope Mr. Paul is wrong about *Carpenter*, but give the Senator credit for rising above a single case or issue to consider Judge Kavanaugh's larger record.

The Run on Iran's Rial

President Trump said Monday that he'd meet Iranian President Hassan Rouhani with "no preconditions," and after

The currency is falling and inflation is rising as renewed sanctions loom.

plained clearly and often how the sanctions will punish Iran for illicit activities, such as funding the Iran Revolutionary Guard Corp's terrorist activities in Syria, or its support for Lebanese Hezbollah.

All of which is putting a strain on Mr. Rouhani, who is taking political heat from Supreme Leader Ayatollah Ali Khamenei and the other ruling mullahs for the economic troubles. Mr. Rouhani fired the country's central bank governor last week and replaced him with Abdolnaser Hemmati, an official who formerly worked for Bank Melli, a state-owned institution that the U.S. and the European Union previously sanctioned for bankrolling Tehran's nuclear and ballistic-missile activities.

Our sources say Iranian authorities arrested black-market currency dealers in Tehran Monday, which will further spook markets. Shooting the messengers usually does—and in this case the shooting could get literal.

Iranians have been protesting periodically around the country about the economic mess, and they aren't blaming the Trump Administration. If Mr. Rouhani wants to end sanctions, his best move would be to take Mr. Trump up on his offer and renegotiate the terms of the nuclear deal.

Mr. Trump announced in May that the U.S. would withdraw from Barack Obama's 2015 nuclear deal and reimpose sanctions, after a grace period for companies to wind down their business in Iran. Many European companies that had rushed in after the nuclear deal are now closing shop. Officials like Treasury Under Secretary Sigal Mandelker have ex-

OPINION

Trump, Putin and the Montenegro Question

By Michael B. Mukasey

Two weeks have passed since the meeting between Donald Trump and Vladimir Putin, but there is still no public account of what the two leaders said—other than their own self-congratulatory remarks. But the recent actions of the U.S. and Russian presidents suggest they may have discussed the role and ambitions of the North Atlantic Treaty Organization, taking steps toward a rebalancing of power that should worry Europeans and Americans alike.

NATO's newest member vexes Russia and occasions unsettling comments from the U.S. president.

President Trump provided one clue in his statements about Montenegro, a tiny Eastern European country and the newest NATO member. During a July 18 conversation with Fox News's Tucker Carlson, he suggested that "aggressive" Montenegrins might start a global conflict. To be fair, Mr. Trump didn't raise the subject; it was Mr. Carlson who suggested that honoring NATO's mutual-defense obligation might entangle the U.S. in a fight Americans would rather sit out. But once the subject was raised, Mr. Trump pounced—conjuring the specter of Montenegro dragging the U.S. into World War III.

Where did that come from? There's no evidence that Mr. Trump had any earlier concern about Montenegro, or

even that he knew where it was. Though Montenegro joined NATO shortly after he took office, Mr. Trump's only direct interaction with the country on record came during a photo session at last year's NATO summit, when he shoved aside Montenegrin President Dusko Markovic to get a spot in the front row.

There is plenty of evidence, however, that Russia is worried about Montenegro's accession to NATO. The Kremlin promised unspecified retaliation against NATO in 2015 when the alliance first formally offered membership to Montenegro. Senior Russian officials claim that, in adding the Balkan country to the alliance, NATO members violated their promise not to expand the alliance eastward—an assurance they had given Russia during the presidency of George H.W. Bush.

NATO's commitment to nonexpansion was never binding; it was meant to apply to East Germany and became moot in 1990 when Germany reunified. But that hasn't stopped Russian intelligence officers from theorizing—perhaps after a vodka or two—that Montenegro could be the flashpoint for World War III, as its neighbor Serbia was for World War I. That worry may not have been familiar to Mr. Trump, but it certainly was to Mr. Putin, a career intelligence officer. In Helsinki, the Russian president had a motive and an opportunity to raise the Montenegro issue.

Mr. Putin's actions since the summit also have evinced his renewed aggression toward trans-Atlantic solidarity—on a different front. The day after he met Mr. Trump, Mr. Putin remained in Helsinki to meet one-on-one with the president of Finland, a country long torn between the influence



ASSOCIATED PRESS

Montenegro's Dusko Markovic, right of President Trump, May 25, 2017.

of Russia and Western Europe.

The conflict dates to World War II, when Stalin tried to station Red Army garrisons inside Finland as he had done in the Baltic states of Latvia, Estonia and Lithuania. The Finns were forced to yield but tried to get even by allowing German troops free passage through their territory after Hitler invaded Russia in June 1941. When the war ended, the Finns had to give up some territory and be so cautious not to offend their powerful neighbors that their country's name has become synonymous with submissive neutrality, as in "Finlandization."

This might seem like ancient history, but the loss of influence over Finland still matters to the Russians—and particularly to Mr. Putin, who regards the collapse of the Soviet Union as a tragedy. And though Finland has declined to join NATO, it nonetheless is increasingly cooperating with the West on defense,

having committed in May to a new strategic partnership with the U.S. and Sweden.

In light of this, it is likely that Mr. Putin used his extended stay in Helsinki to persuade the Finns that Mr. Trump had indicated to him an unwillingness to contest Russia's ambitions in Europe. It wouldn't have been a tough case to make: Why would a U.S. president so confident about protecting his own country's sovereignty as to laugh off election-related Russian hacking be likely to act boldly in protecting Finland's sovereignty?

Yes, this is speculation. It is possible that the two-hour meeting between Messrs. Trump and Putin was innocuous, that the conversation revolved around golf and grandchildren, and that what looked like abject exculpation of the Russians really was simply a lingual slip on the way to a forceful accusation against the Russians. But Americans must at least

take seriously the possibility that Mr. Trump diminished the U.S. commitment to European defense.

Fortunately, it will be possible to repair that damage through a major recommitment to opposing Russian aggression. The Trump administration's policies—as opposed to the president's recent words—already offer a firm basis for such a strategy. Unlike his predecessor, Mr. Trump has sent arms to Ukraine to aid in its resistance to Russia's attempts to seize its territory. That lethal aid should be sustained and enhanced, specifically to offset the advantage the Russians and their proxies have in armor, artillery and cyber and electronic warfare.

Although President Trump has suggested that joint military exercises are more costly than effective, it would be useful to conduct such exercises more often and with more troops to deter Russia and reassure American allies. The U.S. should also hasten to rebuild its Atlantic Fleet, and especially its rusty antisubmarine-warfare capability, to counter the growing Russian naval presence off America's eastern coast.

And to retaliate against Russian election interference in a way that would catch the attention of former KGB officer Vladimir Putin, the FBI should consider putting Russian intelligence officers under 24/7 in-person surveillance, as the Russians do routinely to U.S. personnel in Moscow.

Those steps would show our European allies—and Mr. Putin—that America's actions speak louder than its words.

Mr. Mukasey served as U.S. attorney general (2007-09) and a U.S. district judge (1988-2006).

An Inverted Yield Curve May Not Portend Doom

By Burton G. Malkiel

How worried should investors and policy makers be about the possibility of an inverted yield curve—a historical predictor of future recessions and bear markets in stocks?

The yield curve is the most widely used measurement of the relationship between interest rates of the U.S. government's debt obligations. Normally the curve is ascending, with more-volatile long-term bonds having higher yields than short-term obligations. But occasionally the curve inverts, with long-term bonds yielding less than Treasury bills. Recently, the curve has become noticeably flatter, with short-term rates rising and longer yields remaining stagnant. This has led many analysts to think that the curve will soon invert. But that does not mean a recession is imminent.

One strong influence on the shape of the yield curve is investor expectations regarding the course of future interest rates. Imagine that the yield curve were positively sloped, with long-term bond yields higher than T-bill yields. The positive slope

would not necessarily prompt investors to prefer long-term bonds to T-bills despite their higher yields. That is because if yields were expected to rise in the future, bond prices would fall, and the longer the term to maturity of the bond, the more its price would decline.

Alternatively, suppose bonds yielded less than short-term obligations. Investors might still choose to invest in long-term bonds if they expect lower rates in the future since bond prices would eventually rise to reflect the lower yields. Thus, an inverted yield curve suggests that investors are expecting rates to fall.

The expectations analysis of the yield curve also explains why an inverted curve may forecast a coming recession. Consider the last time the yield curve inverted, in 2006-07. The Federal Reserve, moving aggressively to combat inflationary pressures in the overexuberant housing market, pushed short-term rates well above 5%, meaning real rates were over 3%. While long-term rates had also risen, they remained just below 5% and the curve inverted. Investors correctly anticipated that the Fed would

successfully in its efforts to curb the inflationary pressures and that rates would fall in the future, as they ultimately did. Longer-term bonds were in fact an attractive investment.

But the air was not let gently out of the housing bubble. Home prices and economic activity collapsed. Again, the yield curve correctly forecast not only the course of future interest rates but a punishing recession

Today's global financial environment is highly unusual. The old rules don't necessarily apply.

and stock-market collapse as well. In general, inverted yield curves have always accompanied restrictive market conditions that were initiated to reduce inflationary excesses and to moderate economic activity.

How does the situation compare today? Both short-term and 10-year interest rates are below 3%. With inflation running at 2%, real interest rates are low (under 1%), and the

yield curve has yet to invert. There appear to be few speculative excesses in the economy. Moreover, even if the Fed pushed short-term rates another percentage point higher, monetary policy would remain broadly accommodative. Restrictive monetary policy has often led to declines in economic activity. But today the Fed is trying only to normalize rates, not take the punch bowl away. Real interest rates remain at historically low levels.

It is always dangerous to say "this time is different." Even so, we need to consider how the increasingly globalized financial markets might make interpreting the yield curve difficult. The global environment today is highly unusual. Both the European Central Bank and the Bank of Japan have monetary policies opposite those of the U.S. Fed. Long-term interest rates in Europe and Japan have hovered near zero, or even below. These yields have made U.S. Treasury bonds extremely attractive, especially since the dollar has been increasing in value. Foreign investors have every reason to prefer U.S. bonds to their own, and undoubtedly the relative enticement of U.S. Treasuries has

influenced their yields. Low long-term rates in this environment may emit a different signal than has been the case in the past.

Inflation appears to be well contained today, and the effect of platform marketing companies such as Amazon, robotic manufacturing technology and global sourcing of goods and services should continue to control price increases. The typical inflation imbalances in markets that have generated credit crunches in the past seem far less likely today.

I do not mean to imply that we have nothing to worry about with respect to either the economy or the stock market. The prospect of a global trade war should make us very cautious. Once we start down the road of tariff increases and threats of more to come, the dangers of retaliatory miscalculations are very real and very scary. But a flat yield curve, or even an inverted one, should not be on top of our worry list under today's accommodative monetary conditions.

Mr. Malkiel is author of "A Random Walk Down Wall Street," whose 12th edition is forthcoming.

Trump Made His Point. Now He Should Negotiate With Beijing

By Cliff Kupchan
And Michael Hirson

The U.S. and China are in a trade war—and not talking. Last week Beijing quashed the Qualcomm-NXP merger, a major escalation. That move followed a Group of 20 summit where Treasury Secretary Steven Mnuchin failed to hold substantive discussions with his Chinese counterpart, Liu Kun. These developments show exactly what's wrong with U.S. trade policy toward China.

Tariffs are only a means to an end, a way to get leverage in talks. President Trump has raised legitimate concern about unfair Chinese trade practices, and he's hit the country hard. Washington is about to finish placing tariffs on \$50 billion worth of Chinese goods, and by this autumn another \$200 billion could be covered. The U.S. also will put major new restrictions

on Chinese investments in American companies next month.

China initially sought to avoid escalation. We recently met with officials and well-connected academics in Beijing. They are concerned and confused over how to proceed, but the death of the Qualcomm deal shows nationalism is gaining on pragmatism in China's approach. The Chinese will keep responding with more tariffs on American goods and other informal measures, such as harassment of U.S. businesses in China.

If this conflict continues to develop, stock markets around the globe would take a hit. The U.S. economy would become vulnerable to higher inflation and lower investment rates. The World Trade Organization would become less effective in its role as a governing body for trade. Protectionism would metastasize around the globe. It would become a

global disaster. It's time to sit down and negotiate.

U.S. Trade Representative Robert Lighthizer and other senior officials should concentrate talks on the two issues at the center of this trade war. First is the U.S. trade deficit with China, which reached \$375 billion last year. The Chinese government already has offered to buy more U.S. goods to reduce the deficit. The Trump administration is right to insist that China follow up with reductions in tariff and nontariff barriers. While this is the banner rhetorical issue for the president, it isn't the most important.

The more important issue is Chinese industrial policy. The U.S. and China are fighting for pre-eminence in next-generation technology—artificial intelligence, supercomputing and robotics. The winner of this battle will have a leg up in the international economy for decades.

Despite Beijing's denials, forced technology transfer is a frequent and unfair price U.S. firms pay for access to China's massive market. The U.S. should continue demanding

If tensions ease, the White House can start talks on the trade deficit and China's industrial policies.

that Beijing give unequivocal instructions to all players in China's system to end the practice.

China also continues to subsidize its tech sector and other favored industries. Chinese interlocutors repeatedly asked us what the U.S. wants it to do. State aid is a key component of Chinese and other

emerging market economies. But Beijing must recognize that it can no longer view itself as a developing economy. Its size and political influence are too great for that. China must abide by more of the accepted international norms for developed markets. The U.S. should work with like-minded countries to pressure China to bring its subsidies in line with WTO standards—and to reform those standards as necessary.

Yet these negotiations can't happen until tensions ease. The Trump administration should take three concrete steps to make that happen. First, it should set up a structured negotiating format by establishing time-based working groups on the trade deficit, market access and industrial policy. If China fails to produce results or negotiate in good faith, Mr. Trump can always pick up the stick again.

Second, the Trump administration needs to speak with one voice. Talks so far have been ad hoc and included a rotating and discordant cast of participants. The U.S. can do better. Mr. Trump needs to corral his warring advisers into a unified negotiating position. If he can't, he should negotiate directly with Chinese President Xi Jinping.

Finally, the U.S. needs to remember that the Chinese have domestic political considerations too. Overly moralistic American rhetoric, especially from trade adviser Peter Navarro, is making it easy for hawks in Beijing to call for a hard-line approach against the U.S. It's time to take a breath, split the difference on key issues, and avoid an outcome where both countries lose big-time.

Mr. Kupchan is chairman and Mr. Hirson is director for Asia at Eurasia Group.

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Notable & Quotable: Offense

Grace Gottschling writing July 30 at CampusReform.org:

A University of Georgia professor issued an apology to those he had "offended" when he congratulated an old friend on becoming the state's Republican candidate for governor.

Charles Davis, dean of the Grady College of Journalism and Mass Communication at UGA, sent the offending tweet shortly after Brian Kemp won the GOP primary Tuesday night, noting that he had been friends with Kemp since childhood and considers him a "nice guy."

Liberals quickly denounced him for having something nice to say about a Republican, declaring that Kemp is a "racist" who "spews bigoted and

dangerous rhetoric," and insinuating that Davis must therefore be no different.

"You're a straight white man. Of course he was nice and kind to you. Racists are generally nice to their own kind," one user replied. "Why don't you say what you really mean. Politics be damned. You'd never vote for a black woman and would much rather vote for the white racist."

Davis denied facing any backlash from colleagues or administrators to apologize for the tweet.

Three days after his initial tweet, though, Davis posted an apology to those who had been "offended" by it, assuring his antagonists that he had "learned" from their feedback and "will endeavor to be more thoughtful" in the future.

Mr. Kupchan is chairman and Mr. Hirson is director for Asia at Eurasia Group.

WORLD NEWS

Zimbabwe Holds First Post-Mugabe Vote

Large numbers turn out in an election that follows the longtime strongman's ouster

BY GABRIELE STEINHAUSER

MUREHWA, Zimbabwe—Ten years ago, Martha Mishon said, she was beaten and left for dead by local youth after she supported the opposition in a presidential election. On Monday, the 70-year-old said she cast her ballot, for the first time, without fear of retribution.

"I'm really happy," she said outside her polling station in a rural township in eastern Zimbabwe, showing off the dark-blue circle election officials had inked on her left pinkie. "I feel like I'm really free to vote."

Across Zimbabwe, millions of voters marked their ballot papers in their first election without ousted strongman Robert Mugabe's name at the top—and, many said, without the widespread intimidation that had marred previous polls.

Now, voters said, they are counting on the electoral commission, and international observers, to ensure that their ballots are counted without manipulation by the powerful ruling party.

"That's the big question," said Emmanuel Chidamahya, 57, who had plunked himself down on a fold-up stool, three hours into waiting in line to vote on the outskirts of the capital, Harare. "They have to prove themselves."

Results are expected later this week. The electoral commission said that one hour before polling stations closed, voter turnout averaged 75%.

President Emmerson Mnangagwa, a former Mugabe ally who was installed by the military in November, was one of two leading candidates in an early-July poll, 3 percentage points ahead of Nelson Chamisa, a lawyer and part-time pastor who leads the Movement for Democratic Change, or MDC.



A polling station in a suburb outside Harare, the capital. The two leading candidates are a former Mugabe ally and a 40-year-old lawyer. Results are expected later this week.

Holding a free and fair vote has been one of the central campaign pledges of Mr. Mnangagwa and his ZANU-PF party, but opposition parties and civil-society groups have questioned whether that commitment will hold if that means handing over power to his opposition rival.

Zimbabwean election watchdogs reported isolated incidents of intimidation, including voters being forced to seek assistance in completing their ballots, and some polling stations having been moved to a different location. But they said voting went relatively smoothly.

The election "appears to be one of the most credible electoral processes we have seen for over a decade in Zimbabwe," said Nicole Beardsworth, a postdoctoral researcher at the University of York in the U.K. who was in Harare for the vote. "However, it is important to note that it is at the tallying, collating and reporting stage of the vote that things can still go drastically wrong."

ZANU-PF's 38 years in power have left the economy in tatters. Unions say at least eight out of 10 Zimbabweans are unemployed. The public-sector payroll eats up as much as 90% of government revenue

and banks have curtailed withdrawals of U.S. dollars, the dominant currency since the Zimbabwean dollar was abolished in 2009 after years of hyperinflation.

Mr. Mnangagwa, 75 years old, argued during his campaign that his decades in government give him the experience to secure foreign support, including a bailout from the International Monetary Fund, and to bring in investors. Polls suggest he remains popular with older voters and his ZANU-PF maintained a significant lead in rural areas.

"I voted for Mnangagwa.

I'm giving him a chance," said a 59-year-old man who declined to give his name, after casting his ballot in Harare. "We want to have a country where the guys who are leaving university get jobs."

The 40-year-old Mr. Chamisa, meanwhile, cast himself as a youthful change maker. His campaign promises, including bringing bullet trains to a country whose roads are pockmarked with potholes, won over many young and urban voters.

"Zimbabwe has suffered for about 38 years," said Divine Charwadza, a 25-year-old banking and finance graduate

who supported Mr. Chamisa. "It's time for something new."

Many Zimbabweans worry that the military might intervene to stop Mr. Chamisa from taking power. In a disputed 2008 election, human-rights groups say, more than 150 opposition supporters were killed after Mr. Mugabe was forced into a runoff with the MDC. Others are anxious that disgruntled opposition supporters could riot if they feel cheated out of their vote.

If Mr. Mnangagwa wins, "we must go to the street and remove the president," said Joseph Ingirande, a 26-year-old MDC supporter.

Militants Surge in Rural Mozambique

BY NICHOLAS BARIYO

PALMA, Mozambique—Casca Makame had only a few moments to gather her children and a few belongings one night this month as militants raided her village in northern Mozambique, a region home to one of the world's largest natural-gas deposits.

As Ms. Makame fled, the attackers burned scores of homes, looted food and livestock, and left what has become a grim calling card in this previously peaceful region: seven decapitated villagers.

"We ran throughout the night," said the mother of two, now living on an island that has become a refuge to hundreds fleeing violence. "We were very lucky to make it here."

In recent months, Islamist militants have attacked more than a dozen villages on the palm-lined shores of Mozambique's northern coastal region. The Kalashnikov and machete-wielding attackers have killed more than 100 people since October, torched hundreds of houses and slaughtered cattle, police said. More than 1,000 people have been forced to flee since May, according to Human Rights Watch.

The militants say they want to replace the elected government of this southeast African nation with institutions based on Shariah law.

The violence is already affecting work in the region's Rovuma Basin, where energy giants including Exxon Mobil, Eni SpA and Anadarko Petroleum Corp. are investing some \$50 billion—four times Mozambique's gross domestic product.

U.S.-based Anadarko Petroleum, which is developing a \$15 billion liquefied natural-gas project in the region, has placed staff under lockdown. Canada-based explorer Wentworth Resources Ltd. said it hasn't been able to gain access to its license areas since March. Exxon said it is closely monitoring the security situation and waiting for government guidance.

The government has deployed troops to villages and gas installations and the U.S.



In northern Mozambique, a government soldier examined destruction wrought by militant attackers last month. The region is home to one of the world's largest natural-gas deposits.

and U.K. have issued travel warnings.

The little-known militia that has claimed responsibility for the attacks is called Ansar al-Sunna, or "followers of the prophetic tradition."

The group formed three years ago when several hundred unemployed youths began organizing into cells, according to researchers from Mozambique's Eduardo Mondlane University.

While a majority of people in Mozambique are Christian, half of the northern region's 2.3 million people are Muslim; attacks have mainly targeted Christians, police and local activists said.

Researchers said the group has a limited capacity, but has established links to Islamist militias in Somalia, Tanzania, Kenya and the Great Lakes region, where some also received training. Despite such links, local leaders and security analysts say the attacks are still overwhelmingly a local phenomenon stemming from an explosive mix of ethnic and religious tensions and deep poverty.

Mozambique's northern coastal region, where Exxon plans to build the largest natu-

ral onshore gas plant outside the Middle East, has attracted investment for almost a decade following a flurry of gas discoveries.

Huge finds were made in 2012 and production is expected to start in 2024. Standard Bank estimates the deposits could add \$39 billion to Mozambique's economy by 2035; GDP now stands at \$13 billion.

A new Islamist group is destroying villages and threatening a \$50 billion industry.

The anticipation of an economic boom has increased a sense of inequality, particularly among the Muslim Mwami community that has inhabited the region since the 16th century. Recent government attempts to resettle hundreds of families to make way for natural-gas developments have inflamed tensions. Discontent has mutated into militancy among a radical fringe of Mwami.

"Land appropriation is more rampant and there are

no proper resettlement plans," said Amnesty International's researcher for Southern Africa, David Matsinhe. "People are not happy."

A government spokesman said expanded military operations in the region were intended to restore order and resolve local grievances, including displacements.

Poverty levels in the northern coastal region are 45%, higher than the national average of 40%. Tourism, a growing industry that had brought European and South African visitors to the region, has virtually dried up this year because of a surge in attacks.

"They are motivated by grievances similar to those held by militants in the Niger Delta in Nigeria," said Matthew Kindinger, an analyst at Frontier Strategy Group who has spent months studying the insurgency.

During a visit to the region last month, Mozambique's President Filipe Nyusi urged residents not to be "deceived by false promises" by militants. He promised 5,000 jobs from the gas developments and urged patience.

—Adweli Agry contributed to this article.

Malaysian Probe Fails To Decipher Flight 370

BY YANTOULTRA NGUI AND GAURAV RAGHUWANSHI

PUTRAJAYA, Malaysia—Investigators probing the disappearance of Malaysia Airlines Flight 370 found no fault with the pilots or aircraft in Malaysia's most comprehensive report yet into one of the world's biggest aviation mysteries.

But they had no explanation for what happened to the plane and the 239 people on board when it vanished about four years ago, and didn't rule out the possibility of "unlawful interference" of the flight—though no terrorist groups have claimed responsibility.

The report, released Monday by a team that Malaysia's civil-aviation regulator had appointed, said air-traffic controllers didn't follow procedures and failed to watch radar displays as required. It

said they also delayed activating emergency processes.

The leader of the investigative team said the report wasn't conclusive given the plane's wreckage hasn't been found. "It is possible that the absence of communications prior to the flight path diversion was due to the systems being manually turned off, whether by intent or otherwise," Kok Soo Chon said.

A new investigation appears unlikely as the bulk of the report recounted information already released and the search effort has stopped.

Flight 370 stopped communicating with controllers on March 8, 2014. Instead of completing its flight to Beijing, it made a series of inexplicable turns before setting off on a journey into a remote quarter of the Indian Ocean, according to satellite data.

WORLD WATCH

TAJIKISTAN

Four Tourists Killed; Terror Possible Motive

Four tourists cycling through Tajikistan were killed when a driver allegedly rammed his car into them and joined his passengers in attacking them, U.S. and Tajik officials said.

Terrorism was a possible motive, the interior minister said.

A car struck a group of seven cyclists near the capital, Dushanbe, on Sunday, police said. The people in the car stabbed the cyclists, the U.S. Embassy said Monday. Two victims were American, one was Swiss, and another was Dutch, officials said. Four suspects have been detained, the Interior Ministry said.

—Associated Press

CHINA

Former Internet Regulator is Indicted

Prosecutors indicted China's former top internet regulator on charges that he took bribes and abused his power, advancing a

case portrayed as a sign of President Xi Jinping's commitment to his anticorruption campaign.

Lu Wei, once director of the Cyberspace Administration, was put under investigation in November. He hasn't been seen or heard from publicly since last fall.

—Chun Han Wong

AUSTRALIA

Archbishop Resigns Over Abuse Coverup

Pope Francis accepted the resignation of Archbishop Philip Wilson of Adelaide, who was convicted of concealing sex abuse, the Vatican said.

A court found in May that he failed to report to police the abuse of altar boys in the 1970s by another priest, James Patrick Fletcher, who died in jail in 2006. Archbishop Wilson said he hoped his decision would help "heal pain and distress" of those victims.

The archbishop has appealed his conviction, which carried a sentence of a year under house arrest. He denied at his trial having known about the abuse.

—Francis X. Rocca

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

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S&P 2802.60 ▼ 0.58% **S&P FIN** ▲ 0.02% **S&PIT** ▼ 1.78% **DJ TRANS** ▼ 0.22% **WSJ\$IDX** ▼ 0.21% **LIBOR3M** 2.343 **NIKKEI (Midday)** 22476.72 ▼ 0.30% See more at WSJMarkets.com

FANG group of stocks has dropped after disappointing quarterly results, guarded views

BY AKANE OTANI

A closely watched stock index of global technology giants tumbled into correction territory, showing the fragility of investors' bets on the popular FANG group of stocks.

The NYSE FANG+ Index—which comprises Facebook Inc., Amazon.com Inc., Netflix Inc. and Google parent Alphabet Inc., as well as Apple Inc.,

Twitter Inc., Tesla Inc., Nvidia Corp. and Chinese behemoths Alibaba Group Holding Ltd. and Baidu Inc.—dropped Monday as investors pulled back broadly from technology shares.

The index fell 2.8% Monday, slipping 10% below its June 20 record and entering correction territory for the second time this year—something that last happened three years ago, according to the WSJ Market Data Group.

The FANG+ stocks have soared past the S&P 500 this year as investors bet on technology upending the ways people shop, communicate and

entertain themselves.

But over the past month, a number of the FANG group of stocks have tumbled following disappointing earnings reports and cautious outlooks about future growth, with Facebook on Thursday logging the biggest one-day loss in market value of a publicly traded company and Twitter on Friday notching its biggest one-day decline in years.

Both stocks continued slumping Monday, with Facebook off 2.2% and Twitter down 8%.

Those declines helped drag down other stocks such as Amazon.com and Alphabet,

whose shares had initially jumped after their latest quarterly results flew past analysts' estimates.

Amazon tumbled 2.1%, while Alphabet slid 1.8%.

Shares of Netflix, which posted disappointing subscriber numbers earlier this month, fell 5.7%, bringing its July losses to 14%.

Apple, which is often grouped with the FANG stocks, declined 0.6% ahead of Tuesday's earnings report, which will be the next big test for the industry.

Moving forward, "there is going to be more scrutiny for the FAANG names," said Omar

Aguilar, chief investment officer of equities at Charles Schwab Investment Management, adding that "clearly the valuations for certain parts of the technology sector are a little bit stretched."

In recent months, many investors have grown increasingly wary of companies in the social-media space, some of which have run into issues with slowing user growth, controversy over their handling of misinformation and harassment and scrutiny by regulators.

Reports in March showing Facebook had allowed a third-

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AmEx Secretly Raised Prices for Customers

BY ANNAMARIA ANDRIOTIS

For more than a decade, American Express Co.'s foreign-exchange unit recruited business clients with offers of low currency-conversion rates before quietly raising their prices, according to people familiar with the matter.

AmEx's foreign-exchange international payments department routinely increased conversion rates without notifying customers in a bid to boost revenue and employee commissions, the people said. The practice, widespread within the forex department, was occurring until early this year and dates back to at least 2004, the people said.

The practice targeted mostly small and midsize businesses, the people said, a group of customers that accounts for about a quarter of the company's credit-card revenue. AmEx, one of the largest small-business card issuers in the U.S., earlier this year said it hoped to become the leading payments and working-capital provider for small and middle-market companies.

AmEx said it doesn't have contractual pricing arrangements with most of its foreign-exchange customers. "We have training, control and compliance oversight and believe that our transactions are completed and reported in a fair and transparent manner at the rates which the client has authorized," said spokeswoman Marina Norville.

On Monday afternoon, Ms. Norville said the company takes "allegations like these very seriously" and will conduct a review with an external party to determine if its standards are being met. "If we find that we fell short of the mark, we will fix the problems and take appropriate actions to make sure it doesn't recur," she said.

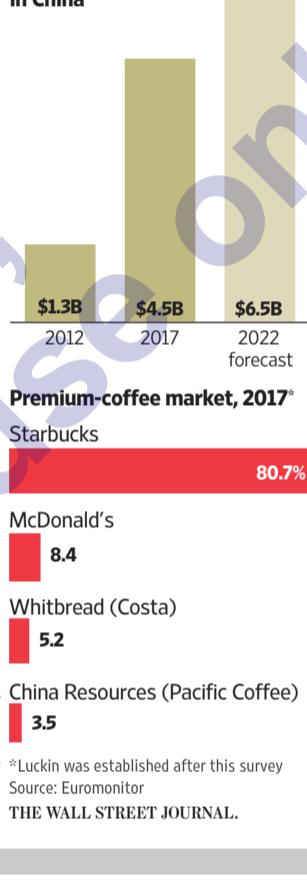
Although the forex business is small—accounting for less than half of a percentage point of AmEx's total revenue—it is among a suite of services the company offers to its small-business customers. Small business is a key growth area for AmEx, which has long sought to distinguish itself from rivals JPMorgan Chase & Co. and Citigroup Inc. by offering generous card-related benefits and tailored services to its consumer and business clients.

Current and former employ-
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Starbucks to Team Up With Chinese E-Commerce Titan



Starbucks is the dominant premium-coffee player in China.



*Lucky was established after this survey
Source: Euromonitor
THE WALL STREET JOURNAL.

GROUND WAR: Starbucks has enlisted Alibaba Group to help deliver its beverages and snacks in China. The U.S. coffee chain's leading position in that market is being challenged by newcomers, some of which tout their delivery service. B6

Goldman Partners Get \$3 Billion Windfall

BY LIZ HOFFMAN

In December 2008, with the financial world in a tailspin, Goldman Sachs Group Inc. issued stock options to 350 of its top executives and board members.

By the time they expire later this year, these options will have earned their owners—most of whom left Goldman years ago—at least \$3 billion, according to a review of regulatory filings by The Wall Street Journal.

The windfall shows how far Wall Street firms, or at least

their stock prices, have come since the crisis. Goldman is less profitable than it was a decade ago, but its share price last year surpassed the previous high set in 2006. Shares of JPMorgan Chase & Co. continue to hit new heights.

Options give their holders the right to buy stock in the future at a preset price. If the stock rises above that, holders can exercise and sell the underlying shares, pocketing the difference. If not, they expire worthless.

The Goldman options still floating around—including

27,000 held by David Solomon, its incoming chief executive—belong to the last vintage on Wall Street. Big banks have all switched to outright share grants, which governance experts say reward steady stewardship over swing-for-the-fences profit-seeking.

The number of outstanding options at the five largest Wall Street firms has fallen by 95% since 2009. None are issuing new ones.

Many banks, short on cash as the crisis deepened, leaned heavily on options that would pay out years later if the firms

managed to stabilize and grow.

JPMorgan CEO James Dimon received two million options in January 2008 with a strike price of \$39.83. He exercised the options last October and hasn't sold any shares since doing so, filings show. With JPMorgan's stock price now at \$117, his paper gains are about \$40 million.

Others have been less fortunate. About 90% of the options granted to Bank of America Corp. executives since 2003 have expired worthless, the Journal previously reported.

Among the biggest banks, Goldman has the best track record. All six of the options series that the bank has granted since 2003 that have expired did so "in the money"—that is, shares were trading above the price at which executives could exercise the options. The lone remaining series are the 2008 options.

The bank issued 36 million options with an exercise price of \$78.78, the stock's closing price on Dec. 17, 2008, according to regulatory filings. They went to most of its 350 or so

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CBS to Tap Law Firm To Probe CEO Claims

BY JOE FLINT AND KEACH HAGEY

CBS Corp. said its board of directors was in the process of selecting an outside law firm to handle an independent investigation into allegations Chief Executive Leslie Moonves sexually harassed women.

No other actions were taken on the matter at the Monday board meeting. In advance of the meeting, which was long scheduled ahead of CBS's second-quarter earnings, some directors had discussed whether Mr. Moonves should step aside during the probe, The Wall Street Journal reported on Sunday.

CBS's statement Monday made no mention of Mr. Moonves's status.

The investigation is in response to a New Yorker article published Friday, in which six women who had professional dealings with Mr. Moonves between the 1980s and late 2000s claimed he sexually harassed them.

National Amusements holds

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STREETWISE | By James Mackintosh

U.S. Economy Has Three Paths

Dating the Cycle

The performance of cyclical stocks relative to defensive since 2016 is redolent of the start of an economic cycle, and moved up with Treasury yields.

MSCI USA Cyclical Sectors Index performance relative to Defensive Sectors Index*



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Economy Has Three Options

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before the last midterms, when Barack Obama wanted people to feel good before voting.

More broadly, this is a story of the American economy approaching full capacity, the Federal Reserve raising rates and an economic cycle well into its final phase after nine years of growth. Investors should be loading up on cash and commodities as they prepare for inflation, and be more cautious on economically sensitive, or cyclical, stocks. The peak in long-dated bond yields is worth watching for, as the cycle approaches recession. This doesn't mean recession is imminent but it does mean a change from the pattern of the past few years.

There is a major caveat that even bearish investors need to pay attention to, however: Cycles often end in wild excess. The last cycle ended with an oil-price bubble and financial boom, while the previous cycle ended with the dot-com bubble. Manias are hard to predict, but now is a good time to be looking for them.

If the U.S. is still in the middle of its economic cycle, there is more growth ahead.

The second narrative is that Mr. Trump has had the nous or the luck to take over an economic cycle at the right time. Rather than being late in a cycle that began with the recovery of 2009, we are in the middle of a cycle that began after the European and Japanese recession of 2012 that the U.S. only just escaped.

The tax cuts have provided a boost at the wrong time but the classic late-cycle signs are a shortage of labor leading to fat pay rises, heavy corporate investment to try to boost productivity and inflation resulting from the economy running well above capacity. None of these signs were present in the latest quarter.

If the U.S. is in the middle of its economic cycle, there is plenty more growth to come. Investors can look forward to better returns on cyclical stocks, rising bond

yields will be good news for equities and cash will remain unattractive. Corporate revenue should finally take off, offset as the cycle moves toward the late stage by a hit to profit margins from faster wage growth, but so far that hasn't happened.

The third narrative relegates the economic data to their proper place as an unreliable and heavily revised set of guesstimates. Instead, focus on the markets: Stocks and bonds are telling a tale of a cycle that began only in 2016, a few months before Mr. Trump was elected.

The performance of bond yields and cyclical stocks from July 2016 was akin to the euphoria that follows the realization that recession is over. Benchmark 10-year Treasury yields have more than doubled from 1.36% to 2.98%, and the MSCI Cyclical Sectors index beat its defensive counterpart by 44 percentage points from the low two years ago. That was slower but almost exactly the same size as the 46-point outperformance by cyclical in the 2009 recovery, up to the 2010 realization that growth wouldn't quickly return to normal.

There may have been no recession this time, but the belief in deflation that set in two years ago wasn't much different. The good news is if the markets are right, there may be many more years before we need to worry about recession.

The bad news is that the markets already are suggesting a pause. Cyclical and bond yields both have taken a breather over the past two months; one interpretation is that they anticipated a lot of growth and it has begun to arrive but it is already priced in.

Another is that a switch to midcycle investing, more balanced between cyclical and防守性, at least outside the energy sector, is under way.

Market prices, of course, are no more gospel truth than are the extrapolations of economists. Worse, the performance of cyclical might have been distorted by the rise of **Amazon.com**, Google and other disruptive technology companies, which are counted in cyclical sectors but are being bought by investors for their ability to grow and profit whatever the economy does.

It is hard to avoid choosing one of these narratives, even though all three are plausible. I'm inclined toward the sugar-rush story line, but anyone who is certain what is going on is almost certainly fooling themselves.

BUSINESS & FINANCE



The heavy-equipment maker's second-quarter profit more than doubled amid strong demand from energy and mining customers.

Caterpillar Pushes Forecast Higher

BY AUSTEN HUFFORD

While the company buys most of its steel from domestic suppliers, it imports some types of specialized steel. Caterpillar said that trade tensions haven't affected its business in China.

Caterpillar said price increases that went into effect this month would help offset the higher costs. Other manufacturers have also said they are passing on higher costs by raising prices. Caterpillar told investors on Monday that rising material costs would be just "one of many factors" when deciding whether to raise prices again.

Freight costs rose as Caterpillar expanded its use of more expensive expedited shipping to meet demand. Higher fuel costs, as well as a shortage of trucks and truck drivers, have pushed up shipping rates.

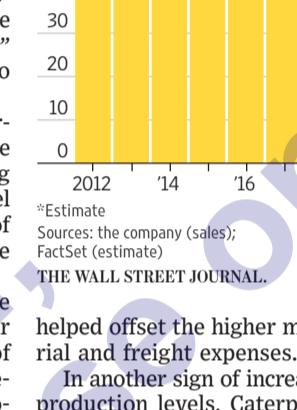
Caterpillar has "seen some issues and challenges in our supply base" as production of machinery accelerates and demand for parts and components increases, interim Chief Financial Officer Joseph Creed said in an interview.

The company has redesigned some parts and processes to ease demands on suppliers. Higher volumes and prices during the quarter

Building Momentum

Caterpillar said strong demand from oil, natural-gas and mining customers boosted revenue in its latest quarter.

Annual sales



*Estimate
Sources: the company (sales); FactSet (estimate)
THE WALL STREET JOURNAL.

helped offset the higher material and freight expenses.

In another sign of increased production levels, Caterpillar added 6,800 full-time workers in the second quarter compared with a year earlier, reaching a total of 101,600 employees at the end of June.

Caterpillar spooked investors in April when it called its first quarter a "high-water

mark" for the year. Executives later said they were referring to margins, not sales or profit. On Monday, Caterpillar reported adjusted earnings of \$2.97 a share for its second quarter, above the first-quarter results of \$2.82 and analyst expectations of \$2.73.

Caterpillar said it now expects adjusted earnings per share this year to be between \$11 and \$12, shifting its previous range up by 75 cents. Caterpillar said the improved outlook didn't take into account the potential for a further increase in trade barriers.

Total second-quarter sales, including revenue from the company's financial products, rose 24% to \$14.01 billion.

In all, the company posted a second-quarter profit of \$1.71 billion, or \$2.82 a share, up from \$802 million, or \$1.35 a share, a year earlier.

Analysts polled by Thomson Reuters had forecast \$13.88 billion in sales.

Caterpillar also disclosed a new \$10 billion share-buyback program beginning next year. Its current plan, which expires this year, had \$4.5 billion left of an original \$10 billion in planned repurchases.

—Bob Tita contributed to this article.

MGM Makes Wager on Sports Betting

BY MARYAM COCKAR

bitions in place since 1992 that effectively restricted the legal market to Nevada.

That has spurred businesses on both sides of the Atlantic to work on launching or expanding U.S. operations in the hope of getting a piece of what could be a multibillion-dollar industry.

Casino and hotel operator MGM said Monday that it wanted to take advantage of the ruling by establishing a 50/50 joint venture with GVC

that would allow both companies to get to market more quickly and with fewer risks than if they go it alone.

The companies each will spend \$100 million on the joint venture and establish separate headquarters in a major U.S. technology hub.

The gambling groups hope to benefit from the combination of MGM's well-known brands and sporting connections in the U.S. with GVC's technology and experience in



Leslie Moonves has been chief executive of CBS since 2006.

CBS Stays Mum on Moonves

Continued from page B1

nearly 80% voting stakes in CBS and **Viacom** Inc. Its president, Shari Redstone, has pushed to merge them despite resistance from Mr. Moonves and his management team.

In May, CBS directors moved to weaken National Amusements' and Ms. Redstone's hold on the company by issuing a dividend that would reduce National Amusements' voting stake to about 20% from 80%. National Amusements changed the CBS bylaws to require approval of a supermajority of directors for such an action. The battle has moved to a Delaware court

and is expected to go to trial in the fall.

CBS and Viacom were in merger talks earlier this year, going so far as to agree on a price, pending the resolution of management issues, including who would be Mr. Moonves's successor.

Mr. Moonves, who has been CEO since 2006, has been lauded for his savvy in the entertainment industry and on Wall Street.

Mr. Moonves began his show-business career as an actor before transitioning into production. He rose to the top of Warner Bros. Television; shows developed on his watch there included "Friends" and "ER."

CBS hired Mr. Moonves in

1995 to turn around its struggling prime-time lineup and he climbed the ranks. Mr. Moonves is known for being very involved in programming and casting decisions at the network and its pay-TV channel Showtime.

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ANNOUNCEMENTS

NOTICE OF SALE

NOTICE OF DISPOSITION OF COLLATERAL

UMB Bank, National Association ("Collateral Agent") as collateral agent for lenders Pine River Master Fund Ltd. and Pine River Fixed Income Master Fund Ltd. (collectively, "Lenders"), hereby gives notice that Amur Finance IV LLC ("Debtor") has committed events of default under various agreements including (a) a Secured Revolving Credit Agreement, dated as of August 5, 2013 (as amended, the "Credit Agreement"), executed by Debtor, Lenders, and other parties thereto, and (b) a Security Agreement dated August 5, 2013 executed by Debtor, Lenders, and other parties thereto (the "Security Agreement"). Collectively, the Credit Agreement and the Security Agreement, including amendments and modifications, along with certain related documentation, are referred to as the "Loan Documents" hereinafter.

IT IS HEREBY GIVEN that Collateral Agent will, in accordance with its rights under the Loan Documents and in accordance with Section 9-610 of the Uniform Commercial Code, hold one or more public sales, in bulk or in parcels, of a portion of the personal property of Debtor, Lenders, and other parties thereto (the "Collateral"). The Collateral that will be sold in connection with this Notice is referred to as the "Subject Collateral" hereinafter.

The Subject Collateral consists of the loan from Amur Finance IV LLC to Amur Equipment Finance, Inc., as evidenced by among other things: (a) a Secured Revolving Credit Agreement, dated as of March 31, 2014, executed by Axis Capital, Inc., as Borrower, Amur Finance IV LLC, as Lender, and Amur Finance Company, Inc., as Administrative Agent; (b) a Promissory Note in the face amount of \$40,000,000, dated March 31, 2014, executed by Axis Capital, Inc., and payable to the order of Amur Finance IV LLC; (c) a Security Agreement, dated as of March 31, 2014, executed by Axis Capital, Inc., Axis Capital West, LLC, and Koen Financial, Inc., as Grantor, and Amur Finance IV LLC as Collateral Agent; (d) a Guaranty dated as of March 31, 2014, executed by Axis Capital West, LLC and Koen Financial, Inc., as Guarantor, and Amur Finance IV LLC as Lender; (e) a Borrowing Notice re April 2015 Supplemental \$10 million Advance ("the "Loan"). The Loan is the principal amount of approximately \$50,000,000.00, accrues interest at a rate tied to LIBOR (as more fully described in the above-referenced documents), and matures on July 25, 2019.

Some or all of the Subject Collateral will be sold by Collateral Agent at one or more public sales to be held on or after 10:00 a.m. on August 29, 2018, at the New York City offices of Sheppard Mullin Richter & Hampton LLP, located at 30 Rockefeller Plaza, New York City, New York 10112.

BUSINESS NEWS

On the Truck

Shares in US Foods fell on Monday on news of a disappointing earnings report.

\$40 a share



Pipeline Builders Press to Keep Up

More construction is planned as oil output in West Texas swamps system

By REBECCA ELLIOTT

Epic Midstream Holdings LP said last year it would build its first oil pipeline in America's most active oil field. It won't be finished until next year, but already Epic Midstream is considering making it twice.

The upstart company, backed by private equity, had been planning to build a conduit capable of carrying 440,000 barrels a day from West Texas to Corpus Christi on the Gulf Coast. Now, it's considering enlarging it to 675,000 barrels a day, after interest picked up in recent months.

"We're taking a look at upsizing very cautiously," said Epic Midstream Chief Executive Phil Mezey. It plans to make a decision in coming weeks.

Bottlenecks have become a problem in the Permian Basin of Texas and New Mexico at the center of the shale boom.

Drillers are pumping so much oil and gas that pipelines considered more than adequate just a few years ago now are overwhelmed.

That is creating opportunity for pipeline builders, who are planning an array of new oil and gas conduits in Texas, where they see increased de-

mand from customers willing to pledge to contracts.

Epic Midstream Holdings, Plains All American Pipeline LP, and Phillips 66 in a partnership with refiner Andeavor are building oil pipelines aimed at Corpus Christi that are set to add upward of 1.8 million barrels of combined capacity late next year.

"We're getting a lot of encouragement from Permian producers to accelerate," Phillips 66 Chief Executive Greg Garland said. "For the past six months the interest level has been high and remained very high."

Companies including Kinder Morgan Inc., meanwhile, are planning to build new natural-gas pipelines.

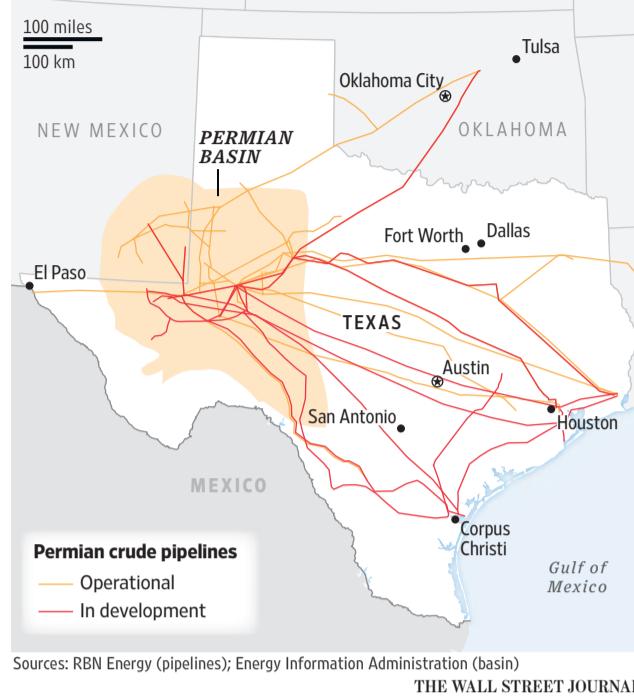
The projects aim eventually to alleviate the Permian's bottlenecks, which are causing some of the region's oil and gas to trade at steep discounts to benchmark prices. Producers selling oil in Midland, Texas, have recently fetched about \$16 a barrel less than what sellers are getting in Oklahoma, according to RBC Capital Markets.

Some analysts, though, say the new pipelines could face delays and increased costs, which could get worse as a result of President Trump's 25% tariffs on steel imports.

Permian drillers now are extracting 3.3 million barrels of oil a day, according to Energy Information Administration estimates, making that oil field alone one of the world's lead-

Go With the Flow

The shale boom in the Permian Basin has boosted demand for oil pipeline capacity.



THE WALL STREET JOURNAL.

ing producers. To put that in perspective, that is more than the average daily crude production of the United Arab Emirates last year, according to the EIA.

Nearly all crude pipes leaving the Permian were operating at full capacity last quarter, up from an average 94% capacity during the previous three months, according to East Daley Capital Advisors. The congestion is expected to worsen

over the next year and a half, further depressing local crude prices.

Magellan Midstream Partners LP has been able to lock in longer-term customers for shipping oil at premium rates, while **Enterprise Products Partners** LP is discussing converting a gas liquids pipeline to carry oil.

Magellan Chief Executive Michael Mears said at a recent conference that customers with

contracts set to expire in September had begun renewing them at above market rate.

"The expectation over the next two years obviously is the differential is going to stay relatively high until the new pipeline infrastructure gets built," he said. "So everyone, intuitively, exercised their option to extend the contracts for two years."

Morgan Stanley has projected slowdowns of three to six months for some of the area's new pipeline projects, citing concerns about right-of-way acquisition and the complexity of proposed lines. It forecasts that lack of pipeline capacity will force drillers to curtail their activity next year.

Some companies also might face higher-than-expected materials costs because of the tariff on imported steel. The U.S. Commerce Department earlier this month rejected Plains All American's request to waive the tariff on a specialized pipe it plans to use in its West Texas pipeline.

Plains Chief Operating Officer Willie Chiang said in recent testimony to the House Ways and Means Committee that the charge was "a major unexpected, unjust retroactive tax that affects the project's economics."

Phillips 66's Mr. Garland, meanwhile, said the tariff would have "minimal" impact on the company's planned West Texas pipeline. "Most of the pipe is American-made," he said.

Harley-Davidson Goes Hog Mild to Attract Younger Bikers



Weakness In Mobile Hits Profit At Samsung

By TIMOTHY W. MARTIN

SEOUL—Samsung Electronics Co. reported flat second-quarter net profit, as a big drop in mobile-phone profit dragged down results that were buoyed by its strength in memory chips.

The world's largest handset maker ships one of every five smartphones globally. But consumers are balking at price tags for new high-end phones at \$1,000 or more.

For the quarter ended June 30, Samsung said its mobile division revenue declined 20% to 24 trillion South Korean won (\$21 billion), from 30.01 trillion won a year earlier. The unit's operating profit fell to 2.67 trillion won from the year-earlier total of 4.06 trillion won.

Samsung said it would try to rejuvenate sales by moving up the release of its flagship Galaxy Note 9 phone. The company also signaled it would get more aggressive on pricing.

The Suwon, South Korea-based company said overall net profit was 11.04 trillion won, versus 11.05 trillion won a year earlier. Revenue fell to 58.5 trillion won from 61 trillion.

Analysts polled by S&P Global Market Intelligence had expected net profit of 11.1 trillion won and revenue of 58.8 trillion won for the quarter.

Harley-Davidson Inc. on Monday said it would add smaller, more versatile motorcycles as it tries to attract the younger riders it needs to boost sales.

U.S. motorcycle sales have fallen for three years, and Harley's dropped 6.4% in the second quarter from a year earlier.

Milwaukee-based Harley said it would introduce a line of middleweight motorcycles starting in 2020, including its first attempt at a so-called adventure

bike that can be used on streets as well as unpaved trails.

By 2022, the company plans to introduce an additional model of adventure bike, as well as several new middleweight street bikes.

Harley also plans to add small motorcycles for sale in Asia that will be built with an undisclosed partner. These motorcycles, which will feature small engines, will fortify Harley's lineup of motorcycles for

customers in rapidly growing foreign markets, particularly India, where sales of small motorcycles are growing at rates of 25% a year.

The company said an electric motorcycle, known as the LiveWire, is on course to be released next year. Harley also said it would redouble its efforts to sustain sales of its bigger motorcycles. Harley-Davidson's share of the U.S. market for big motorcycles slipped to 48.4% in

—Bob Tita

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TECHNOLOGY

WSJ.com/Tech

Data Curbs Put Facebook in Bind

European regulations mean social network has less information for advertisers to use

BY SAM SCHECHNER
AND NICK KOSTOV

Facebook Inc.'s advertisers in Europe are on the front lines of its efforts to tighten privacy practices, and their frustrations help explain why the social-media giant's troubles are far from over.

Facebook said Europe's new privacy law—General Data Protection Regulation, or GDPR—contributed to slowing revenue growth in its quarterly earnings report last Wednesday, which sent its shares plunging nearly 20% over Thursday and Friday. Some advertisers say another looming privacy change at the Silicon Valley giant could amplify that effect.

Under pressure from the GDPR and the scandals over its handling of personal information, Facebook earlier this year said it would shut down ad tools called "Partner Categories" powered by outside data brokers. Those tools let Facebook advertisers target ads at people based on third-party data such as their offline purchasing history.

Facebook eliminated Partner Categories in Germany, France and the U.K. on May 24, the day before the GDPR went into effect. By Oct. 1, Facebook plans to stop showing ads based on Partner Categories globally. This means advertisers will have access only to their own data and data Facebook collects itself.

Some large advertisers, including beer maker **Heineken** NV, say ending a major way to target ads using information gathered by outside companies could have a significant effect on them.

"It's going to have an impact for us because a good chunk of our spend uses non-Facebook targeting" from out-



Europe's new privacy law, General Data Protection Regulation, led Facebook to discontinue tools that let advertisers target users.

side firms, said Ron Amram, the global head of media for Heineken, which says Facebook is the largest recipient of its ad dollars. Mr. Amram said he is "optimistic" Facebook will find a solution to allow the targeting to continue before October.

A Facebook spokesman said such targeting in Partner Categories is "common industry practice," but that the company shut down the feature "to help improve people's privacy on Facebook."

Facebook's deep stores of data on its 2.23 billion monthly users have put it on track to win nearly 18% of the world's digital ad market in 2018, second to 31% for **Alphabet** Inc.'s Google, according to eMarketer. Facebook uses data it collects about users through its app and like buttons to target ads at individuals based on things as diverse as which stores they have been near recently and whether their web browsing reveals an interest in salsa music.

Losing Friends

Facebook says it lost users after the European Union's new privacy law went into effect on May 25.

Daily active users in Europe, quarterly



Note: Europe includes Russia and Turkey
Source: the company
THE WALL STREET JOURNAL.

The reliance on personal information is now also a potential weakness. The GDPR limits how companies can use individuals' data, leading Facebook to let users opt out of some types of targeted advertising. Revelations that personal information on as many

as 87 million Facebook users was improperly obtained by Cambridge Analytica, a data firm that worked for President Trump's 2016 campaign, added pressure on Facebook.

Last Wednesday, Facebook said European revenue in the second quarter increased 47% from a year earlier—still rapid, but well below the 59% of the prior quarter.

Facebook said its number of daily active users in Europe shrank by three million to 279 million at the end of the second quarter from the end of the first quarter, a period during which users were asked to agree to its new terms of service ahead of the GDPR.

Among the users who remained, a minority opted out of certain types of targeted ads, the company said. And Facebook warned that its stricter privacy practices would continue dragging on growth for the rest of the year.

Privacy changes also affected some advertisers. One executive at a major advertiser said confusion over how to certify to Facebook that their own customer data was GDPR-compliant led to pauses in advertising spending.

The decision to remove Partner Categories targeting options already has hit some Facebook advertisers.

French business-analytics startup Toucan Toco was forced to stop using those targeting categories to show its ads to people with job titles indicating they might be interested in its product, according to Adrien Wiesenbach, who runs the company's ad buying. He can still use those categories in the U.S. for now, but Facebook will start phasing out that ability beginning in August.

"I'd be willing to spend more money for better targeting," said Mr. Wiesenbach, who spends about one-third of his €300,000 (\$350,000) annual ad budget on Facebook. "But the targeting in Europe has gotten less granular."

For Sale: As Much As Half of Universal

Universal Music Group's parent will try to sell as much as 50% of the world's biggest music company in an attempt to cash in on a resurgent recording industry.

By Nick Kostov in Paris
and Anne Steele
in Los Angeles

Vivendi SA said it would look for one or more strategic buyers for the Universal stake. The French media conglomerate said it would hire banks soon to assist in the sales process that it plans to start in the fall, and aim to complete it within 18 months.

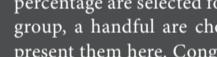
"Our goal is to determine a list of potential partners that would help us to obtain the best valuation for Universal while accelerating its growth," Vivendi Chief Executive Arnaud de Puyfontaine said.

The move is a stark turnaround for Vivendi, which three years ago rebuffed an activist investor's call to sell some or all of Universal and use the funds to boost cash returns. At the time, Vivendi placated U.S. hedge fund P. Schoenfeld Asset Management LP by boosting its dividend. It also turned down an \$8.5 billion offer from SoftBank Corp. for Universal in 2013.

Mr. de Puyfontaine last year suggested the company could float a minority stake in Universal. The company said Monday that it had scrapped plans for the initial public offering of stock, saying it was proving too complex.

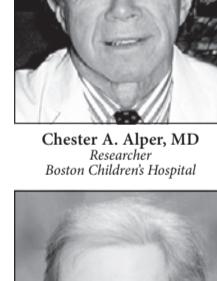
Universal Music has been a bright spot for Vivendi. It has benefited from subscription-based streaming services such as Spotify Technology SA and Apple Inc.'s Apple Music, which have emerged as revenue growth drivers for the music industry.

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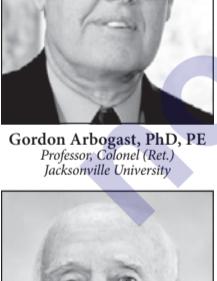
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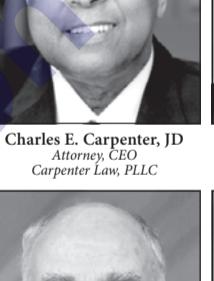
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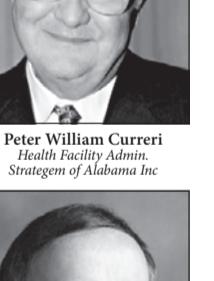
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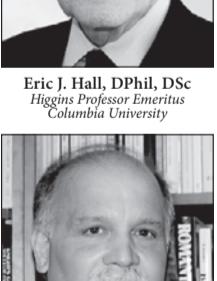
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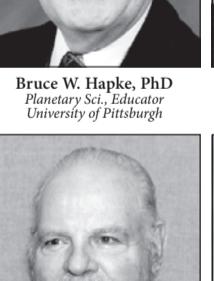
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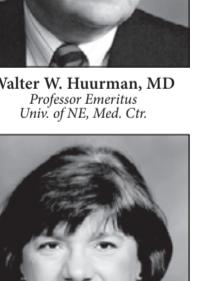
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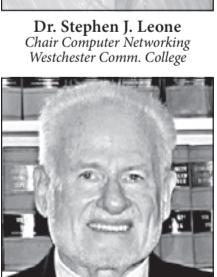
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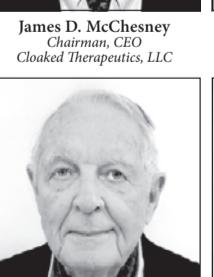
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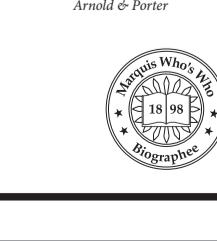
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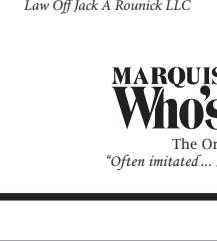
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The company currently assembles its electric cars in Fremont, Calif., and has announced plans for China.

Tesla Hears Pitches in Europe To Host Car-Assembly Plant

Tesla Inc.'s international expansion is gaining momentum, with authorities in Ger-

By William Boston in Berlin and Tim Higgins in San Francisco

many and the Netherlands courting the company for its first major European factory.

The Silicon Valley car maker, which this month announced plans to build its first overseas plant in China, has had preliminary discussions with two German states vying to host a Tesla Gigafactory to build electric cars and their batteries under one roof, officials involved in the talks said.

The talks with Rhineland Palatinate and Saarland are still in their early stages, and might not yield an agreement, the officials said.

Tesla has also discussed building the plant in the Netherlands, said a Dutch government official, who declined to say if that option is still being pursued. Tesla's European headquarters is in the Netherlands, where it also has a facility that prepares for local sale vehicles built in California.

Tesla declined to comment. Chief Executive Elon Musk in June suggested Tesla would

likely announce a factory location in Europe by year-end, later saying in a Twitter post that Germany was a "leading choice."

He said it would make sense to build the plant near Belgium and Luxembourg along the German-French border, positioning it near Tesla's most important markets in Europe.

Tesla assembles most of its vehicles in Fremont, Calif., and makes batteries at the company's factory outside of Reno, Nev. Mr. Musk wants to accelerate global expansion by adding manufacturing capacity in China and Europe—the world's two biggest regions for electric-car sales.

Tesla's proposed China plant will have the capacity to manufacture 500,000 vehicles a year, a large factory by auto-industry standards, and that has European officials hoping Tesla has similar ambitions for Europe.

Discussions about a Gigafactory for Europe come as Tesla boosts production in the face of a surge in new plug-in electric models from other auto makers, including General Motors Co., Ford Motor Co., Volkswagen AG, BMW AG, Renault-Nissan and Jaguar.

Tesla is accelerating pro-

duction of its Model 3 compact sedan and is preparing a compact sport-utility vehicle, to be called the Model Y. Those two vehicles could help transform Tesla from a niche luxury brand into a mass-market car company.

Officials in Rhineland Palatinate and Saarland, which border France, had been lobbying Tesla for some time. After Mr. Musk's tweet last month, they stepped up their efforts with phone calls and written invitations to Mr. Musk.

"We have done everything possible to assure that Rhineland Palatinate is in the competition for the plant," said Ralph Schleimer, a state official involved in the lobbying. He said the state has presented its case to Tesla, but that detailed negotiations haven't begun.

Tesla acquired a robotics maker in Rhineland Palatinate last year. The company, now called Tesla Grohmann Automation, builds equipment for Tesla's Nevada factory.

Saarland officials approached Tesla in March, then reached out again last month, said Anke Rehlinger, the state's economics minister. In early July, Tesla agreed to meet, she said.

BUSINESS NEWS



The hosts of the Weinstein Co. reality show 'Project Runway.'

Weinstein Co. Says Former Producer Isn't Owed Costs

By JONATHAN RANDLES

Weinstein Co.'s liquidators are opposing a request by the former producer of "Project Runway" to have more than a million dollars in its expenses paid ahead of other studio creditors in a forthcoming debt-repayment plan.

Bunim/Murray Productions says it is entitled to more than \$1.3 million in administrative expenses comprising its production fees and costs incurred while developing the 17th season of the reality-television competition. Weinstein Co. filed an objection Friday in the U.S. Bankruptcy Court in Wilmington, Del., challenging the request.

The dispute is part of the wrangling over how Weinstein Co.'s former production partners will be repaid after the studio collapsed after the New York Times and New Yorker magazine published allegations of sexual assault and harassment against studio co-founder Harvey Weinstein.

"Project Runway" was a prized asset in Weinstein Co.'s television business, but Bunim/Murray said in court papers last month that it was unsure after the allegations against Mr. Weinstein came to light that production on the show's next season would continue.

Bunim/Murray said it agreed to produce the next season of "Project Runway" only after negotiating protections in its contract with Weinstein Co. that it says allow it to recoup its fees and

expenses. The production company said it agreed to work on the show because it received assurances from Weinstein Co. before and after the studio filed for chapter 11 bankruptcy protection that its costs would be repaid.

The studio's assets were sold in chapter 11 to private-equity firm **Lantern Capital Partners**, which in May informed Bunim/Murray that it would be shutting down its production on the show. Lantern instead negotiated a new deal to air "Project Runway" on a different network, Bravo, instead of A+E. As part of that arrangement, the show is being produced by a different company, Magical Elves.

Bunim/Murray said it negotiated a "lock-agreement" with Weinstein Co. after it filed for bankruptcy that required immediate repayment of its production fees for the show. Under that provision, the company said it earned fees regardless of whether the show worked on were aired.

The company is also seeking to recoup rent it paid for use of a property in Sherman Oaks, Calif., that it used to work on the show.

Weinstein Co. said Friday that the agreement in dispute only requires the studio to pay fees to Bunim/Murray if episodes of the show are being produced for A&E.

Lawyers representing Bunim/Murray and Weinstein Co. didn't immediately return messages on Monday seeking comment.



Natural products like Zarbee's are new to J&J's U.S. market.

J&J to Buy Zarbee's as It Builds Natural Products

By NISHANT MOHAN
AND JAEWON KANG

Johnson & Johnson's consumer-health arm has reached a deal to buy children's cough-syrup maker Zarbee's Naturals, a move that could help the company better reach health-conscious millennial parents and bolster sales from the unit.

The New Jersey-based medical-products giant and private-equity firm **L Catterton**, the majority owner of Zarbee's, didn't disclose the price of the deal Monday.

Natural products are new to J&J's U.S. market, said Katie Devine, global president for over-the-counter products with J&J's consumer business.

"We recognize that in health and wellness, natural products are growing at twice the rate of traditional OTC medicine in retail sales," Ms. Devine said. "Millennial parents, even more so than previous generations, are increasingly interested in trying natural solutions first."

Sales of J&J's consumer brands have seen paltry growth, particularly in the U.S., with over-the-counter consumer-product sales growing by 1.1% during the first six months of 2018 compared with

a year earlier. The company cited Nielsen data showing overall sales of U.S. natural products grew by 7.2% in 2017 compared with traditional over-the-counter drugs, which grew by 3.4%.

Zarbee's, founded in 2008 by pediatrician Zak Zarbock, markets its health-care products as healthier alternatives to traditional over-the-counter medicines since they don't contain alcohol, gluten or dyes. J&J's portfolio of consumer brands includes Tylenol, Motrin, Listerine and Band-Aid.

Zarbee's in April launched a line of children's gummy multivitamins, a product J&J doesn't currently sell.

L Catterton is expecting to garner about a 10-times return on its exit of Zarbee's, said a person familiar with the situation. The private-equity firm invested in the health-products maker in 2011 through its growth fund.

L Catterton was formed in 2016 by private-equity firm Catterton; Groupe Arnault, and **LVMH Moët Hennessy Louis Vuitton SE**.

Among its portfolio companies are restaurant chain Chopt Creative Salad Co. and cosmetic brand Cover FX Skin-care.

This announcement is neither an offer to purchase nor a solicitation of an offer to sell shares of common stock of QUALCOMM Incorporated. The Offer (as defined below) is made solely by the Offer to Purchase, dated July 31, 2018, and the related Letter of Transmittal, and any amendments or supplements thereto. The Offer is not being made to, nor will tenders be accepted from or on behalf of holders of shares of common stock in any jurisdiction in which the making or acceptance of offers to sell shares of common stock would not be in compliance with the laws of that jurisdiction. In any jurisdiction where the securities, blue sky, or other laws require the Offer to be made by a licensed broker or dealer, the Offer shall be deemed made on behalf of QUALCOMM Incorporated by the Dealer Manager (as defined below) or one or more brokers or dealers registered under the laws of such jurisdiction.

Qualcomm

Notice of Offer to Purchase for Cash by QUALCOMM Incorporated

Up to \$10 Billion in Value of Shares of its Common Stock

At a Cash Purchase Price Not Greater than \$67.50 per Share Nor Less than \$60.00 per Share

QUALCOMM Incorporated, a Delaware corporation (the "Company," "we," "us," or "our"), is offering to purchase up to \$10 billion in value of shares of its common stock, \$0.0001 par value per share (the "Shares"), at a price not greater than \$67.50 nor less than \$60.00 per Share, to the seller in cash, less any applicable withholding taxes and without interest, upon the terms and subject to the conditions described in the Offer to Purchase, dated July 31, 2018 (the "Offer to Purchase"), and the related Letter of Transmittal (the "Letter of Transmittal," which together with the Offer to Purchase, as they may be amended or supplemented from time to time, constitute the "Offer").

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, AT THE END OF THE DAY ON AUGUST 27, 2018, UNLESS THE OFFER IS EXTENDED (SUCH DATE AND TIME, AS THEY MAY BE EXTENDED, THE "EXPIRATION DATE").

The Offer is not conditioned on the receipt of financing or any minimum number of Shares being tendered. The Offer is, however, subject to other conditions as set forth in the Offer to Purchase.

Upon the terms and subject to the conditions of the Offer, which will be conducted through a "modified Dutch auction" process, the Company will determine a single per Share purchase price, not greater than \$67.50 nor less than \$60.00 per Share, to the seller in cash, less any applicable withholding taxes and without interest, that the Company will pay for Shares properly tendered and not properly withdrawn in the Offer, taking into account the total number of Shares tendered and the prices specified, or deemed specified (as described below), by tendering stockholders. The Company will select the single lowest purchase price (in multiples of \$0.25) within the price range specified above that will allow it to purchase up to \$10 billion in value of Shares. Upon the terms and subject to the conditions of the Offer, if, based on the purchase price determined by the Company, Shares having an aggregate value of less than or equal to \$10 billion are properly tendered and not properly withdrawn, the Company will select the lowest price that will allow the Company to buy all the Shares that are properly tendered and not properly withdrawn before the Offer expires. All Shares the Company purchases in the Offer will be acquired at the same purchase price regardless of whether any stockholder tenders at a lower price. Only Shares properly tendered at prices at or below the purchase price selected by the Company and not properly withdrawn will be purchased. However, because of the "odd lot" priority, proration and conditional tender provisions described in the Offer to Purchase, the Company may not purchase all of the Shares tendered at or below the purchase price if, based on the purchase price determined by the Company, more than \$10 billion in value of Shares are properly tendered and not properly withdrawn. If any properly tendered Shares are not purchased under the Offer or are properly withdrawn before the Expiration Date, or if less than all Shares evidenced by a stockholder's certificate(s) are tendered, the Company will credit the certificates to book entry for unpurchased Shares promptly after the expiration or termination of the Offer.

The Company reserves the right, in its sole discretion, to change the per Share purchase price range and to increase or decrease the value of Shares sought in the Offer, subject to applicable law. In accordance with the rules of the Securities and Exchange Commission, the Company may increase the number of Shares accepted for payment in the Offer by no more than 2% of the outstanding Shares without extending the Offer.

As of July 25, 2018, there were 1,469,128,915 Shares issued and outstanding. At the maximum purchase price of \$67.50 per Share, the Company could purchase 148,148,148 Shares if the Offer is fully subscribed, which would represent approximately 10.19% of our issued and outstanding Shares as of July 25, 2018. At the minimum purchase price of \$60.00 per Share, the Company could purchase 166,666,667 Shares if the Offer is fully subscribed, which would represent approximately 11.3% of our issued and outstanding Shares as of July 25, 2018. The Shares are listed and traded on the NASDAQ Global Select Market under the symbol "QCOM." Stockholders are urged to obtain current market quotations for the Shares before deciding whether and at what purchase price or purchase prices to tender their Shares.

The Company expressly reserves the right, in its sole discretion, to delay acceptance for payment of, and payment for, any Shares by giving oral or written notice of such extension to Computershare Trust Company N.A., the depositary for the Offer (the "Depositary"), and making a public announcement of such extension not later than 9:00 a.m., New York City time, on the first business day after the previously scheduled Expiration Date.

The Offer will expire at 12:00 midnight, New York City time, at the end of the day on Monday, August 27, 2018, unless the Company exercises its right, in its sole discretion, to extend the period of time during which the Offer will remain open. Beneficial owners should be aware that their broker, dealer, commercial bank, trust company or other nominee may establish its own earlier deadlines for participation in the Offer. Accordingly, beneficial owners wishing to participate in the Offer should contact their broker, dealer, commercial bank, trust company or other nominee as soon as possible in order to determine the times by which such owner must take action in order to participate in the Offer.

In accordance with the instructions to the Letter of Transmittal, stockholders wishing to tender Shares must specify the price or prices, not greater than \$67.50 nor less than \$60.00 per Share, at which they are willing to sell their Shares to the Company in the Offer. Alternatively, each stockholder desiring to tender Shares can choose not to specify a price and, instead, elect to tender their Shares at the purchase price ultimately paid for Shares properly tendered and not properly withdrawn in the Offer. If a stockholder agrees to accept the purchase price determined in the Offer, its Shares will be deemed to be tendered at the minimum price of \$60.00 per Share for the purpose of determining the Final Purchase Price, which could result in the tendering stockholder receiving the minimum price of \$60.00 per Share. See the Offer to Purchase for recent market prices for the Shares. Stockholders wishing to tender Shares must follow the procedures set forth in the Offer to Purchase and in the related Letter of Transmittal. Generally, for Shares to be properly tendered pursuant to the Offer, the certificates for such Shares (or confirmation of receipt of such Shares pursuant to the procedure for book-entry transfer set forth in the Offer to Purchase), together with a properly completed and duly executed Letter of Transmittal, including any required signature guarantees, or an "Agent's Message" (as defined in the Offer to Purchase), and any other documents required by the Letter of Transmittal, must be received before 12:00 midnight, New York City time, at the end of the day on Monday, August 27, 2018, by the Depositary at one of its addresses set forth on the back cover of the Offer to Purchase.

Upon the terms and subject to the conditions of the Offer, if, based on the purchase price determined by the Company, Shares having an aggregate value in excess of \$10 billion (or such greater amount as the Company may elect to pay, subject to applicable law) are properly tendered at or below the purchase price and not properly withdrawn prior to the Expiration Date, the Company will purchase Shares as follows:

- *first*, all Odd Lots (as defined in the Offer to Purchase) of less than 100 Shares at the Final Purchase Price (as defined in the Offer to Purchase) from stockholders who properly tender all of their Shares at or below the Final Purchase Price and who do not properly withdraw them before the Expiration Date (tenders of less than all of the Shares owned, beneficially or of record, by such Odd Lot Holder (as defined in the Offer to Purchase) will not qualify for this preference);
- *second*, after purchasing all the Odd Lots that were validly tendered at or below the Final Purchase Price, subject to the conditional tender provisions (whereby a holder may specify a minimum number of such holder's Shares that must be purchased if any such Shares are purchased), the Company will purchase all Shares properly tendered at or below the Final Purchase Price on a pro rata basis with appropriate adjustment to avoid purchases of fractional Shares; and
- *third*, only if necessary to permit the Company to purchase \$10 billion in value of Shares (or such greater amount as the Company may elect to pay, subject to applicable law), the Company will purchase Shares conditionally tendered (for which the condition was not initially satisfied) at or below the Final Purchase Price, by random lot, to the extent feasible. To be eligible for purchase by random lot, stockholders whose Shares are conditionally tendered must have tendered all of their Shares.

For purposes of the Offer, the Company will be deemed to have accepted for payment (and therefore purchased), subject to proration and conditional tender provisions of the Offer, Shares that are properly tendered at or below the purchase price selected by the Company and not properly withdrawn only when, as and if the Company gives oral or written notice to the Depositary of the Company's acceptance of the Shares for payment pursuant to the Offer.

Upon the terms and subject to the conditions of the Offer, the Company will accept for payment and pay the per Share purchase price for all of the Shares accepted for payment pursuant to the Offer promptly after the Expiration Date. In all cases, payment for Shares tendered and accepted for payment pursuant to the Offer will be made promptly, subject to possible delay in the event of proration, but only after timely receipt by the Depositary of: (i) certificates for Shares or a timely book-entry confirmation of the deposit of Shares into the Depositary's account at the Book-Entry Transfer Facility (as defined in the Offer to Purchase); (ii) a properly completed and duly executed Letter of Transmittal, including any required signature guarantee (or, in the case of a book-entry transfer, an Agent's Message (as defined in the Offer to Purchase)); and (iii) any other required documents.

Because of the difficulty in determining the number of Shares properly tendered and not properly withdrawn, and because of the proration and conditional tender provisions described in the Offer to Purchase, the Company expects that it will not be able to announce the final proration factor or commence payment for any Shares purchased pursuant to the Offer until after the Expiration Date. The preliminary results of any proration will be announced by press release as promptly as practicable after the Expiration Date.

Tenders of Shares are irrevocable, except that such Shares may be withdrawn at any time prior to the Expiration Date and, unless such Shares have been accepted for payment as provided in the Offer, stockholders may also withdraw their previously tendered Shares at any time after 12:00 midnight, New York City time, at the end of the day on September 25, 2018. For a withdrawal to be effective, a written notice of withdrawal must be received in a timely manner by the Depositary at one of its addresses listed on the back cover of the Offer to Purchase. Any such notice of withdrawal must specify the name of the person having tendered the Shares to be withdrawn, the number of Shares to be withdrawn and the name of the registered holder of the Shares to be withdrawn, if different from the name of the person who tendered the Shares. If certificates for Shares have been delivered or otherwise identified to the Depositary, then, prior to the physical release of those certificates, the serial numbers shown on those certificates must be submitted to the Depositary and, unless an Eligible Institution (as defined in the Offer to Purchase) has tendered those Shares, an Eligible Institution must guarantee the signatures on the notice of withdrawal. If a stockholder has used more than one Letter of Transmittal or has otherwise tendered Shares in more than one group of Shares, the stockholder may withdraw Shares using either separate notices of withdrawal or a combined notice of withdrawal, so long as the information specified above is included. If Shares have been delivered in accordance with the procedures for book-entry transfer described in the Offer to Purchase, any notice of withdrawal must also specify the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Shares and otherwise comply with the Book-Entry Transfer Facility's procedures.

The Company will decide, in its sole discretion, all questions as to the form and validity, including time of receipt, of notices of withdrawal, and each such decision will be final and binding on all parties absent a finding to the contrary by a court of competent jurisdiction. None of the Company, its Board of Directors, Goldman Sachs & Co. LLC (the "Dealer Manager"), Computershare Trust Company, N.A., as the Depositary, Georganse LLC, as the information agent (the "Information Agent"), or any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal or incur any liability for failure to give any such notification.

Qualcomm believes that the Offer represents an efficient mechanism to provide Qualcomm's stockholders with the opportunity to tender all or a portion of their stock and thereby receive a return of some or all of their investment in Qualcomm if they elect. The Offer provides stockholders with an opportunity to obtain liquidity with respect to all or a portion of their stock without the potential disruption to Qualcomm's stock price.

Generally, if you are a U.S. Holder (as defined in the Offer to Purchase), your receipt of cash from us in exchange for the Shares you tender will be a taxable transaction for United States federal income tax purposes. The cash you receive for your tendered Shares will generally be treated for United States federal income tax purposes either as consideration received in respect of a sale or exchange of the Shares purchased by us or as a distribution from us in respect of Shares. We urge you to consult your own tax advisor as to the particular tax consequences to you of the Offer. If you are a non-U.S. Holder (as defined in the Offer to Purchase), because it is unclear whether the cash you receive in connection with the Offer will be treated (i) as proceeds of a sale or exchange or (ii) as a distribution, the Depositary or other applicable withholding agent may treat such payment as a dividend distribution for withholding purposes. Accordingly, if you are a non-U.S. Holder, you may be subject to withholding on payments to you at a rate of 30% of the gross proceeds paid, unless you establish an entitlement to a reduced rate of withholding by timely completing, under penalties of perjury, the applicable Form W-8. Non-U.S. Holders are urged to consult their tax advisors regarding the application of United States federal income tax withholding and backup withholding, including eligibility for a withholding tax reduction or exemption and the refund procedure. All stockholders should read carefully the Offer to Purchase, in particular Section 3 and Section 13, for additional information regarding the United States federal income tax consequences of participating in the Offer and should consult their financial and tax advisors.

The Company's Board of Directors has authorized us to make the Offer. However, none of the Company, the members of its Board of Directors, the Dealer Manager, the Depositary or the Information Agent makes any recommendation to any stockholder as to whether to tender or refrain from tendering any Shares or as to the price or prices at which stockholders may choose to tender their Shares. None of the Company, the members of its Board of Directors, the Dealer Manager, the Depositary or the Information Agent has authorized any person to make any recommendation with respect to the Offer. Stockholders should carefully evaluate all information in the Offer to Purchase and in the related Letter of Transmittal and should consult their own financial and tax advisors. Stockholders must decide whether to tender their Shares and if, so, how many Shares to tender and the price or prices at which a stockholder will tender. In doing so, a stockholder should read carefully the information in the Offer to Purchase and in the related Letter of Transmittal before making any decision with respect to the Offer.

On July 12, 2018, the Company announced a quarterly cash dividend of \$0.62 per Share, to be paid on September 26, 2018 to each stockholder of record as of the close of business on September 5, 2018. Only stockholders of record as of the close of business on September 5, 2018 will receive the cash dividend. Consequently, stockholders of any tendered Shares accepted by us will not receive the declared quarterly cash dividend with respect to those tendered Shares (unless the Offer is extended such that those tendered Shares are not accepted by us prior to the close of business on September 5, 2018).

On July 24, 2018, our Board of Directors authorized a stock repurchase program of up to \$30 billion, which includes the Shares to be purchased in this Offer. Following the completion or termination of the Offer, we intend to, from time to time, continue to repurchase Shares. The amount of Shares we buy and the timing of any such repurchases depends on a number of factors, including our stock price, the availability of cash and/or financing on acceptable terms, the amount and timing of dividend payments and blackout periods in which we are restricted from repurchasing Shares as well as any decision to use cash for other strategic objectives. Rule 13e-4 under the Exchange Act generally prohibits us and our affiliates from purchasing any Shares, other than in the Offer, until at least ten business days after the Expiration Date, except pursuant to certain limited exceptions provided in Exchange Act Rule 14e-5. Following that time, we expressly reserve the absolute right, in our sole discretion from time to time in the future, to purchase Shares, whether or not any Shares are purchased pursuant to the Offer, through open market purchases, privately negotiated transactions, accelerated stock repurchases, tender offers, exchange offers or otherwise, upon the same terms or on terms that are more or less favorable to the selling stockholders in those transactions than the terms of the Offer. We cannot assure you as to which, if any, of these alternatives, or combinations thereof, we might pursue.

The information required to be disclosed by Rule 13e-4(d)(1) of the Securities Exchange Act of 1934, as amended, is contained in the Offer to Purchase and is incorporated herein by reference. The Company is also filing with the Securities and Exchange Commission an Issuer Tender Offer Statement on Schedule TO, which includes certain additional information relating to the Offer.

Copies of the Offer to Purchase and the related Letter of Transmittal are being mailed to all holders of the Shares, including brokers, dealers, commercial banks and trust companies whose names, or the names of whose nominees, appear on the Company's stockholder list or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of Shares, as reflected on the records of the transfer agent as of July 30, 2018. The Offer is explained in detail in those materials.

Questions or requests for assistance may be directed to the Information Agent or the Dealer Manager, at their respective addresses and telephone numbers set forth below.

BUSINESS NEWS

Starbucks Gets Help Delivering in China

Coffee chain enlists services of Alibaba unit in increasingly competitive market

Starbucks Corp. is joining with e-commerce giant **Alibaba Group Holding** Ltd. to deliver beverages and snacks, according to people with knowledge of the tie-up, as the coffeehouse chain seeks to reverse a sales decline in China.

Under the deal set to be announced this week, Alibaba's Ele.me food-delivery unit will begin providing service this fall, the people said.

Starbucks, which declined to comment Monday, had said last week it was planning to take on a delivery partner in China.

"We start this fall in Beijing and Shanghai, with plans to



A sales decline is posing a new challenge for the U.S. company.

expand across the country as we enter calendar 2019," Belinda Wong, chief executive of Starbucks China, told analysts as the company reported quarterly earnings.

Starbucks has dominated

the premium-coffee scene in China since its arrival in 1999, with more than 80% of the market as of last year, according to the latest estimate from Euromonitor International, a research group.

But in late June, the company said a government crackdown on third-party delivery services was taking a toll on sales.

Last week, Starbucks said sales in China fell 2% for the three months ended June, compared with 7% growth in the year-earlier quarter.

Analysts say the blame for the slump extends beyond the delivery crackdown, which was aimed at weeding out unlicensed operators.

"The problem is Starbucks is no longer viewed as an aspirational brand," said Shaun Rein, managing director of Shanghai-based China Market Research Group.

Starbucks is also facing increased competition, including from startup Luckin Coffee in Beijing. Luckin has opened 660 outlets since January—mostly bare-bones shops where the

coffee is brewed and then delivered to customers by scooter-riding workers. Customers order via a smartphone app and get a free cup if their coffee doesn't arrive in 30 minutes.

The company was founded by Qian Zhiya, 42, who previously co-founded Chinese car-sharing service UCAR Inc., a rival to Didi Chuxing Technology Co. Luckin entered the so-called unicorn club of startups valued at \$1 billion with a \$200 million financing round in July.

A medium-size cup of American-style coffee from Luckin costs \$3, a dollar less than the comparable Starbucks offering. Mr. Rein estimates the company has already captured 5% of the market.

"Luckin tastes good and is cheaper," said Lin Jinghan, a 32-year-old business analyst

who orders from the Chinese coffee chain three times a week. "It's also convenient: you open the app, order what you want, choose the delivery option, and then wait in office. That's something Starbucks doesn't have."

As Starbucks moves into delivery, it will be important for the company to execute at a high level, said Summer Chen, an analyst at research firm Mintel. "If Starbucks cannot guarantee fast delivery and coffee quality during the process, its adoption of delivery would backfire on the brand," she said.

Starbucks stands to gain if Alibaba uses its marketing clout to steer customers to its coffee, said Jeffrey Towson, an investment professor at Peking University.

—Xiao Xiao in Beijing and Liza Lin in Shanghai

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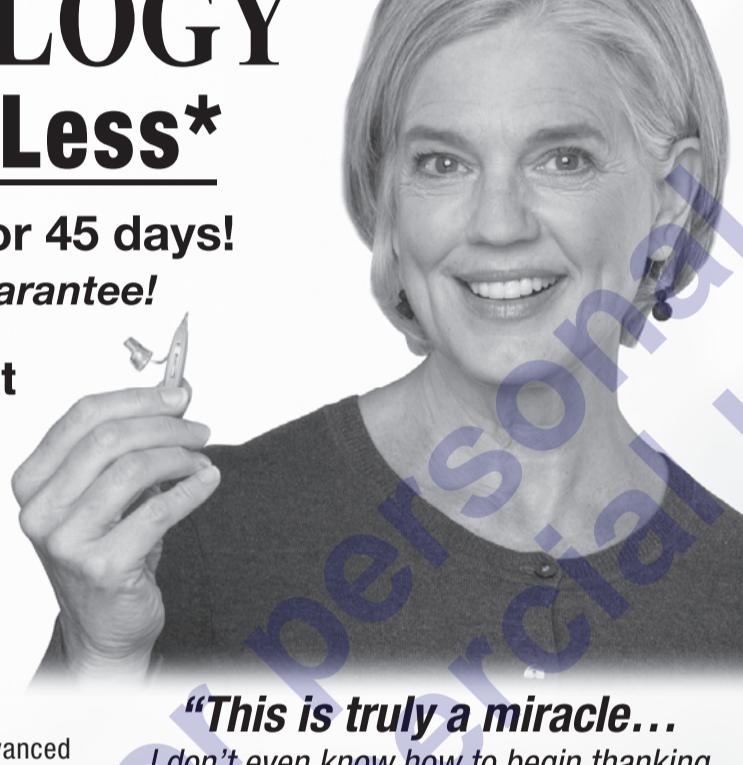
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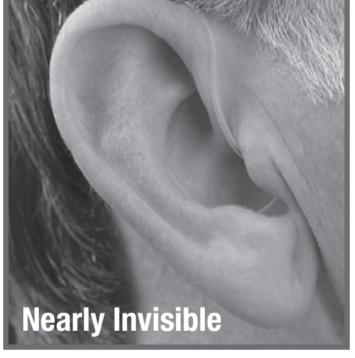


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— Sherri H., Granville, NY

Can a Hearing Aid Delay or Prevent Alzheimer's and Dementia?

A study by the National Institute on Aging suggests older individuals with hearing loss are significantly more likely to develop Alzheimer's and dementia over time than those who retain their hearing. They suggest that an intervention — such as a hearing aid — could delay or prevent this by improving hearing!



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AmEx Lifted Rates For Some

Continued from page B1
ees say the division's commissions-driven culture fueled the practice.

Here's how it worked, according to current and former employees: Salespeople would often tell potential clients that AmEx would beat the price they were paying banks or other financial institutions to convert currency and send money abroad. The salespeople didn't inform customers that the margin, a markup that AmEx tacks on to the base currency exchange rate, was subject to increase without notice, they said. Prospective clients with certain AmEx cards also were accurately told they could earn points for the transactions, they added.

Some time later, salespeople would increase the margin without informing the customers, the current and former employees said. To spot the change, customers generally would have to log in to their accounts and compare the rate AmEx was offering to the market exchange rate at the time of the transaction. As recently as this year, they said, some customers had margins increased anywhere from 0.05 to 0.25 of a percentage point. In earlier years, margins rose by as much as 3 percentage points, according to former employees.

When clients did notice a change and inquire, AmEx salespeople sometimes would blame a glitch or other technicality and lower the margin, according to current and former employees and emails reviewed by The Wall Street Journal.

Current and former employees say the division targeted smaller businesses in part because they're less likely than large corporations to have employees who closely track transactional details.

Managers directed salespeople to keep the details of the payment arrangements hazy when speaking with potential customers and to avoid putting pricing terms in emails, current and former employees said.

Managers in the division tapped the brakes on the practice in recent months, according to current and former employees, following an article in

the Journal late last year alleging similar practices at **Wells Fargo** & Co. An AmEx manager told salespeople they would need his approval before offering prospective clients a margin of less than 0.70 of a percentage point, according to an email reviewed by the Journal.

Current and former employees said the price changes were common knowledge within the forex business. Paul Hargreaves, who ran AmEx's global foreign-exchange services division for many years, was aware of the tactic, former employees said. Following a long career with AmEx, he left the company earlier this year, Ms. Norville said.

Mr. Hargreaves couldn't be reached for comment.

Current and former employees describe an environment focused on bringing in as many new clients as possible and squeezing revenue out of them before they depart. Employees were told that the average forex customer did business with AmEx for around

Salespeople would increase the margin without informing the customers.

three years, they said.

"Who cares if they come or go? Let's make money while we have them," one current employee said, referring to the attitude within the division.

"We constantly reinforce the importance of acting in the best interest of our customers," said AmEx spokeswoman Ms. Norville.

Commissions are tied to monthly revenue targets, which are heavily influenced by margins and transaction volume, current and former employees said.

Salespeople who hit their targets earn a commission of 15% of the monthly revenue new customers generate, according to current and former employees. Commissions rise to around 25% after an annual revenue target of as much as around \$285,000 is exceeded, they said. Sales reports distributed by managers list how much revenue salespeople generate, they added.

At AmEx, rate increases often would occur after managers told salespeople to review their accounts and adjust pricing, the current and former employees said.

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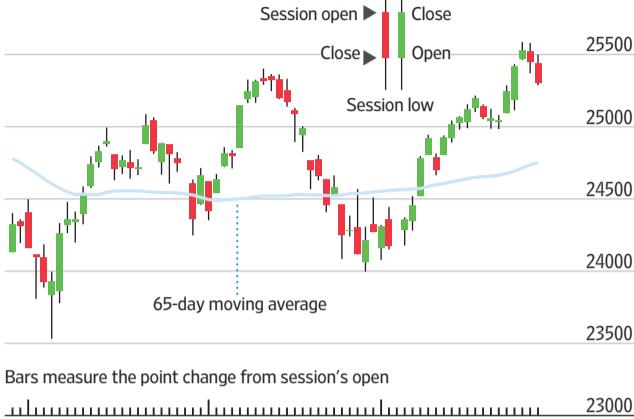
MARKETS DIGEST

EQUITIES

Dow Jones Industrial Average

25306.83 ▼144.23, or 0.57%
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 22.97 19.88
P/E estimate * 16.59 18.42
Dividend yield 2.13 2.29
All-time high 26616.71, 01/26/18



Bars measure the point change from session's open

Apr. May June July

*Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

S&P 500 Index

2802.60 ▼16.22, or 0.58%
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio * 24.13 23.94
P/E estimate * 17.65 18.94
Dividend yield 1.82 1.97
All-time high 2872.87, 01/26/18



Apr. May June July

Nasdaq Composite Index

7630.00 ▼107.41, or 1.39%
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio * 26.11 25.75
P/E estimate * 21.43 21.45
Dividend yield 0.96 1.10
All-time high: 7932.24, 07/25/18



Apr. May June July

65-day moving average

7200

7025

7225

7550

7375

7900

7200

7025

6850

Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.
	Dow Jones	Industrial Average	Transportation Avg	Utility Average	Total Stock Market	Barron's 400	Nasdaq Composite	Nasdaq 100	PHLX\$ Gold/Silver	PHLX\$ Oil Service
Industrial Average	25500.16	25287.38	25306.83	-144.23	-0.57	26616.71	21674.51	15.6	2.4	12.6
Transportation Avg	11098.78	10923.26	10933.53	-23.65	-0.22	11373.38	9021.12	19.1	3.0	9.1
Utility Average	720.82	714.71	717.02	-4.58	-0.63	774.47	647.90	-1.3	-0.9	7.4
Total Stock Market	29285.37	29025.11	29063.03	-182.67	-0.62	29630.47	25030.26	13.7	5.0	9.7
Barron's 400	753.00	746.16	746.36	-4.42	-0.59	761.84	629.56	14.3	5.0	9.8

Nasdaq Stock Market

Nasdaq Composite	7740.26	7604.24	7630.00	-107.41	-1.39	7932.24	6213.13	20.2	10.5	14.2
Nasdaq 100	7299.07	7158.78	7193.10	-103.68	-1.42	7508.59	5786.54	22.3	12.5	16.1

S&P

S&P 500 Index	2821.74	2798.11	2802.60	-16.22	-0.58	2872.87	2425.55	13.5	4.8	9.9
MidCap 400	1982.00	1965.81	1966.41	-8.81	-0.45	2009.15	1691.67	11.7	3.5	9.4
SmallCap 600	1046.90	1036.02	1036.56	-4.74	-0.46	1059.77	817.25	20.0	10.7	13.5

Other Indexes

Russell 2000	1669.50	1652.73	1653.13	-10.21	-0.61	1706.99	1356.90	16.0	7.7	10.3
NYSE Composite	12961.90	12895.62	12903.43	-17.91	-0.14	13637.02	11699.83	7.8	0.7	5.8
Value Line	579.09	575.10	575.28	-2.20	-0.38	589.69	503.24	9.0	2.3	5.5
NYSE Arca Biotech	5040.92	4952.42	4966.06	-69.98	-1.39	5132.77	3787.17	26.3	17.6	5.6
NYSE Arca Pharma	563.60	558.94	563.26	4.10	0.73	593.12	514.66	5.9	3.4	-2.1
KBW Bank	110.63	109.59	109.68	0.16	0.15	116.52	89.71	14.3	2.8	11.6
PHLX\$ Gold/Silver	77.25	76.46	76.68	-0.10	-0.13	93.26	76.42	-10.1	-10.1	18.0
PHLX\$ Oil Service	154.06	151.73	152.19	2.53	1.69	170.18	117.79	13.3	1.8	-5.9
PHLX\$ Semiconductor	1375.02	1351.90	1358.56	-13.68	-1.00	1449.90	1060.02	25.2	8.4	27.6
Cboe Volatility	14.46	12.98	14.26	1.23	0.94	37.32	9.14	39.0	29.2	5.5

\$ Nasdaq PHLX

Sources: SIX Financial Information; WSJ Market Data Group

Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 50,000 shares.

Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	% chg	After Hours	High	Low
SPDR S&P 500	SPY	8,931.8	280.08	0.13	0.05	281.44	279.72	
Wells Fargo	WFC	4,138.2	58.45	-0.04	-0.07	58.75	58.22	
Bank of America	BAC	3,619.8	31.32	0.01	0.03	31.35	31.29	
21st Century Fox Cl A	FOXA	3,426.5	45.16	...	unch.	45.29	44.93	
Finl Select Sector SPDR	XLF	2,232.1	28.15	...	unch.	28.20	28.11	
Invesco QQQ Trust I	QQQ	2,110.2	175.34	0.23	0.13	175.37	175.01	
Citigroup	C	1,838.9	72.29	...	unch.	72.4		

COMMODITIES

WSJ.com/commodities

Futures Contracts

Metal & Petroleum Futures

	Contract		Open		High hilo		Low		Settle		Chg		Open interest		
	Open	High	hi	lo	Low	Settle	Chg	interest	Open	High	hi	lo	Settle	Chg	Open interest
Copper-High (CMX) -25,000 lbs.; \$ per lb.	2.7930	2.7955		2.7500	2.7790	-0.0105	3,233								
Aug	2.7930	2.8095		2.7585	2.7920	-0.0100	164,966								
Gold (CMX) -100 troy oz.; \$ per troy oz.	122.50	123.90		121.10	121.30	-1.70	38,703								
Oct	122.50	122.90		122.10	122.40	-1.40	49,351								
Dec	123.10	123.40		122.80	123.10	-1.20	322,508								
Feb'19 123.70	123.90	124.00		123.50	123.70	-1.30	29,156								
Jun	124.20	124.50		124.20	124.70	-1.40	6,481								
Dec	126.80	126.80		126.30	126.80	-1.30	3,720								
Palladium (NYM) -50 troy oz.; \$ per troy oz.	921.30	929.10		916.90	922.50	4.00	18,408								
Sept	917.60	923.30		918.40	919.60	4.90	3,006								
Platinum (NYM) -50 troy oz.; \$ per troy oz.	825.10	829.20		824.40	826.60	-0.20	24								
Oct	833.20	834.50		824.30	831.50	-0.20	76,405								
Silver (CMX) -5,000 troy oz.; \$ per troy oz.	15.440	15.470		15.410	15.475	0.038	691								
Sept	15.460	15.565		15.415	15.537	0.044	155,445								
Crude Oil, Light Sweet (NYM) -1,000 bbls.; \$ per bbl.	69.02	70.43		68.80	70.13	1.44	431,821								
Oct	68.00	69.19		67.81	68.95	1.22	240,152								
Dec	67.26	68.35		67.10	68.14	1.10	290,079								
Jan'19 66.92	68.00	68.85		67.82	1.04	167,836									
June	65.27	66.23		65.27	66.02	0.83	161,310								
Dec	63.57	64.41		63.57	64.20	0.65	211,811								
NY Harbor ULSD (NYM) -42,000 gal.; \$ per gal.	2.1571	2.1738		2.1522	2.1710	-0.0158	13,510								
Sept	2.1621	2.1790		2.1565	2.1765	-0.0171	127,191								
Gasoline-NY RBOB (NYM) -42,000 gal.; \$ per gal.	2.1645	2.1783		2.1538	2.1603	-0.0016	14,645								
Sept	2.1144	2.1288		2.1067	2.1132	0.0004	154,059								
Natural Gas (NYM) -10,000 MMBtu's; \$ per MMBtu.	2.790	2.814		2.766	2.797	0.015	293,808								
Oct	2.807	2.832		2.786	2.817	0.12	158,654								
Nov	2.854	2.879		2.838	2.866	0.018	137,811								
Jan'19 3.043	3.067	3.027		3.057	3.058	0.018	156,532								
March	2.901	2.931		2.896	2.925	0.020	130,606								
April	2.617	2.635		2.607	2.635	0.022	136,195								

Agriculture Futures

	Contract		Open		High hilo		Low		Settle		Chg		Open interest		
	Open	High	hi	lo	Low	Settle	Chg	interest	Open	High	hi	lo	Settle	Chg	Open interest
Corn (CBT) -5,000 bu.; cents per bu.	364.00	369.25		363.50	367.25	5.25	583,574								
Sept	378.75	383.25		377.50	381.25	5.00	806,264								
Oats (CBT) -5,000 bu.; cents per bu.	233.50	236.50		232.00	232.75	.75	1,752								
Sept	240.25	243.75		240.00	242.75	3.50	3,258								
Soybeans (CBT) -5,000 bu.; cents per bu.	878.50	881.25		871.25	875.00	4.50	27,406								
Nov	894.25	896.50		886.00	891.00	5.75	432,935								
Soybean Meal (CBT) -100 tons; \$ per ton.	335.00	336.30		331.40	333.90	1.20	16,732								
Dec	339.00	335.40		331.50	333.70	2.60	204,247								
Soybean Oil (CBT) -60,000 lbs.; cents per lb.	28.54	28.66		28.25	28.31	-.25	18,716								
Dec	29.00	29.16		28.77	28.85	-.17	246,305								
Rough Rice (CBT) -2,000 cwt.; \$ per cwt.	1200.00	1204.00		1173.50	1195.50	-.50	6,878								
Nov	1182.50	1195.00		1169.00	1193.50	5.00	1,458								
Wheat (CBT) -5,000 bu.; cents per bu.	533.50	551.75		532.75	546.50	16.00	184,251								
Sept	536.25	553.00		535.25	547.75	15.25	122,180								
Wheat (KCO) -5,000 bu.; cents per bu.	609.25	624.00		609.25	615.50	2.95	21,477								
Dec	612.00	625.00		612.00	625.00	1.25	1,477								
Wheat (MPLS) -5,000 bu.; cents per bu.	595.00	611.00		595.00	601.00	8.50	26,904								
Sept	595.00	611.00		595.00	611.00	9.25	21,477								
Cattle-Feeder (CME) -50,000 lbs.; cents per bu.	152.125	152.875		151.075	151.500	-.800	11,660								
Sept	151.875	152.775		151.025	151.350	-.825	14,878								
Cattle-Live (CME) -40,000 lbs.; cents per lb.	108.725	109.400		107.900	108.425	-.200	42,								

BIGGEST 1,000 STOCKS

How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE American and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq BX (formerly Boston), Chicago Stock Exchange, Cboe, NYSE National and Nasdaq ISE. The list comprises the 1,000 largest companies based on market capitalization. Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume. Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Monday, July 30, 2018

Net Stock Sym Close Chg

A B C

ABB ABB 22.84 -.06

ADT ADT 8.75 -.23

AES AES 13.30 -.07

Aflac AFL 46.33 -.12

AGNC Inv AGNC 19.61 .031

ANGI Homesvc ANGI 15.49 -.071

Ansys ANSS 16.80 -.56

ASML ASML 214.50 1.20

AT&T T 32.00 -.09

AbbottLabs ABT 65.17 -.09

AbbVie ABV 91.48 -.05

Abiomed ABMD 354.42 12.75

Accenture ACN 159.42 2.60

ActivisionBlitz ATVI 72.75 -.261

AdobeSystems ADOBE 243.22 12.49

AdvanceAuto AAPL 140.68 0.83

AdMicroDevices AMD 19.42 .46

Aegon AEG 6.43 .08

AerCap AER 56.00 -.69

Aetna AET 189.65 .06

AffiliatedMtrs AMG 18.72 7.67

AgileTechs ACH 64.63 -.12

AgnicoEagle AEM 41.94 .014

AlProduc ADP 161.23 0.03

AlkamTech ALK 75.29 4.35

AlaskaAir ALK 32.88 -.17

Albermarle ALB 92.42 -.84

Alcoa AA 42.58 -.06

AlexandriaEst AER 122.83 .27

AlexionPharm ALXN 131.51 0.32

Alibaba BABA 184.82 4.60

AlignTech ALGN 348.58 5.19

Alkermes ALK 45.94 .01

Allegany Y 626.87 3.68

Allegion ALLE 80.93 -.06

Allergan AGN 183.99 5.53

AllianceData ADTS 26.05 0.26

AllianzEnergy LNT 42.31 -.09

Allstate ALL 94.59 0.05

AlyförFinancial ALYF 27.37 0.12

AlnymPharm ALNY 6.81 7.70

Alphabet C GOOG 1291.48 18.76

Alphabet D GOOGL 1200.84 22.85

Altaba AABA 72.39 1.71

AlticeUSA ATUS 16.35 0.33

Altria MO 58.45 0.55

AlumoofChina ALCH 11.50 0.25

Amazon.com AMZN 1792.23 8.05

Ambev ABV 102.70 0.48

Amdocs DOX 67.52 0.42

Amoco UHL 37.21 2.13

Ameren AEE 61.42 -.05

AmericaMovil AMV 17.17 0.18

AmericaMvnl AMOV 17.06 0.02

AmericanAirlines AA 38.97 0.72

AEP AEP 70.40 0.74

AmerExpress APX 100.85 0.03

AmericanFin AFN 111.82 0.67

AmherstMgmt AMH 21.95 0.02

AmherstErst AMH 21.95 0.02

Amidcor PETL 45.72 1.20

Amico ACO 10.71 0.03

AmherstMgmt AMH 21.95 0.02

AmherstErst AMH 21.95 0.02

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BANKING & FINANCE

China's Tech Homecoming Flounders

BELJING—China's ambitious plan to lure technology giants back home is languishing, with companies and a regulator blaming each other and a weaker stock market.

By Chao Deng, Liza Lin and Julie Steinberg

With new securities known as Chinese depositary receipts, Beijing had aimed to reverse a trend of overseas listings by marquee names—such as **Alibaba Group Holding Ltd.**, **Tencent Holdings Ltd.** and **Baidu Inc.**, which have a combined market value of more than \$1 trillion. Similar to American depositary receipts, the instruments would give local investors access to such fast-growth stocks, while the issuers' other shares would continue to trade offshore.

The plan, formalized in June, was supposed to show that exchanges in mainland China can compete with rivals in Hong Kong, New York and elsewhere. However, people close to the companies said the securities regulator has cooled on a quick rollout, while people close to

the regulator said companies are dragging their feet on applying.

At least two—Alibaba and **JD.com Inc.**—have suspended issuance plans.

People close to the companies said the regulator has become less eager about asking for supporting documents. Officials worry the weak equity market—Shanghai's benchmark stock index is down 13% this year—couldn't absorb such large share offerings, one said.

The amounts would be small compared to the \$7.4 trillion of shares listed in Shanghai and Shenzhen, but the fear is these brand-name listings would divert funds from less glitzy local shares.

A lawyer who deals frequently with the China Securities Regulatory Commission said there is a lack of enthusiasm even from its own officials and not enough support from other government agencies, which have priorities of their own, chiefly stabilizing the economy.

The CSRC news department didn't respond to a request for comment.



A Tencent-backed Mr. Fresh unmanned kiosk. Tencent's chief executive had indicated the Chinese firm would consider a local listing.

Despite all the difficulties, the process isn't dead and could advance if Chinese stocks rebound, people on both sides said.

People close to the regulator said it would like to see at least one listing, to show progress and attract further listings.

The market downturn isn't a total roadblock, they said.

"We've basically laid out the road and now it's a matter of whether cars want to drive

on it," said one person.

The impasse is especially awkward because China has long toyed with introducing CDRs: The idea was floated as far back as 2001.

Over the years, Chinese companies have gone offshore to tap what was until recently a much deeper pool of investor capital.

Some were incorporated abroad, making them ineligible to offer shares at home, or

wanted to make use of U.S. rules that can give founders and executives outsize control over a company. Others wanted to avoid tough Chinese listing rules, which require three years of profits before going public.

For a while, it seemed the regulator would get its way. Executives such as Tencent Chief Executive Pony Ma, JD.com Chief Executive Officer Richard Liu and Alibaba Chief

Financial Officer Maggie Wu said publicly they would entertain a local listing.

In June, Chinese smartphone maker **Xiaomi Corp.** became the first to apply to list in Shanghai through depositary receipts. But it indefinitely postponed its mainland share sale, while going public in Hong Kong. Since then, no companies have applied.

—Shen Hong contributed to this article.

Morgan Stanley Links Pay to Amassing Assets

By LISA BEILFUSS



current 55.5%, through a combination of using the new technology and hitting certain targets for new net assets acquired from clients.

They stand to make even more by getting clients to take on more debt, from mortgages to portfolio-backed loans, and do more of their banking at Morgan Stanley.

The average Morgan Stanley adviser brings in about \$1.1 million a year to the firm in revenue generated from clients.

Some of the changes center on smaller clients, often an afterthought for Wall Street brokerages because they are less profitable.

As new technology frees up advisers from some day-to-day tasks, Morgan Stanley is encouraging advisers to take on clients with as little as \$100,000 in assets under management.

The firm will pay advisers an extra percentage point in compensation if they put those relatively small clients into a plan under which they can see the customer's assets beyond those held at Morgan

Stanley. These plans are meant to accomplish certain financial goals for the client and can help advisers bring in more of the client's wealth that isn't held at the firm.

Advisers taking on clients with less than \$250,000 in assets would face a penalty if those clients don't use the enhanced service.

Advisers also will make more by getting clients to do their everyday banking at Morgan Stanley. For accounts where the firm has full transparency into a client's financial life, advisers will earn 0.15% on the balances, up from a current 0.05%.

As part of its push to encourage more lending, the firm is near-doubling the reward for advisers who bring in more client debt. Executives said changes to the lending-growth award program would allow advisers to earn significantly more than in past years.

The compensation revamp at Morgan Stanley follows pay changes this year at rival Merrill Lynch, the wealth-management arm of **Bank of America Corp.**

Bond Yields Stuck Below 3%

By CHELSEY DULANEY

U.S. Treasury yields have stalled out just below 3% even as the U.S. economy posted its best quarter of economic growth in years.

The yield on the 10-year Treasury note ended Monday at 2.97% after rising as high as 2.99% in recent sessions. That comes despite a report Friday that showed the U.S. economy grew by 4.1% in the second quarter, the strongest rate in around four years.

The muted reaction in Treasury yields is counterintuitive. Such a strong growth reading ostensibly should have helped support expectations for long-term economic growth and, in turn, supported long-term yields, analysts say.

Ian Lyngen, head of U.S. rates strategy at BMO Capital Markets, said the decline illustrates how many investors believe growth will slow throughout the second half as the effects of last year's U.S. tax overhaul fade.

The 10-year Treasury yield rallied for much of this year—in May it breached 3.1% for the first time since 2011—on economic optimism. The upward move faltered in May as investors flocked to the safety of government bonds, pushing up prices and yields down.

Since then, yields have stagnated as investors weigh economic data against widening trade spats that could hurt growth.

Expectations inflation will remain subdued are also weighing on long-term yields. The Federal Reserve's preferred inflation gauge, the personal consumption expenditures index excluding food and energy, rose 2% in the second quarter. That was down from 2.2% in the first quarter.

Higher inflation would likely encourage investors to dump Treasury bonds, driving up yields, by eroding the value of their fixed payments. But that isn't a big worry at the moment.

Whether that continues to be the case will depend on several events this week that could cause investors to reassess expectations for growth and inflation.

On Wednesday, the Fed releases its latest policy statement and the Treasury will announce plans for issuing new debt. On Friday, the Labor Department releases its monthly jobs data.

Puerto Rican Power Utility in Debt Pact

By ANDREW SCURRIA

Investors in Puerto Rico's bankrupt electricity monopoly have struck a debt-restructuring deal, inching the largest public U.S. power utility closer to privatization, according to people familiar with the matter.

A bondholder settlement would shave billions of dollars in debt from the public power utility known as Prepa and mark the most significant restructuring deal negotiated under Puerto Rico Gov. Ricardo Rosselló.

The federal board overseeing Puerto Rico's finances also supports the agreement, which requires court approval to become effective, the sources said. The deal gives a bondholder group including **Franklin Advisers Inc.**, **BlueMountain Capital Management LLC** and **Knighthead Capital Management LLC** a chance to exit from a roughly \$3 billion combined investment that has tumbled in value since the oversight board's 2016 arrival.

A frequently traded Prepa bond maturing in 2040 was trading at 44.25 cents on the dollar on Monday, according to Electronic Municipal Market Access.

Terms, a person familiar with the matter said. Discussions are expected to continue on the rest of the utility's debt. The partial settlement is a step toward the oversight board's goal of breaking up Prepa's monopoly structure and coaxing new investors to take over its power generation and distribution businesses.

Bondholders would surrender their claims at a discount under the deal and receive new long-dated bonds in exchange,

a person familiar with the matter said. Cutting legacy debt obligations helps Mr. Rosselló achieve politically popular rate cuts without imperiling Prepa's finances.

Prepa's financial problems, decades in the making, are at the center of the U.S. territory's financial crisis. High electricity bills, driven by Prepa's legacy obligations and inefficient power plants, have depressed family incomes and economic growth.

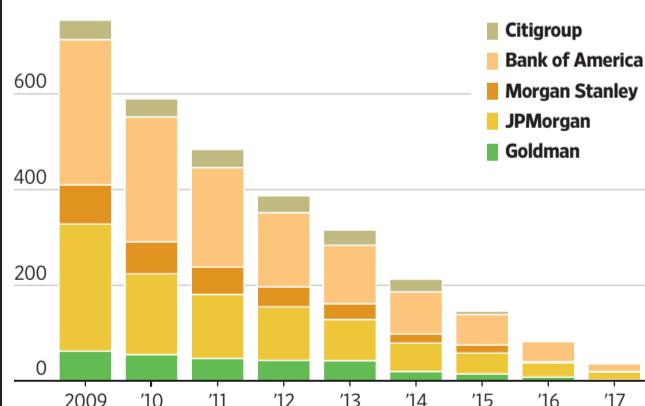
Blackouts were frequent while residents went to extreme lengths to curtail their power use. Puerto Rico's decade-long recession worsened the utility's finances as business and residential power demand declined.

The oversight board placed Puerto Rico's central government into bankruptcy last year and later voted to move Prepa under court protection as well.

Dwindling Options

Stock options on Wall Street are mostly a thing of the past.

Options outstanding at year end



Sources: the companies (options); SIX (share price)

Goldman Partners' Windfall

Continued from page B1
partners, as well as members of the board.

The timing proved prescient: Within two weeks, shares had cracked \$80. By the time the options fully vested in 2012, the stock price was on a nearly uninterrupted rise that would accelerate after Donald Trump won the presidency.

At Friday's closing price of \$237.64, each option is worth about \$159 after accounting

for the exercise cost, more than twice face value.

Since 2014, Goldman executives have reported stock sales tied to these options of \$506 million, according to a Journal analysis of filings. Goldman partners must report their trades on a regulatory form, known as a 13D, because they agree to vote as a bloc on firm matters, such as annual board elections.

Those filings tell only part of the story, though. The filings are intermittent—13Ds are required only when a significant portion of the partnership's shares change hands—and capture trading in only the previous 60 days.

Partners who sell during periods not covered by the filings don't have to report it. Neither do those who sold af-

ter retiring from the firm; three-quarters of people who were partners in 2008 are gone. Some options would have been forfeited if their holders left Goldman for a competitor.

All told, the 13D filings account for about one-third of the options. Other, annual Goldman filings show that more than 31 million of the 2008 options have been exercised, the bulk of them in 2014 and 2015, when Goldman shares were trading between \$170 and \$200. That suggests pretax profits of about \$3 billion.

One person who didn't share in the windfall is exiting CEO Lloyd Blankfein. He didn't get any of the 2008 options, part of forgoing a bonus that year.

Goldman issued stock options to executives in 2008 that ended up being worth billions.

Goldman Sachs share price



THE WALL STREET JOURNAL.

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MARKETS

Treasuries Drop as Traders Put Focus On BOJ

By ORLA McCAFFREY

U.S. government-bond prices fell Monday ahead of a much-watched Bank of Japan monetary policy decision.

The yield on the benchmark 10-year Treasury note settled at 2.975%, compared with 2.962% Friday. For bonds, yields move inversely to price.

The 10-year yield rose sharply in early trading, hitting 2.991% before paring most of its climb,

CREDIT MARKETS while the yield on the 10-year Japanese government bond settled at 0.106%, its highest close since January 2016.

Early Tuesday, the Bank of Japan said it was keeping its deposit rate at minus 0.1% and the 10-year yield target around 0%—essentially keeping policy unchanged.

Investors awaited the Bank of Japan's policy decision after concerns the central bank might change its interest-rate targets sparked selling in bonds around the world earlier this month.

The meeting kicked off a week of scheduled central-bank gatherings in the U.S., England, Brazil and India.

The rise in yields ahead of the meeting showed investors testing the Japanese central bank's commitment to its yield-curve control policy, which creates a gap between short-term and long-term interest rates to entice lending, some analysts said.

"If the expectation by global investors is that the Bank of Japan is about to join the ranks of key central banks that are normalizing policy or doing quantitative tightening, we could see a global steepening of interest rates and it could spell trouble for risk assets," according to Chris Sullivan, chief investment officer at the United Nations Federal Credit Union, speaking before the Bank of Japan's announcement.

Monday's move came after the 10-year yield last week notched its biggest one-week advance since mid-May, when it settled at a multiyear high of 3.109% before retreating in following weeks.

The Fed is expected to leave the benchmark interest rate at a range of 1.75% to 2% at its July policy meeting starting Tuesday, while the Bank of England is expected to raise rates for just the second time in a decade Thursday.

AUCTION RESULTS

Here are the results of Monday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

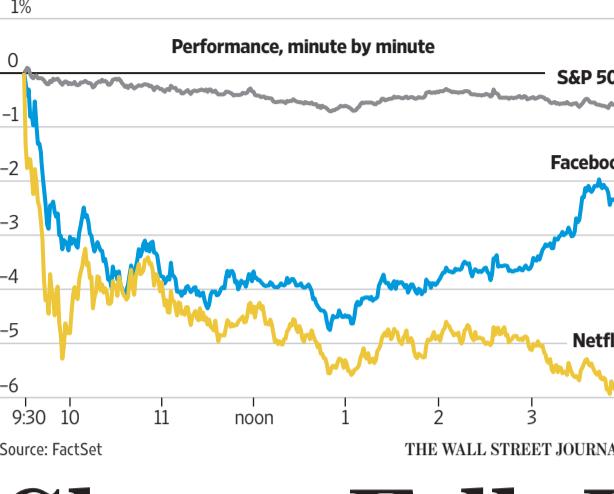
13-WEEK AND 26-WEEK BILLS

	13-Week	26-Week
Applications	\$146,233,385,800	\$141,384,838,400
Accepted bids	\$51,000,745,800	\$45,000,421,400
*noncomp	\$896,430,500	\$787,913,700
*foreign noncomp	\$500,000,000	\$300,000,000
Auction price (rate)	99.949444	98.908000
Coupon equivalent	(2.03%)	(2.160%)
Bids at clearing yield accepted	71.22%	73.19%
Cusip number	912796QF9	912796PFB

Both issues are dated Aug. 2, 2018. The 13-week bills mature on Nov. 1, 2018; the 26-week bills mature on Jan. 31, 2019.

Leadership Retreat

Shares of Facebook and Netflix continued tumbling Monday following their disappointing earnings reports.



Source: FactSet

THE WALL STREET JOURNAL.



Shares of the majority owner of MoviePass plunged 60% after negative developments last week.

CRAIG BARRETT/GETTY IMAGES FOR MOVIEPASS

Shares Fall, Led by Slide in Tech

By BEN ST. CLAIR
AND ALLISON PRANG

U.S. stocks fell Monday as shares of technology companies tumbled and investors braced for a busy week of corporate earnings and central bank meetings.

The Dow Jones Industrial Average declined 144.23 points, or 0.6%, to 25306.83.

MONDAY'S 26-WEEK MARKETS slipped 16.22 points, or 0.6%, to 2802.60 and

the tech-heavy Nasdaq Composite dropped 107.41 points, or 1.4%, to 7630.00.

Tech stocks in the S&P 500 slid 1.8%, with shares of Face-

book off \$3.83, or 2.2%, to \$171.06 and Twitter down 2.74%, or 8%, to 31.38 as last week's disappointing earnings reports weighed on sentiment.

Netflix, meanwhile, dropped 20.25, or 5.7%, to 334.96 bringing its losses for the month to date to 14%.

Despite those companies' high-profile stumbles, the

earnings season is shaping up to be strong. As of Friday, 83% of the companies in the S&P 500 that had reported results posted stronger-than-expected earnings and 73% beat estimates on revenue, according to FactSet. Earnings as a whole are on track to rise 21%.

Those results, along with positive U.S. economic data, have supported U.S. stocks, with the S&P 500 and Dow industrials both posting gains for four consecutive weeks.

Richard Golinski, chief investment officer of BOS, which manages \$4.5 billion, said investors are "rethinking tech to some degree" because of Netflix's and Facebook's recent troubles.

"I don't think it's going to be the start of a big selloff," he said, adding that for it "to tip the balance," another big name like Apple or Amazon.com would have to run into problems.

The tech sector, which has

powered much of the gains in U.S. stocks this year, will face its next big test after Tues-

day's closing bell when Apple is slated to report its results.

Michael Farr, chief executive of Farr, Miller & Washington, said his firm has cut down on its tech positions in recent weeks because the "valuation's very full." But like Mr. Golinski, he didn't think tech's recent issues were necessarily a sign of a bigger problem and

cautioned, "Don't start planning the funeral yet."

The energy sector was one of the biggest gainers in the S&P 500 Monday, adding 0.8%, as the price of U.S. crude settled up 2.1% at \$70.13 a barrel.

Financial stocks in the index also ended slightly higher, as the yield on the 10-year U.S. Treasury note settled at

2.975% versus 2.962% on Friday. Higher interest rates tend to boost banks' net interest margins, a key measure of lending profitability.

In other earnings-related news, shares of Caterpillar fell 2.81, or 2%, to 139.75 despite the heavy-equipment maker raising its earnings guidance for the year. Meanwhile, shares of Tyson Foods dropped 4.84, or 7.6%, to 58.72 after the meatpacker lowered its earnings guidance for the year because of tariffs and volatility in commodities.

Separately, shares of the

majority owner of MoviePass,

Helios & Matheson Analytics,

dragged down the Nasdaq,

with shares tumbling 1.20, or

60%, to 80 cents a share after the company last week took out a \$5 million loan to pay vendors to restore the app's operations.

Elsewhere, investors will be

turning their attention this

week to monetary policy, with

the Federal Reserve, Bank of

Japan and Bank of England

holding meetings. Of the three

central banks, only the BOE is expected to raise interest rates.

"Inflation pressures are now emerging, and these are inflation pressures that central banks have to deal with, with tighter monetary policies," said Peter Elston, chief investment officer at Seneca Investment Managers.

The Fed's strategy has been

to raise rates gradually, signaling

two additional rate rises before the end of the year. The

central bank, which begins its

two-day policy meeting Tues-

day, isn't expected to raise

rates again until September.

Central banks have been con-

flicted with disparate global growth, with annualized growth in eurozone gross domestic product expected to be around 1.6% during the three months through June, well below the

4.1% recorded by the U.S.

In Asia early Tuesday, Japan's Nikkei was down 0.3%

before the Bank of Japan an-

nouncement. Hong Kong's Hang Seng Index was down 0.4%.

A FANG Index Is in Correction

Continued from page B1
party firm to improperly access tens of millions of users' data sent many of the year's best-performing technology stocks tumbling, in what was the first correction for the NYSE FANG+ index this year.

While some investors used

the spring pullback as an opportunity to scoop up shares at a discount, betting that companies dependent on data ultimately wouldn't be affected by increased scrutiny by regulators, others have remained cautious ever since—especially after an uneven round of earnings results.

"Facebook had lower users and Twitter had lower users—so people are wondering if this is a continuing trend of users seeking out other avenues," said Mohit Bajaj, director of ETF trading solutions at brokerage WallachBeth Capital. "I do think there's been conviction as far as profit-taking because a lot of these tech names have run up so far," he said.

At this juncture, Charles



Amazon.com shares tumbled 2.1% as investors pulled back broadly from technology stocks and short sellers piled in.

GIULIO NAPOLITANO/BLOOMBERG NEWS

Schwab's Mr. Aguilar believes investors would do well to diversify their holdings.

He added that he thinks

specific areas within the technology industry—namely e-commerce and consumer electronics—are more likely to

fare well in the second half of the year.

To be sure, the NYSE

FANG+ index is still up nearly

23% so far this year.

But as the technology rout

continued Monday, short sellers

piled into bets on the in-

dustry's behemoths falling even further.

Investors betting against

Facebook, Amazon, Apple,

Netflix and Alphabet are down

\$8.1 billion for the year. But

they have recouped almost

one-quarter of their 2018

losses in just the past three trading days, raking in around \$921 million in mark-to-market profits as of Monday afternoon, according to Ihor Dusaniwsky, managing director of predictive analytics at S3 Partners.

Supply Risks Weigh on Crude Prices

BY STEPHANIE YANG
AND CHRISTOPHER ALESSI

Oil prices rose Monday, as concerns about supply risks outweighed signs of growing production.

Light, sweet crude for September delivery gained \$1.44, or 2.1%, to \$70.13 a barrel

on the New York Mercantile Exchange.

Brent, the global benchmark, gained 68 cents, or 0.9%, to \$74.97.

Prices have fluctuated in recent weeks on conflicting signs of supply and demand, as Iran sanctions and economic turmoil in Venezuela threaten to remove barrels from the global market.

Meanwhile, major exporters like Saudi Arabia and Russia are looking to increase their own production.

"The market's attempting to stabilize," said Gene McGillian, vice president of research at Tradition Energy. "Right now



Saudi oil minister Khalid Al-Falih is looking to increase output.

we're seeing a balance between the ideas that the increase in production from Saudi Arabia and Russia is going to offset the loss in Venezuela and Iran."

Analysts also attributed Monday's gains to a weaker dollar.

Commodities like crude are priced in dollars and become

cheaper for foreign buyers when the U.S. currency declines.

The WSJ Dollar Index fell

<p

MARKETS

Yield Curve Throws Investors a Curveball

By AKANE OTANI

A decades-old recession predictor is flashing warning signs, but a flattening yield curve doesn't necessarily portend falling stock prices.

The yield curve, the gap between short- and long-term government bond yields, has narrowed to near 11-year lows in recent months, raising fears the U.S. economy may be headed for a slowdown. Over the last 50 years, a recession has followed every time the yield on two-year Treasurys has exceeded that of 10-year Treasurys—a scenario known as an inverted yield curve.

Yet new Credit Suisse data offer evidence that stocks often continue churning out gains several months after the yield curve inverts.

The S&P 500 has risen around 16% in the 18 months following an inversion of the curve, going back to 1978, according to a Credit Suisse analysis released this month. Stocks have also managed to push higher over longer time periods, rising an average of 14% in the 24 months following an inversion of the curve and 9.5% in the 30 months afterward.

That pattern suggests the current nine-year bull run is likely to show resilience.

The conventional wisdom surrounding an inverted yield curve stems from two different paths coming together. Investors see longer-term bond yields climbing during strong growth and shorter-term ones rising when monetary policy tightens. When the gap narrow, questions are raised about whether the expansion has run its course.

Several analysts say the recent flattening of the yield curve has mostly been driven by monetary policy and continued growth—and not by fears of an imminent slowdown in expansion.

"The bond market isn't

The stock market has managed to produce gains in four of the last five periods when the yield curve inverted.

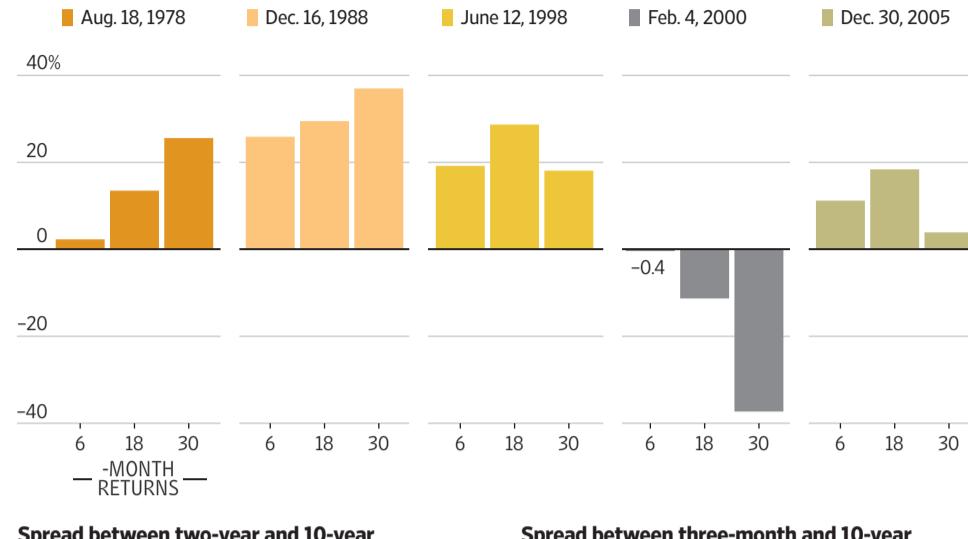
Analysts who believe the spread between three-month and 10-year Treasurys is a more reliable predictor of recessions than the two-10 spread think a downturn is further away.

Sources: Credit Suisse (returns); Ryan ALM (yields)

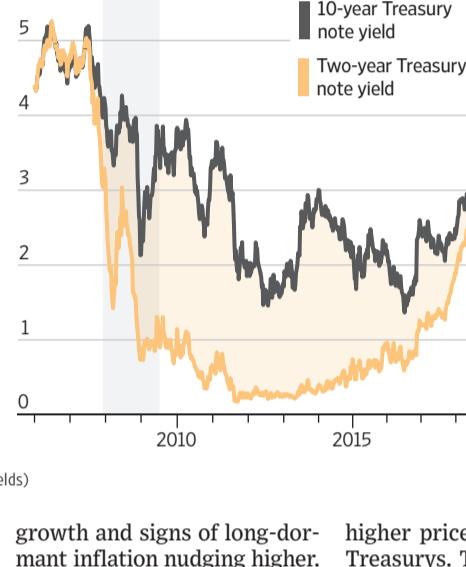
flashing yellow or red yet," said Brian Nick, chief investment strategist at Nuveen. "The prevailing story here is still that the U.S. is growing pretty nicely."

The Federal Reserve has raised short-term interest rates twice to a range between 1.75% and 2%—and signaled it could do so twice more before the year ends—citing a robust labor market, steady U.S.

S&P 500 returns after the yield on two-year Treasurys exceeded the yield on 10-year Treasurys



Spread between two-year and 10-year Treasurys, weekly data



growth and signs of long-dormant inflation nudging higher.

Two-year Treasurys, which tend to be sensitive to monetary-policy expectations, saw their yields climb along with the Fed interest-rate increase and the anticipated ones.

At the same time, ultralow interest rates outside the U.S., as well as fears that a global trade rift could roil markets, have helped stoke demand and

higher prices for longer-term Treasurys. That pushed those yields lower because yields move inversely to bond prices.

Analysts also note that cracks in the economy that have traditionally accompanied an inverted yield curve haven't yet surfaced.

Credit Suisse's analysis found recessions have historically followed not just an inversion of the yield curve,

but also a marked deterioration in job creation and corporate earnings, among other factors.

So far, there have been few signs of such weakness. Jobs data from the start of the month showed the U.S. labor market continuing to add jobs rapidly and the unemployment rate hovering around its lowest level in nearly two decades.

Corporate earnings have also

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HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

Not Enough Gas in Exxon's Tank

Sweet and Sour

Share-price performance



Source: WSJ Market Data Group

better deals. But the main cause of its malaise is that its long-successful strategy of capital discipline and the advantage of immense size are becoming less relevant.

Exxon's management has been called brash over the years. Ignoring the baying crowd mostly served it well, though. It didn't slash investment when the world soured on oil-and-gas exploration and it remained restrained during boom times.

Its capital budgeting set a high hurdle rate for new projects by assuming oil prices would be below market forecasts while requiring a high return on its shareholders' money. If it didn't meet that bar then it returned the cash.

This quite literally paid dividends. In the 12 years following its merger with Mobil ending in 2012, Exxon paid out \$318 billion in cash to its owners. Exxon's market

value today is just \$345 billion. During those years it had an average return on invested capital of over 35%—9 percentage points higher than its Big Oil peers, on average.

But the shale revolution has changed that by leveling the playing field and shortening the investment cycle. Exxon's ROIC since 2012 has, not surprisingly, been a much lower 11.6%.

There are still big rolls of the dice to be made, of course. Exxon has made a huge discovery in Guyana and is betting on conventional projects in Brazil, Papua New Guinea and elsewhere. It also is making promising energy infrastructure investments along the U.S. Gulf Coast.

If history is any guide, it will manage these projects well. But, as the oil-and-gas business becomes more like manufacturing and less like wildcatting, what made Exxon special is fading. That premium it earned over the decades will keep fading, too.

—Spencer Jakab

OVERHEARD

President Trump is putting meat producers on a diet with his tariff policies.

Tyson Foods on Monday lowered its earnings projections for fiscal 2018 by 10% to 13%, citing "uncertainty in trade policies and increased tariffs." Its shares fell sharply.

Tyson is directly affected by China's 25% tariffs on beef, chicken and pork imports, and Mexico's 20% pork tariff, levied in retaliation against U.S. actions.

The result is the great "meat wave" of 2018, an oversupply that is giving U.S. consumers some bargains and costing meat processors a lot of money. Bernstein analyst **Alexia Howard** points out, for example, that pork packer margins have declined to around \$15 per hog from over \$26 a year ago.

Beef margins are still fat, perhaps because China makes up a smaller portion of the overall market, Ms. Howard said. But for the pork industry, lean times will continue until Mr. Trump and China settle their differences.

Taste Shifts To Heineken From Bud

Heineken or **Budweiser**? Investors increasingly prefer the Dutch brewer. Its overwhelming first-half profits probably won't change that.

Heineken stock fell Monday after the world's second-largest beer producer after Budweiser brewer **Anheuser-Busch InBev** reported only a marginal increase in first-half profits and guided margins lower for the year.

But the problems are only skin deep following changes in Heineken's mix of operations. The troubled Brazilian brewer Heineken bought from **Kirin** last year is growing more quickly than expected. Its lower margin is therefore weighing more heavily on its new parent. The strong euro, which reduces the relative weight of Heineken's lucrative Vietnamese business among others, is another headwind.

Otherwise, Heineken seems in fine shape with first-half sales up 5.6% year over year, excluding currency and portfolio changes. Most consumer groups struggle to generate that kind of organic growth these days amid intense price pressure from retailers.

That figure for AB InBev was 4.7%. The world's top brewer is performing well in most places, but not in the U.S., by far its largest market because of Budweiser.

Both stocks change hands for roughly 20 times earnings. Investors used to prefer AB InBev, particularly after it announced its synergy-rich merger with SABMiller in 2015. Now, though, the cost savings from that deal are mostly in the books already and investors are focused on sales. Even after Monday's disappointment, the thirst for growth may favor Heineken.

—Stephen Wilmot

Economic Improvement Set to Push Bond Yields Higher

The Magic Number

Yield on 10-year Treasury note



Source: Tullett Prebon

fears that trade disputes and political risk might cause greater disruption.

Recent developments would tend to undermine bonds and support riskier

assets. The detente between the U.S. and Europe on trade, strong corporate results and a recent improvement in the tone of global economic data are pointing in that direction.

U.S. growth is clearly strong, with second-quarter gross domestic product expanding at a 4.1% annualized clip. On a nominal basis, growth is running at 7.4%. The gap between long-maturity bond yields and nominal growth, which historically have tended to track each other, is getting wider. While unorthodox central-bank policy around the world has broken the link between yields and growth, it still

makes sense as a pointer for which direction yields should be heading in.

And central banks are still, albeit gradually, on the path to tighter monetary policy. The Bank of England may raise rates this week, and European Central Bank President Mario Draghi sounded confident on both growth and inflation last week. Most significantly, there is speculation about a tweak in monetary policy from the Bank of Japan that could remove a key support for bonds: A small move higher in Japanese yields could lift yields around the globe.

True, the capacity for

yields to vault higher is limited by fears such a move will generate about higher borrowing costs affecting growth.

There may well be more room for yields to move outside the U.S., particularly in Europe.

Other markets already have started to move. The S&P 500 is up 5.4% in 2018. Even unloved European stocks are back in positive territory for 2018. Corporate bonds have rallied a little and emerging markets have seen a small bounce. Government bonds look like the laggard in reacting to the shifting mood.

—Richard Barley

Yields in Europe have reversed, with both German and U.K. 10-year yields back where they started 2018. That in part reflected the tension between data showing solid global growth and

The bond-market tide may be on the turn. After weeks of inaction, 10-year U.S. Treasury yields are nearing 3% once more. Continued momentum in the global economy could lead yields higher still.

Since rising in January, U.S. bond yields have mostly tracked sideways. Until last week the 10-year Treasury had spent 21 trading days meandering between 2.8% and 2.9%.

Yields in Europe have

reversed, with both German and U.K. 10-year yields back where they started 2018.

That in part reflected the tension between data showing solid global growth and

continued to impress, with S&P 500 firms on track to report year-over-year growth of 20% for the second quarter, according to FactSet.

"For me, the principal driver of U.S. equities is U.S. growth, and I'd say that [second-quarter] data showed a meaningful acceleration," said Keith Parker, chief U.S. equity strategist at UBS.

On Friday, data showed the U.S. economy grew by 4.1% in the second quarter—the fastest pace in nearly four years. "That backdrop has held firm."

Even if the yield curve's flattening was driven by a sharp dropoff in economic growth, history suggests it would take several months before the nine-year bull market faltered, if it did at all.

For instance, it took 24 months after the yield curve inverted on Dec. 30, 2005, for the U.S. to slip into a recession, according to Credit Suisse.

The stock market continued to nudge higher for much of that period, only entering a protracted downturn when the global financial crisis reached a head around the fall of 2008.

The difference in yields between three-month and 10-year Treasurys has been a more reliable predictor in the past of recessions, Credit Suisse says, with the U.S. falling into recession on average 16 months after the former overtook the latter—six months earlier than when the two-year Treasury yield has overtaken the 10-year Treasury yield.

Yet even in those cases, the S&P 500 fell an average of just 2.5% in the 18 months following a yield-curve inversion.

The current gap between three-month and 10-year Treasurys has remained larger than that of two- and 10-year Treasurys—so that light has yet to start flashing.

"The longer end [of the curve] isn't reflecting concerns about growth or inflation," Nuveen's Mr. Nick said.